

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## ROME TREATY

### JOINT CONSULTATIONS UNDER ARTICLE XXII

#### Consultation with the Member States of the European Economic Community on Coffee

#### Agreed minute submitted by the participating contracting parties

1. The consultations on coffee under Article XXII of the General Agreement with the Member States of the European Economic Community, which were held at the request of the United Kingdom and which opened in Geneva on 13 November 1958, were resumed in Geneva on 20, 24 and 26 February 1959. This minute relates to the February consultations only.
2. In addition to the Member States of the European Economic Community the following other contracting parties participated in the consultations: Brazil, the Dominican Republic, Haiti, India, Indonesia, the United Kingdom and the United States of America.<sup>1</sup> The Chair was taken alternately by a representative of participating countries other than the Six and by a representative of the Six.
3. The discussion was carried out in the light of data and discussion to be found in the Working Party Report on Coffee (Addendum 2 to L/805), the statistics furnished by the GATT secretariat (attached herewith as Annex I), the discussions which had taken place in the previous consultations under Article XXII and various memoranda (i.e., the memorandum submitted by the Governments of Brazil, India, 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 minutes 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".

### COMMON EXTERNAL TARIFF

#### (a) Implementation of the Common Tariff

5. Representatives of the Six described the tariff measures taken by the Member States of the EEC since the last consultation. (The following table shows the position before and after 1 January 1959.)

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<sup>1</sup> With reference to the status of the United States see paragraph 4 of the report on bananas (document L/1008) and its annexed declaration by the Six.

Mention was made of the decision taken by the Member States on 3 December 1958. (See GATT document L/954, dated 13 January 1959.)

		<u>Benelux</u>	<u>France</u>	<u>Federal Republic of Germany</u>	<u>Italy</u>
Tariff applicable to Member States of EEC and other countries' AOT's	Before 1.1.59	0	20	1.60 DM	65 lire
	After 1.1.59	0	18	1 DM	58 lire
Tariff applicable to own AOT's	Before 1.1.59	0	0	1.60 DM	65 lire
	After 1.1.59	0	0	1 DM	58 lire
Tariff applicable to third countries	Before 1.1.59	0	20	1.60 DM	65 lire
	After 1.1.59	0	18	1 DM	65 lire

It will be noted:

- (i) that tariff reductions in France and the Federal Republic of Germany apply to all imports irrespective of origin;
- (ii) that in Italy the reduction of 10 per cent has not been extended to third countries because the above-mentioned decision of 3 December does not apply where tariffs are already lower than the general external tariff; and
- (iii) that the specific German tariff of 1 DM per kg. applicable as from 1 January 1959 is equivalent to the general external tariff, i.e. of 16 per cent based on the average value of imports in 1956 (see L/805/Add.2, page 1).

6. Representatives of participating countries other than the Six drew attention to the possibility of further reductions in duty in favour of AOT supplies in eighteen months' time which might then involve a start in discrimination against third countries in the duties of France and Germany and an increase in the discrimination against third countries in respect of the Italian duties. They further drew attention to the fact that the retention of a specific duty by Germany, even though this had an overall ad valorem incidence of 16 per cent in terms of 1956 prices, was of particular hardship to low-priced robusta coffee such as produced in Uganda and Indonesia; on this coffee the ad valorem incidence of the specific duty was approximately 32 per cent on present prices.

7. The representative of the Six pointed out that the time-table of tariff reductions among the Member States of the Community was specifically laid down in the Treaty. Article 14(2)(a) provided that a second reduction should be made eighteen months after the first, and Article 14(3), provided that each Member State should reduce its tariffs as a whole so that total receipts are reduced by 10 per cent, the reduction on each product being equal to at least 5 per cent of the basic tariff. The next reduction was thus due on 1 July 1960. Inasmuch as the Federal Republic of Germany had decided to apply as from 1 January 1959 a tariff equivalent to the general external tariff rate it had thereby already fulfilled its obligations under the Articles mentioned above.

8. The representative of the Six then pointed out that obviously the ad valorem incidence of specific duties varied with the price of the product. Even before the decision to apply a uniform tariff of 1 DM on all coffee imports, arabica coffees already enjoyed a definite advantage on the German market, and that advantage had increased since 1 January because taxation was the same for both arabica and robusta coffees, but proportionately heavier for robustas which were cheaper. He added that in comparison with the consumption taxes, the tariff of 1 DM represented a comparatively small proportion of the total charges on coffee.

(b) Assessment of the Common Tariff

9. Representatives of participating countries other than the Six pointed out that the use of weighted average in calculating the common tariff would have resulted in a rate of approximately 8 per cent for third country suppliers taken as a whole and of 2.8 per cent in respect of Brazilian coffee only. Furthermore, attention was drawn to the fact that the reduction on 1 January 1959 of the German duty from 1.60 DM per kg. to 1 DM per kg. which had been accompanied by an increase of the internal tax from 3 DM per kg. to 3.60 DM per kg. In the view of the representatives of other participating countries, this demonstrated irrefutably that a part of the old duty had been of a fiscal nature and if the Six had been prepared to recognize the fiscal element in their coffee duties and had based the common tariff on the weighted average of the protective element only in the duties of the countries of the Six the common tariff level would have been much lower even than 8 per cent. Moreover, protection for locally-produced competing beverages could be provided by the imposition of non-discriminatory fiscal duties just as well as by a high common tariff.

10. The representative of the Six pointed out that their own calculations produced results quite different from those put forward by some third countries, in particular the figure of 8 per cent. According to their calculations, the arithmetical average of the legal rates came to 26 per cent and the weighted average to 20 per cent on the basis of 1956 and 1957 imports. Worked out in the same way the rates actually applied worked out for the two years in question at 14 and 16 per cent respectively, which was precisely the rate of the general external tariff. However, he said, it would be rather futile, in their consultations, to try to work out how much of the duty in each

country was really tax and how much protection, and the fact that a country did not produce coffee was no proof that its duty on coffee was not a protective duty. Finally, if a country reduced its import duty but at the same time, in order to maintain its fiscal revenue, increased its excise duty on a product, that did not necessarily prove that the import duty was of a fiscal nature.

#### GENERAL DEVELOPMENTS IN PRODUCTION AND CONSUMPTION

11. Representatives of participating countries other than the Six argued that the effect of the 16 per cent preference provided by the common tariff must be to stimulate coffee production in the associated overseas territories. They pointed out that African production of coffee had quadrupled in the years since 1935-1939 so that Africa now exported 25 per cent of the world's consumption of coffee compared with approximately 10 per cent about fifteen to eighteen years ago; this upward trend of production as well as an increase in acreage under cultivation was continuing. The associated overseas territories in Africa had shared in the general African increase in production and these recent increases in production had included arabica coffee as well as robusta coffee. While it was true to say that an important stimulus for the increase in production had been the high prices obtained by coffee in recent years, it was inevitable that the Treaty of Rome provisions, under which producers in the associated overseas territories were assured of preferential markets for their production, would act as a further stimulus to production. There was no evidence that prices had yet fallen to a level which made African production uneconomic. The representatives of participating countries other than the Six stressed their even greater concern with the possible application to coffee of the agricultural provisions of the Treaty of Rome, which carried with them the implication of managed markets, minimum support prices and long-term contracts to provide non-tariff preferences for the AOT's and thus further stimulate their production.

12. The representatives of the Six were willing to admit that the preferences formed part of a set of measures intended to be of advantage to the AOT's and pointed out that they fully appreciated the concern felt by the countries participating in the consultation at the real and urgent problem of over-production but that they had the same problem and the Rome Treaty could not be held responsible for over-production. They agreed that African coffee production had increased considerably during the last few decades but pointed out that that increase had been general and had not been limited to associated territories. While it was true that the available information suggested further increases in the years to come, the same applied to all African coffee-producing territories and therefore the increases could not be attributed to the Rome Treaty. As regards French overseas territories, although complete and final statistics for 1958 were not yet available, the figures would indicate that production had been close to that of previous years.

	<u>Togoland</u>	<u>Ivory Coast</u>	<u>Cameroons</u>	<u>Madagascar</u>	<u>French Equatorial Africa</u>
	(8 months)	(9 months)	(11 months)	(10 months)	(12 months)
1956	5,500	89,000	16,000	36,000	5,000
1957	4,000	78,000	16,000	32,000	4,000
1958	5,900	86,000	25,000	36,000 (sic)	5,000

Belgian Congo production had followed the general trend, rising from 17,000 tons (1934-1938 average) to more than approximately 60,000 tons (1956-1957 average). But the statistics indicated that the trend of development of arabica coffee, which is produced principally in Ruanda-Urundi by Africans, is considerably less than that of the production of robusta coffee.

13. The representative of the Six stated that the producer in these associated territories, no doubt like most producers, was generally not so much interested in long-term benefits yielding no immediate profit as in prompt returns. That view, they felt, was confirmed by the example of the Brazilian producers who, if they had really had an eye to the future, would hardly have planted such vast areas to coffee following the high prices of 1954.

14. The representative of the Six then showed that the return to the producer depended on many factors, of which the world market position was decisive while the tariff preference was of negligible importance. In that connexion, if the point of view of those who argued that the preference had a clearly defined, almost mathematical, effect were accepted, then the lower the price, as at the present time, the less the advantage, and conversely, the higher the price the greater the preference, but at the same time coffee market problems would disappear.

15. So far as consumption was concerned, they said, the present prospects were favourable and the varying levels of consumption among the members of the EEC offered the prospect of an appreciable expansion of consumption, even apart from development factors inherent in the Treaty. The per capita consumption for 1953-1956 in the countries of the Six was 4 kg. for France, 5.5 for Belgium, 3 for the Netherlands, 2.7 for Germany and 1.4 for Italy compared with 7.5 for the United States.

16. Finally, as to the agricultural provisions of the Treaty regarding which some third countries had expressed concern the representatives of the Six observed that the fact that France made use of such measures within the franc zone did not necessarily mean that similar measures would be employed within the framework of the Community.

DAMAGE

(a) Actual Damage to Third Countries

17. Representatives of participating countries other than the Six said that, while it was not possible as yet to provide statistical evidence of actual damage, they held the view that on the psychological plane it was already occurring as their producers were being 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. In that connexion, attention was drawn to the fact that there had been large percentage increases in the imports from the AOT's by France, Italy and Belgium in 1958.

18. Representatives of the Six noted that it was not possible at present to prove that damage had been sustained and that the representatives of certain third countries considered that the present damage would appear to be of a psychological nature. They recalled that, during the previous consultation, representatives of certain third countries had pointed out that certain producing countries had been obliged to revise their production plans as a result of the Treaty of Rome. Representatives of the Six recalled that they had at the time expressed the hope that they would receive details of these plans and their subsequent revision. They noted that so far no such details had been supplied to them.

19. The representatives of other participating countries pointed out that in previous consultations they had maintained that the prospect of new preferences in the markets of the Six must inevitably react on production plans in areas which were not to benefit from the preferences. The effects would occur largely in the private sector and would not be open to quantitative assessment by governments.

(b) Potential Damage to Third Countries

20. In the view of participating countries other than the Six the incentive of a tariff preference as high as 16 per cent ad valorem would be bound to lead to further stimulation of production and to diversion of trade. The requirements of the countries of the Six still exceeded the production in the associated overseas territories; producers in these territories would therefore command in the markets of the Community prices which would be a large part of the 16 per cent duty above world prices and this must inevitably lead to diversion of trade. This price incentive in the Community would, for example (in the absence of special inducements to earn dollars), lead to diversion of exports of Belgian Congo arabica coffee from the United States, which had hitherto taken the bulk of that territory's production, to the markets of the Six; such a switch might initially mean a bigger market in the United States for other producing countries to supply but nevertheless damage would still arise from such a dislocation of traditional trade channels in a variety of ways; for example, the producers' agents in the

countries of the Six would lose trade while it would be different agents who would gain from increased sales in the United States. As greater supplies, which would enjoy all the benefits of the markets of the Six, became available from the ever-expanding production of the associated overseas territories third country sellers would be steadily pushed more and more out of the markets of the Six and there would be no certainty of an additional market for this coffee elsewhere; such a situation would depress world market conditions even further.

21. Representatives of the participating countries other than the Six acknowledged that attempts were now being made internationally (and had resulted in a preliminary agreement) by Latin American producers for the limitation of exports of coffee, but emphasized that these arrangements, arising from current market conditions, were to deal with an immediate problem while the diversion of trade due to the Treaty of Rome was a long-term problem. There was every reason to anticipate that the present world problems of coffee would be solved so that prices would be back to a remunerative level in a few years. But the Treaty of Rome would still then be in existence and, as representatives of the Six had admitted, the 16 per cent preference would then be a major stimulus to production in the AOT's. So much additional coffee might then come forward as to produce a renewal of the world coffee crisis. This showed that the difficulties arising from the Treaty of Rome must be dealt with before a final long-term solution of world coffee problems could be found. It did not seem to them that the sympathetic attitude which representatives of the Six had shown towards world coffee problems could be reconciled with their action on coffee under the Treaty of Rome.

22. In the view of other participating countries, the Six could have no possible justification for opposing the doubts in the Haberler Report that consumption of coffee in the markets of the Six would increase (paragraph 338) nor its firm conclusion that exports from third countries would be adversely affected as a result of a preference margin of 16 per cent and that the preference would be predominantly trade-diverting and not trade-creating (paragraph 337).

23. Representatives of the Six noted that in the first place the discussion of forecasts for the somewhat remote future, which had taken up most of the three meetings of the present consultation on coffee, had at least succeeded in showing that no damage had been incurred at the present time. In so far as possible future damage was concerned, the Six did not feel that the advantages granted to the AOT's under the terms of the Treaty would lead to any diversion of trade since these advantages would be unlikely to influence producers as long as the world coffee situation remained in its present unsatisfactory state. In the opinion of the Six, the Rome Treaty did in fact contain a number of somewhat complicated provisions far exceeding mere tariff provisions. These provisions would have a positive bearing on the development of international trade, and would tend to encourage imports from third countries, thus tending to create additional trade rather than to

modify present trade. The Six considered it possible and even probable that the establishment of a free trade area between the AOT's and the Member Countries of the EEC, which would result from the application of the Rome Treaty, would involve certain modifications to trade but the question was not to determine whether or not there had been any modification to trade but whether any damage had resulted from such modification. The representatives of the SIX pointed out that such modifications were in no way incompatible with the General Agreement since the volume of new trade would exceed that of modified trade.

24. After noting that, in the view of certain third countries, the Treaty would tend to divert coffee exports of the AOT's, of which a substantial proportion now went to the United States, to the EEC, the representatives of the Six pointed out that exports of African coffee to the United States depended upon the qualities of this coffee as well as upon particular requirements and that the present currents of trade could thus very well continue unchanged or even be strengthened. They nevertheless pointed out that, in cases where the present exports to the United States might be diverted to the countries of the EEC, the market thus made available would be open to coffee from other regions.

25. In so far as the reference to the attitude of the Six towards world coffee problems was concerned, representatives of the Six maintained that their attitude of apprehension in this matter was based on the conviction that problems of stabilization of basic commodities were much more important than tariff rates. That also explained why the Six had expressed their disappointment that certain important countries had not as yet seen fit to assist in finding a constructive solution to these questions at the international level.

26. With reference to the passage quoted from the Haberler Report, representatives of the Six pointed out that, generally speaking, the opinions expressed in this document were very subtle and cautious and referred to very specific eventualities and that, in the case under consideration, the line of reasoning referred to would only apply to a classical type of free trade area existing between countries of similar economic and production structure. They added that the Six considered that the under-developed associated countries would develop more rapidly as a result of a free trade area of this kind but that their development would in no way be detrimental to other under-developed countries.

27. Representatives of participating countries other than the Six stated that they had never denied that there were more than tariff arrangements in the Treaty of Rome, but stressed that the Six had not shown how any of the other Treaty provisions relating to coffee could nullify the diversion of trade that must come about as the result of the preference. They pointed out, moreover, that any increase in consumption within the Member States would not be due to the trade arrangements provided for in the Rome Treaty between the AOT's and the Member States. These arrangements, which the Six now admitted would entail modifications of existing trade, would not therefore also be responsible for any increase in consumption and could not, therefore, be claimed to be more trade-creating than trade-diverting.



28. Representatives of participating countries other than the Six said that in their view since representatives of the Six were prepared to admit that the new tariff would raise prices above world prices, that the preference would be of benefit to the AOT's and that the arrangements would stimulate production, the Six had no logical grounds for denying that there would be an increasing measure of trade diversion to the detriment of third countries. They also noted with concern that representatives of the Six had not been prepared to give any assurances that third countries would be given access to a fair share of any increase in consumption of the Community.

29. Representatives of participating countries other than the Six drew attention to the stabilization funds derived from export duties and supplemented from national producers' funds, which operated in the French overseas territories and stressed that the existence of these and other arrangements in the associated overseas territories increased their concern at the possibility of minimum price arrangements not only in France but in all the markets of the Six and at the possibility of managed markets and export promotion schemes for the stimulation of exports from the associated overseas territories. The representatives of other participating countries requested the Six to make available on a continuing basis information about the operation of price supports and stabilization arrangements, for information on the operations of the "Office du Café du Ruanda-Urandi" and whether the jumelage system, whereby the right to export coffee to France was dependent on the export of a certain amount of coffee elsewhere, was still in operation in the French overseas territories.

30. The representatives of the Six pointed out in the first place that the part played by the stabilization funds in the French overseas territories was familiar to most people and that, furthermore, similar efforts undertaken in a large number of producing countries had achieved their purpose of protecting producers' profits against fluctuations in prices. They pointed out that the jumelage system to which reference had been made came within the very broad field of assisting exports which was undoubtedly a most interesting topic although somewhat remote from the purpose of the present consultation. They stated that they would send the competent authorities the information they had requested on this matter and that, if the representatives of third countries insisted on discussing it, the Six would be unlikely to raise any objection as long as the proposed discussion was of a general nature and applied to all producers.

31. With reference to the inability of the Community to provide any assurance as to the future growth of exports from third countries, the Six pointed out that, in stating that they would seek to apply the GATT they had made no exceptions and furthermore they had on numerous occasions expressed their desire to take account of the traditional patterns of trade.

CONCLUSIONS

(a) View of the Participating Countries other than the Six

32. Representatives of participating countries other than the Six, while agreeing that it was not yet possible to assess damage by statistics, nevertheless stressed their conviction that the preference and other provisions of the Treaty of Rome were already causing damage to the coffee interests of third countries by encouraging production in the AOT's and starting the trade diversion process, and that this damage would continue to grow. Nothing that the representatives of the Six had said had refuted their arguments and indeed the representatives of the Six seemed to be prepared to accept most of the case which had been put forward, if not the final conclusions. They could not accept the basic requirement of the Six that the consultations should be based on evidence of concrete damage. They expressed their acute disappointment that the consultations had not resulted in practical solutions, but they would continue to hope that there would be new possibilities of understanding between the two sides and that some means would be devised of dealing with the problem so that third countries would have some assurance that their legitimate interests would be protected. They expressed their sincere hope that when the details of the consultations were reported to the Community, it would decide that some action was called for on coffee. Meanwhile, the outcome of the consultations would be reported to their governments who would press for a solution to the problems with all the means at their disposal.

(b) Views of the Six

33. Representatives of the Six noted that the discussions during the present consultation had been mainly confined to the apprehensions of certain countries with regard to the manner in which the Rome Treaty might possibly affect their interests. They agreed that serious apprehensions were being nurtured in certain of these countries as to the future of their coffee export trade, but pointed out that the countries concerned had given no proof of the damage they had referred to and stated that, in their opinion, it seemed most unlikely, when all the factors were taken into consideration, that the damage in question would occur. Representatives of the Six added that although they were not exactly disappointed with the discussions, they would have preferred the countries participating in the consultation to mention more specific instances and clearer facts. The Six nevertheless felt that the examination of the present situation and the reasons for the apprehension expressed by certain countries had allowed a useful exchange of views to take place upon the kind of damage to be feared. They agreed to send the competent authorities a precise and complete report of these exchanges of views and the discussions that took place during the consultation.

## ANNEX I

Imports of Coffee (SITC 071) (not roasted, roasted and coffee extracts)

in 1956 and 1957

(metric tons and per cent of total imports)

Imports from Provenance	Imports into Destination		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 États-Unis		Canada	
	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957
Total . . . . . %	61,200	50,900	182,438	181,770	135,523	154,572	75,755	77,790	41,542	40,176	496,458	505,208	45,194	45,587	1,275,319	1,254,066	52,235	53,519	100.0	100.0
Associated Territories Territoires Associés . . . . . %	10,611	9,964	132,916	133,272	2,150	2,739	8,311	10,886	364	480	154,352	157,341	1,624	1,614	54,676	61,367	634	559	17.3	19.6
Belgian - belges . . . . . %	10,487	9,770	548	757	1,919	2,480	6,966	9,889	311	428	20,231	23,324	1,266	1,198	23,390	30,601	634	534	17.1	19.2
French - français . . . . . %	124	194	132,368	132,515	231	259	1,345	997	53	52	134,121	134,017	426	416	31,286	30,766	-	25	0.2	0.4
Indonesia - Indonésie . . . . . %	2,608	3,956	1,276	4,752	1,006	852	7,885	8,676	3,535	3,291	16,310	21,527	164	387	2,862	5,571	-	-	4.3	7.8
India - Inde . . . . . %	346	855	150	32	1,415	5,543	597	837	399	795	2,907	8,062	554	644	-	412	-	-	0.6	1.7
Malaya and Singapore Malaisie et Singapour . . . . . %	994	937	-	-	-	-	9,538	15,404	472	1,019	11,004	17,360	561	189	90	271	-	-	1.6	1.8
United Kingdom Dependencies Terr. dép. du Royaume-Uni . . . . . %	699	780	-	13	15,540	16,528	5,496	3,019	1,114	581	22,849	20,921	29,441	32,046	29,513	49,784	5,080	3,811	1.1	1.5
British East Africa Afrique orientale br. . . . . %	229	96	-	-	15,249	16,419	3,918	2,301	787	513	20,183	19,329	26,482	29,703	27,520	45,991	5,080	3,811	0.4	0.2
Angola . . . . . %	5,524	4,169	515	96	915	1,344	566	389	13,352	13,275	20,872	19,273	101	144	46,525	47,805	47	25	9.0	8.2
Dominican Republic République Dominicaine . . . . . %	525	124	-	-	420	165	800	888	604	164	2,349	1,341	147	-	22,971	17,779	869	640	0.9	0.2
Haiti . . . . . %	7,552	4,156	3,619	3,409	438	253	6,616	5,029	105	65	18,330	12,912	52	122	5,113	4,848	254	107	12.3	8.2
Nicaragua . . . . . %	229	512	173	-	2,119	3,239	11	226	792	1,813	3,324	5,790	17	-	12,512	14,342	104	399	0.4	1.1
Peru - Pérou . . . . . %	704	634	-	-	917	570	917	1,102	57	15	2,595	2,321	397	322	4,349	5,617	174	197	1.2	1.2
Brazil - Brésil . . . . . %	19,342	12,738	38,212	36,226	47,407	41,963	22,457	18,228	12,379	8,972	139,797	118,127	4,995	5,968	594,466	533,304	21,561	21,550	31.6	25.0
Colombia - Colombie . . . . . %	3,283	3,251	913	633	16,602	15,154	1,480	519	4,126	3,801	26,404	23,358	443	167	273,404	248,826	12,868	13,187	5.4	6.4

Sources : OEEC Foreign Trade Statistical Bulletins, Series IV  
Bulletins Statistiques de l'OECE, Commerce Extérieur, Série IV

## ANNEXE I

Importations de Café (CTCI 071) (non torréfié, torréfié et extraits de café)

en 1956 et 1957

(en tonnes métriques et en pourcentage des importations totales)

ANNEX II

THE TREATY OF ROME

COFFEE

Submission by Brazil, India, Indonesia and  
United Kingdom Delegations

This paper is submitted by the delegations of Brazil, India, Indonesia and the United Kingdom (on behalf of its coffee-exporting dependent territories) for the discussions on coffee 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 Brazil, India, 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 coffee 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.2. Their governments believe that the arguments presented at that Working Party conclusively proved that the damage they fear will eventuate, unless specific action is taken by the Community to prevent that damage.
3. Since the common market tariff on coffee under the Treaty of Rome is fixed at 16 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 coffee 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 16 per cent duty. This is to be compared with the present position in which coffee from all sources receives identical treatment from all Members of the Community, except France, which gives a 20 per cent preferential duty to its own overseas territories. Benelux has no duty, and only in the case of Germany is the average ad valorem incidence of the duty higher than 16 per cent.
4. The European coffee market which will be affected by the new provisions is worth over \$500 m., representing 21 per cent of world imports. The market is important to many outside producers, both large and small. In 1956 Brazil sent 166,000 tons to this market (representing 12 per cent of Brazil's total export earnings), Kenya sent 44 per cent of its exports,

Indonesia 43 per cent, Tanganyika 26 per cent, Uganda 7,000 tons and India 5,000 tons (75 per cent of its exports). Coffee is of vital importance to all these countries representing 70 per cent of Brazil's total exports, 47 per cent of Kenya's, 39 per cent of Uganda's and 21 per cent of Tanganyika's. Singapore has an important re-export trade.

5. The first lowering of the tariffs in favour of the AOT's will be made on 1 January 1959. This will be 10 per cent of present tariffs which will have an ad valorem value of between 3 per cent and 5 per cent in Germany, 2 per cent in France and 1 per cent in Italy. This element of discrimination in favour of the AOT's will become much more serious by the end of the first period of transition and will steadily increase to 16 per cent when the provisions of the Treaty have been fully implemented.

6. The new arrangements defined by the Treaty must inevitably discourage consumption in the Six below what it would otherwise have been, accentuating the discouragement already caused in part of the market by the present high fiscal duties. They will 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 coffee will be cheaper in the Community than other comparable coffees (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. The trade disturbances 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 coffee to the Six will have access to a far smaller market within the Community than they would have had in absence of these provisions.

7. The serious imbalance of the world coffee market, which has already led to certain producers being forced to withhold substantial quantities from the market, will be aggravated by the creation of this new preferential area. World prices will be adversely affected to the serious detriment of all coffee producers whether or not they sell to the Six.

8. Robusta coffee, produced mainly in Africa, and some lower arabica types will be the first to suffer under these arrangements, since robusta coffee is the main product of AOT's and its production can be most rapidly expanded there. Uganda, a substantial exporter of robusta coffees to the Six, is likely to suffer particularly severely in the short-term, as also will the other robusta coffee producers such as India and Indonesia. In the longer term the adverse effects will spread to the producers of other types of coffee, as consumers in the Six gradually switch to the cheaper robusta coffees of the AOT's and as arabica production increases there. Many grades of Brazilian coffee will thus be affected, as will eventually be the arabica producers of Latin America, Kenya, etc.

9. Moreover, the prospect of preferential treatment in the whole market of the Six (which is 250,000 tons larger than the present exports of the AOT's) must tend to stimulate production of coffee within the AOT's to a very substantial degree. The advantages which AOT producers of this and other

commodities will reap from the Common Market have been widely commented on by officials and others in the territories concerned and should now be generally known to producers there. The introduction of discrimination in favour of their coffee on 1 January 1959 will undoubtedly be regarded by these producers as confirmation of the prospects which have been held out to them of permanent discrimination in their favour and thus justifying immediate efforts to expand production.

10. Since coffee bushes take some years to come into full bearing and the necessary land has to be prepared beforehand, coffee farmers in the AOT's must start planting right away if they are to enjoy the benefits of the discrimination which will arise by the end of the first period and must continue their expansion steadily during the transition period to take full advantage of the 16 per cent differential they are ultimately to enjoy. Per contra the serious threat to their present trade with Europe and the knowledge that the projected discrimination is stimulating production in the AOT's constitute an immediate threat to the development plans of coffee farmers in other parts of the world. The introduction of discrimination on 1 January next will confirm their fears and strengthen their reluctance to push ahead with plans for expansion.

11. It is not considered that the tariff quotas, which are to be exercised by Benelux and Italy during the transition period, will materially affect the long-term position. How effective they will be in the immediate future in reducing the discriminatory element in the tariff is uncertain but in any case, since there is no guarantee that they will be continued after the transition period, they provide no assurance that the full effect of the 16 per cent differential tariff will not eventually be experienced by outside producers. Indeed, the reductions in the size of the quotas for which provision is made during the transition period in themselves indicate a presumption on the part of the drafters of the Treaty that production in the AOT's will expand so that it can eventually meet the full requirements of the Benelux and Italian markets.

12. 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 coffee-producing countries (the AOT's) at the expense of the rest. The effects of this diversion of production 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.

13. It is hoped that the Six will appreciate the gravity and imminence of the dangers they are provoking in their present policies on coffee 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 coffee producers all over the world a firm assurance of that free non-discriminatory access to the growing markets of the Six which they have enjoyed before the Treaty of Rome.

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

ANNEX III

REPLY PREPARED BY REPRESENTATIVES OF THE SIX

COFFEE

The scope of the arguments presented by certain third producing countries concerning the actual damage which might be caused to coffee production by the Association of Overseas Territories with the Community, is limited to a great extent by considerations of three kinds:

- (i) the low level of the customs preference which will be established in favour of coffee producers in the Associated Territories during the first stage of the implementation of the Treaty of Rome;
- (ii) the sharp increase in coffee consumption in the European territories of the Six in comparison with the rate of increase of production in the Associated Territories; and
- (iii) the serious over-production which at present exists in the coffee market and threatens to continue for many years to come.

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I. The Low Level of Customs Preference

1. On 1 January 1959, the first steps for the lowering of customs barriers which have been agreed upon between the Member States of the European Economic Community will become effective. On the assumption that the specific duties hitherto applied in the Federal Republic of Germany and in Italy correspond, as has been calculated, to ad valorem duties of 26 per cent and 10.4 per cent respectively, the amount of customs preference granted to coffee production by the Associated Territories as a result of the 10 per cent reduction of duties as between Member States would be as follows: Germany 2.6 per cent; France 2 per cent; Italy about 1 per cent; Benelux 0 per cent. (Benelux levies no duty on this product and will continue to do so.) The Federal Republic of Germany, however, is considering making the future external tariff rate of 16 per cent applicable as from 1 January 1959, and draft legislation to this effect is before the German Parliament. Such a measure might, of course, deprive coffee originating in the Associated Territories from any preference until the second stage of the implementation of the Treaty.

2. Taking into account on the one hand the high fiscal taxes levied on coffee imported into the French customs territory and, more especially, into Italy and Germany, and on the other hand the considerable fall in coffee prices since the beginning of 1958, these preferential rates, which are already very low, appear still more so when the price of the product cleared through customs is taken as basis for comparison. These rates would be roughly



1.4 per cent for France, 0.4 per cent for Italy and 1.2 per cent for the Federal Republic of Germany in present circumstances. It would be difficult to argue that such a low tariff preference might threaten to cause any shifts in the present trade flows, and divert the preference of European customers from arabica coffee, which they generally consume, to robusta coffees which are produced in most of the Associated Territories.

3. At the end of the first stage - i.e., in principle, on 1 January 1962 - the amount of the reduction of duties achieved between Member States will be 25 per cent. On the same date, each Member State must reduce by 30 per cent the disparity between its former tariff and the new external common tariff (which in the case of coffee is 16 per cent) and there will not be any notable eventual increase in the preference granted to coffee produced in the Associated Territories. Leaving aside the case of Germany, the amount of preference will be 4.8 per cent in the Benelux, 3.6 per cent in France and 5 per cent in Italy. As has already been pointed out, the actual preference granted to coffee from the Associated Territories will in any case be much lower because of the high incidence of fiscal charges.

4. In addition, the tariff quotas to be granted to Italy (i.e., 167,400 tons, which was the quantity imported from third countries in 1956) and Benelux (85 per cent of the tonnage imported during the last year for which statistics are available) will, to a large degree, reduce the extent of the tariff protection established in these countries in favour of coffee from the Associated Territories.

## II. The Increase in Coffee Consumption in the European Territories of the Six

1. According to a recent report by the International Bank for Reconstruction and Development, the annual rate of increase in consumption is 2 to 3 per cent in the world as a whole, and 4.5 per cent in Western Europe. Notwithstanding the high incidence of fiscal charges, statistics recorded in recent years indicate that this figure is even higher for the Member States of the European Economic Community. Per capita consumption, which in the United States exceeds 7 kg. per annum, varies between 1.4 kg. (Italy) and 5.5 kg. (Belgium). The European Customs Union, which is to contribute to the raising in the European territories of the Six of the standards of living and the equalizing of prices, will, no doubt, bring consumption in the various Member States to the highest national level obtaining in any of the Six.

2. Contrary to what has often been argued, the provisions of the Treaty of Rome are not in any way likely to lead to an increase in coffee prices in the European territories of the Six, with a consequent slowing-down in the development of consumption. During the transitional period, customs duties will be instituted progressively in the Benelux countries, but because of the tariff quota they will actually affect only a small tonnage, while in France, on the other hand, there will be a reduction of duties. Similarly, whether in the case of a tariff reduction (Federal Republic of Germany) or an increase (Italy, which will also benefit from a tariff quota), the incidence of such

modifications on consumer prices will continue to be very slight because of their low level in relation to fiscal charges. At the end of the transitional period, the principle of the free movement of goods will inevitably lead to a levelling off of fiscal charges in the various Member States of the Community, and in the case of coffee this will probably be reflected in lower retail prices.

3. Moreover, it has already been established, in document L/805/Add.2 of 9 April 1958, that the advantages which will be granted to production in the overseas territories will not be likely to stimulate it to any appreciable degree, mainly because of the extensive character of indigenous plantings which results in generally mediocre yields. In this connexion, it is of particular significance that despite the considerable advantages offered by the French market, coffee production in the two main producing territories - the Ivory Coast and Madagascar - has remained stationary for a number of years, so that in 1957 Robusta coffee had to be imported from Indonesia in order to ensure normal market supplies.

4. In these circumstances, it is therefore clear that consumption in the Member countries of the European Economic Community is developing considerably faster than production in the Associated Territories. While these territories, which produce almost entirely Robusta varieties, might eventually increase their share in the market of the European Economic Community, it is doubtful, however, that this could occur to the detriment of third countries, whose exports to the Community would also increase, at least as far as Arabica producing countries are concerned.

5. In the particular case of France - the only European territory of the Six in which imports of coffee are subject to licence - the granting of a quota which in the first stages is likely to be reserved for coffee from the Associated Territories, but which will subsequently be increased pending the attainment of entirely free movement within the Community, indicates that the outlets at present available to third countries in this market may be expected to increase very substantially. In this connexion, it is interesting to note the following view expressed in an FAO Bulletin:

"The possible larger European demand for French African Robustas may relieve France of the necessity of taking the overwhelming share of its colonial production; combined with the reduction in the import duty on foreign coffees from 20 to 16 per cent, it may result in an improvement in the over-all quality of French imports."

6. Lastly, it should be noted that the promotion campaign to be launched in the European market as a result of the establishment of the International Coffee Organization at Rio de Janeiro might lead to an accelerated development of consumption in the Member countries of the European Economic Community. Unlike certain other coffee-producing African territories, the Associated Territories have not hesitated to join in the efforts being undertaken in this field by the Latin American countries.

### III. The question of over-production

1. The most important point, however, concerns the present glut in the coffee market which causes serious concern at international level, and a Study Group was established in Washington last June to try to find solutions to the problem. Guaranteed adequate prices constitute a factor which is far more likely to stimulate increased production in the Associated Territories than any slight tariff preference in certain markets. In the present circumstances the threat of a serious crisis in the coffee market as a result of the fact that over-production has suddenly assumed considerable proportions in Brazil where the State of Parana alone, which produced a negligible amount only a few years ago, now produces more than the whole of Africa and three times the production of the Associated Territories, is not likely to act as an incentive to producers, notwithstanding the advantages that they may expect from the establishment of the European Economic Community.
2. For their part, the French overseas countries and territories have shown that they set the greatest store by price stability, and they have joined in the efforts made by the Latin American countries which, first by the Mexico Pact in October 1957, and now by means of the agreements recently concluded in Washington, are endeavouring to maintain stability by holding back part of their exportable production. Despite the effects which such quantitative export controls may have on future production, these countries and territories have agreed for the year 1958-59, to limit their exports to third countries whether or not they are members of the European Economic Community.
3. Negotiations will be resumed at Washington early in 1959 with a view to the conclusion of a long-term international agreement in which both producers and consumers would be associated; this is the only possible means of restoring equilibrium between supply and demand while maintaining a decent standard of living for producers. Thus, the future of the coffee market will eventually depend on the results of the work undertaken by the International Study Group in Washington.

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In conclusion, it seems very unlikely that the tariff advantages to be granted to production in the Associated Territories could result in any trade diversion to the detriment of third countries, for any such diversion would imply a considerable shift in the well-established taste of consumers who prefer fine coffees.

Secondly, it seems certain that, far from diminishing, the outlets available to third countries will, on the contrary, increase in the next few years as a result of the considerable expansion of consumption in the European territories of the Six. This will be to the particular advantage of countries producing high-grade coffees which will continue to be supplied only in very limited quantities by the Associated Territories.

As to future prospects, the critical situation which has existed for several months in the coffee market, and which will probably continue for many years despite the foreseeable increase in world consumption, is likely to discourage many coffee-growers. By the end of the 1958-59 coffee crop year, surpluses will probably amount to one full year's consumption. Balance must therefore be restored between supply and demand either as a result of the free action of market forces including, by a prolonged slump in prices, as some countries seem to prefer, or - and this would certainly be more advantageous to producers - by an international agreement establishing strict export quotas. In any case, there will certainly be a consequent drop in production by all the producing countries, including those which had enjoyed guaranteed markets and had developed their production accordingly, and are therefore in no way responsible for the present crisis.

The foregoing considerations show that the tariff preference to be granted to coffee from the Associated Territories is only of very secondary importance and, at the present juncture, seems unlikely to act as a stimulus on production.