

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Preparatory Committee for Trade Negotiations

DRAFT OUTLINE FOR REPORT

Note by the Director-General

At its meeting of May 1973 the Preparatory Committee requested me to prepare a draft outline for its report to the meeting at ministerial level to be held in Tokyo on 12-14 September 1973.

This draft is annexed. It will be appreciated that it is not possible to draw up a complete draft at this stage, but only to indicate points on which a measure of agreement has already been reached, additional suggestions which have been made and questions which require further examination. Where additional suggestions have been indicated, the comments made on them by other delegations have not always been stated.

It is hoped that this will provide a framework for the Committee's discussions.

It will be recalled that, in addition, the Preparatory Committee agreed that Ministers should be invited to adopt a brief declaration. This will be drafted later.

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ANNEX

Draft Outline for Report

1. At their twenty-fourth session in 1967, the CONTRACTING PARTIES recognized that it was important to proceed to further advances, with full regard to the objectives and provisions of the General Agreement, within the Programme for Expansion of International Trade. It was agreed that opportunities should be explored for making progress toward further liberalization of trade in industrial products and the attainment of the objectives of the General Agreement in the agricultural field, taking into account the urgent need for additional positive measures for the expansion of trade and improvement of the trade position of developing countries.
2. A detailed picture of the present status of the preparatory work done under the Programme for the Expansion of International Trade is to be found, for the work of the Agriculture Committee, in L/3472 and COM.AG/25, for the work of the Committee on Trade and Development, in L/ ¹, for the work of the Committee on Trade in Industrial Products, in L/ ¹. The latest report of the Group of Three is contained in L/ ¹.
3. In February 1972, contracting parties received Joint Declarations on International Economic Relations which were made by Japan and the United States on the one hand and the European Community and the United States on the other hand. In these declarations, which differ only slightly in their wording, the signatories undertook to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 with a view to the expansion and greater liberalization of world trade, improvement in the international framework for the conduct of commercial relations, and improvement in the standard of living of the people of the world. These negotiations would be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and would cover agricultural as well as industrial trade. Special attention would be given to the problems of developing countries.

¹To be circulated shortly.

4. At the meeting of the Council in March 1972 all major developed trading nations welcomed the initiatives contained in the Joint Declarations and expressed their intention of joining in the undertaking to initiate and actively support multilateral and comprehensive negotiations in the GATT beginning in 1973. Developing countries, while expressing appreciation of the initiatives, made it clear that their association with the undertakings was conditional upon the details to be applied to their participation, in particular with regard to the techniques and modalities to be worked out for the negotiations.

5. The Preparatory Committee was established by the CONTRACTING PARTIES at their twenty-eighth session in November 1972 to prepare for a new multilateral trade negotiation under the auspices of the GATT to be opened by a meeting at ministerial level in Tokyo in September 1973. It was also agreed at the session that the Tokyo meeting would consider the Committee's report, establish a Trade Negotiations Committee and provide the necessary guidelines for the negotiations (L/3773/Rev.1).

6. The Committee has accordingly drawn up the present report on its work, which is set out under three main sections:

- A. Objectives
- B. Substance (including principles, coverage and approaches to be followed)
- C. Procedure

Points of interest to developing countries, including questions relating to objectives, conditions and procedures, are dealt with under the sections to which they relate.

A. OBJECTIVES

7. The Committee noted that at their twenty-eighth session the CONTRACTING PARTIES had agreed that the objectives of the multilateral trade negotiations should be "an expansion and ever greater liberalization of world trade and an improvement in the standards of living of the people of the world through co-ordinated efforts to solve in an equitable way the trade problems of both the developed and the developing countries." (L/3773/Rev.1).¹

¹Three delegations reserved their position on the paragraphs from which this is taken.

8. The Committee further noted the agreement reached at the twenty-eighth session that the multilateral trade negotiations should also aim to secure "additional benefits for the international trade of the developing countries so as to achieve a substantial increase in their foreign exchange earnings, diversification of their exports and an acceleration of the rate of growth of their trade, taking into account their development needs." (L/3773/Rev.1).¹

9. It has been suggested that an additional objective should be the improvement of the international framework for the conduct of world trade.

10. In the discussions on agricultural products it has been suggested that the negotiations should, in addition, have stability of markets, acceptable and predictable conditions of access and stable and remunerative prices as their objectives.

11. Delegations from developing countries proposed in addition that the negotiations should have among their objectives a new international division of labour; an increasing share in the growth of international trade for developing countries commensurate with the needs of their economic development; more favourable and acceptable conditions of access to the products of developing countries; a larger share of the markets of developed countries for these products; and stable, equitable and remunerative prices for these products. Delegations from other countries have indicated their inability to accept some of these points.

12. Delegations from some developing countries proposed that objectives for complementary negotiations in such fields as industrial co-operation, financing related to trade, transportation and trade promotion should be established with a view to ensuring that developing countries, and in particular the least developed among them, would be in a position to increase their export potential and take advantage of trade concessions.

B. SUBSTANCE

Principles

13. There seems to be wide agreement that the negotiations should be based on the most-favoured-nation principle. Delegations from developing countries have however, in general, proposed that concessions should be granted to them on a preferential basis in all areas of the negotiations where this is practicable and that concessions should be made available to them immediately, without phasing.

¹Three delegations reserved their position on the paragraphs from which this is taken.

14. The question also arises as to whether the negotiations on certain non-tariff measures should be conducted on the basis that the benefits would accrue only to countries that are parties to the resulting arrangement. The developing countries have, however, asked that all concessions resulting from the negotiations should be extended to them unconditionally.

15. It appears essential that, in order to secure the fullest possible measure of trade liberalization, there should be the widest possible participation in the negotiations and that it should be a matter of joint endeavour by all participants to achieve an overall balance of advantage at the highest possible level. The effective participation of developing countries, whether or not contracting parties, has been stressed.

16. It seems clear that the negotiations should be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, it being understood that, in accordance with the provisions of Part IV of the General Agreement, "the developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less developed countries".

17. Many delegations have suggested that guidelines should be established for the application of this latter principle. Some delegations have suggested that the degree of economic development of individual developing countries should be taken into account when considering the contribution which they might make. Some suggestions have also been made as to the type of contributions that they might make. Some delegations have suggested that the contribution made by individual developing countries to the overall objectives of the negotiations should be related to the additional or special benefits granted to them in the negotiations. Some delegations felt that non-reciprocity should be absolute.

Coverage

18. There appears to be wide measure of agreement that the multilateral trade negotiations should cover all classes of products - agricultural products, including tropical products, whether in primary, semi-processed or processed form and industrial products whether raw materials, semi-manufactured or manufactured products - and all types of measures that impede or distort international trade, whether these are tariff or non-tariff measures, including, in the case of agriculture, production measures.

19. It should be noted that if a distinction is made in the negotiations between agricultural and industrial products, these will have to be defined. A first approximation to such a definition is that agricultural products are those that fall within Chapters 1 to 24 inclusive of the Brussels Nomenclature. It has been suggested that consideration should be given to how, for example, processed agricultural products should be treated.

20. It also seems widely agreed that in the negotiations particular attention should be paid to all products of particular export interest to developing countries and all measures affecting the exports of developing countries and especially the least-developed countries.

Approaches or combinations of approaches to be followed in the negotiations

21. Stress has been laid on the overall unity of the negotiations and the need for all areas of the negotiations to move forward together.

Agricultural products

22. There appear, by and large, to be two main types of approach which could be adopted in the negotiations on agricultural products - one specific, the other general - most delegations having declared their willingness to borrow from each of these methods to varying degrees.

23. The specific approach covers five major categories of measures: export assistance; tariffs/levies and other special charges; quantitative restrictions; sanitary and administrative regulations of all kinds; production aids.

24. It would call for these measures, which have been itemized in the inventories drawn up by the Committee, to be gradually eliminated, or at least reduced to the fullest extent possible.

25. This approach may imply either the use of the classical item-by-item technique of presenting lists of offers and requests with precise indication of the concessions sought and offered, or recourse to automatic negotiating formulae. In this context, the following formulae have been suggested among others: an annual automatic increase in quotas by x per cent; an annual reduction by y per cent in the sums earmarked for subsidizing exports of a product; an annual

automatic reduction of variable levies, after conversion of the latter into equivalent ad valorem duties etc. Similarly, any automatic methods for reducing tariffs on industrial products could also be applied to agricultural products.

26. Within the specific approach, a number of suggestions have been made aimed at giving developing countries particular advantages. The suggestions may broadly be summarized under two headings: in any trade liberalization priority to be given to products of export interest to developing countries as regards selection and in respect of the size and trade effects and preferential character of concessions in this context, account to be taken in the negotiations not only of the share of an individual developing country in a given market, but also of other trade criteria, such as the importance of products to individual developing countries.

27. In the specific method, the immediate, primary and principal subject of negotiation is the tariff or non-tariff measures themselves.

28. In the general approach, the modification of existing practices in respect of exports, imports or production would result from the application of certain rules to those practices and the essential subject of negotiation would be those rules - or modification on any that already exist.

29. Delegations in favour of this method have indicated three main lines for development:

- (a) The codes or sets of rules designed to encompass practices in respect of imports, exports and production within a body of mutually acceptable general rules. Such codes could, inter alia, apply to export assistance (codes of fair competition), to the use of sanitary regulations, and possibly to certain aspects of internal price policies.
- (b) In addition, for certain specified products or product groups, the above rules, supplemented where necessary, (export assistance, stocks, import policies, prices, food aid, etc.) could be given expression in a more precise and more systematic way, even to the extent of constituting multilateral co-operation conventions in certain sectors.

- (c) Lastly, one particular variant of the general approach has been identified. Certain countries have expressed a particular interest in the idea of appraising commitments entered into during the negotiations either in terms of average protection (support margin - "montant de soutien"), or in terms of the evolution of the position of each country as an importer or exporter (self-sufficiency ratio).

30. Developing countries considered that they would derive benefits from the application of the codes and multilateral co-operation conventions referred to above, depending on their scope and content. It has been suggested that the participation of developing countries in such codes or arrangements would enhance their effectiveness and in certain cases might even be essential for their very viability. It has also been suggested that the obligations to be assumed by developing countries might, however, need to be differentiated according to the development and trade needs of these countries both taken individually and as a whole.

31. The suggestions concerning developing countries within both the specific and general approaches have as their main objective improved and predictable access for the products of these countries at stable and remunerative prices, thereby permitting their participation in agricultural trade to be improved. It has also been suggested that attention should be paid to the need for structural adjustment and an improvement in the international division of labour in the agricultural sector.

32. In addition, as regards tropical products, developing countries have in general suggested that full liberalization should be achieved by the removal of all barriers to access. Tariff escalation should be reduced and eliminated. Internal taxes, in particular selective taxes, should be eliminated. There seems a large measure of agreement that tropical products should constitute a special and priority sector of the negotiations.

Industrial products

Tariffs

33. The Committee might take note of the tariff study data.

34. There seems to be wide agreement that the negotiations in this area should be designed to secure a significant reduction in tariffs, and that the objective might include their abolition over a period of years.

35. There seems a wide measure of agreement that the negotiations on tariffs should be based on simple rules of general application. Two main approaches to tariff reductions have been suggested:

- the linear approach, and
- tariff harmonization.

It has also been suggested that the possibility of a combination of these approaches should be kept in mind.

36. There also appears to be wide agreement that, on the one hand, nothing should discourage participants from making reductions on particular products which were greater than the reductions provided for in the general rules and that, on the other hand, in cases where it did not prove possible to secure the reduction of tariffs, the aim should be to bind them against increase.

37. A number of subsidiary approaches have also been suggested. It has, for example, been suggested that nuisance duties might be eliminated and that some countries might negotiate tariff reductions on an item-by-item basis.

38. Delegations from developing countries have suggested that the negotiations should reduce both the nominal and effective tariff protection on products of export interest to them and eliminate tariff escalation.

39. Delegations from developing countries have stressed that in the negotiations every effort should be made to avoid the erosion of the Generalized System of Preferences. They have also suggested that compensation should be provided if reductions in the most-favoured-nation rates of duty lead to an erosion of margins of preference which they currently enjoy. These delegations have also suggested that the Generalized System of Preference should be improved and bound in the negotiations, taking into account the special situation of the least developed countries. Other delegations have drawn attention to the unilateral and non-contractual character of the Generalized System of Preferences.

40. The next step should be to draw up a tariff negotiating plan.

Non-tariff measures

41. The Committee might take note of the inventory of non-tariff measures, which is now being up-dated, and the general agreement that no measure included in the inventory should be excluded definitively from the negotiations and that it should be open to participants to add further measures to the inventory at any stage of the negotiations.

42. There appears to be a wide measure of agreement that in the negotiations every effort should be made to reduce or eliminate the trade restricting or distorting effects of non-tariff measures.

43. In the preparatory work attention has been concentrated on problems which appear to call for a multilateral solution.

44. Solutions have been drawn up on an ad referendum basis to problems in the fields of:

- valuation for customs purposes
- licensing systems
- standards

The question with relation to these texts is whether they can be finalized and implemented before the conclusion of the negotiations.

45. Solutions are actively being sought to problems in the fields of:

- quantitative restrictions, including embargoes, and export restraints
- export subsidies and domestic subsidies that stimulate exports
- countervailing duties
- domestic subsidies which have import substitution effects
- import documentation, including consular formalities
- packaging and labelling requirements.

46. Other categories of non-tariff measures contained in the inventory which have been considered include government procurement; State trading in market economy countries; anti-dumping duties; customs classification; certificates of origin; samples requirements; marks of origin; minimum price regulations; motion picture restrictions; prior deposits; credit restrictions for importers; fiscal adjustments either at the border or otherwise; restrictions on foreign wines and spirits; discriminatory taxes on motor cars; statistical and administrative duties; and special duties on imports.

47. In the discussions particular attention has been paid to questions of interest to developing countries. The point has been made that the particular situation of these countries should be taken into account in the solutions to be adopted and that certain special problems experienced by developing countries could be solved by the insertion of provisions for the granting of technical assistance in codes etc. drawn up in the negotiations, as was being done for example in the area of standards. Problems related to quantitative restrictions are of particular importance to developing countries. There appears to be a consensus that quantitative restrictions on imports of the largest possible number of products of interest to developing countries should be relaxed or removed on a priority basis. Delegations from developing countries have suggested that an agreed time-table for the removal of such restrictions, embargoes and export restraints on all products of export interest to them should be followed and that the relaxation or removal of such measures should be allowed to take place on a preferential basis.

48. It has been agreed that the next step should be to draw up a common list of priorities attached to dealing with the various categories of non-tariff measures in the negotiations. There is also a consensus that in deciding on priorities due account should be taken of measures of interest to developing countries.

49. Some delegations have suggested the following categories for inclusion in a common list of priorities, while stressing that this is not necessarily complete:

- Export subsidies, and domestic subsidies that stimulate exports
- Countervailing duties

- Government procurement
- Quantitative restrictions, including embargoes, and export restraints
- Standards.

Sector approach

50. Some delegations have suggested that all factors affecting trade in specific sectors, including tariffs and non-tariff measures, should be negotiated on together.

Safeguards

51. There is widespread agreement on the desirability of re-examining the adequacy of the multilateral safeguard system.

52. The Committee might note the establishment of a Group on Safeguards in May 1973 to examine the adequacy of the multilateral safeguard system of the General

Agreement:

- (i) in the light of present conditions and efforts to achieve and preserve a further liberalization and expansion of trade, and
- (ii) for ensuring the maintenance of access.

In carrying out this task the Group will give due consideration to the adequacy of the multilateral safeguard system of the General Agreement to the special situation, development problems and needs of developing countries, bearing in mind the objectives of the negotiations agreed at the twenty-eighth session of the CONTRACTING PARTIES.

53. A number of elements have been suggested which might be embodied in any revision of the multilateral safeguard system.

54. Delegations from developing countries have put forward a number of suggestions aimed at limiting the application of safeguard measures against their exports to exceptional situations and at tightening the conditions attached to the application of safeguard measures against their exports with greater weight in this context being given to the use of measures of adjustment assistance in the developed countries. It has also been suggested that provision should be made for the differential treatment of developing countries, and especially the least developed countries, in the application of safeguard measures.

The question of the review of other GATT rules

55. Having regard to the objectives of the negotiations, a further question is whether it would be necessary to review any other GATT rules at an appropriate time.
56. Mention has been made of the need to review at an appropriate time the provisions governing the use of trade measures for balance-of-payments reasons. It has been suggested that developing countries should be exempted to the fullest extent possible from measures taken for balance-of-payments reasons.
57. Some delegations from developing countries have suggested that new provisions should be incorporated in the GATT recognizing, inter alia, the right of developing countries to non-reciprocity, non-discrimination and preferential treatment.

C. PROCEDURE

58. There has been little discussion as yet of the procedural questions which must be settled if the negotiations are to be declared open in Tokyo. The main questions appear to be the following.

Terms of Reference of Trade Negotiations Committee

59. The terms of reference of the Trade Negotiations Committee might be:
- (a) to supervise the conduct of the negotiations, and
 - (b) to carry out any specific tasks entrusted to it by the Tokyo meeting at ministerial level.
60. The Trade Negotiations Committee would presumably also be empowered to establish committees as necessary to assist it in its work.
61. One question is whether existing committees should be transformed into negotiating bodies reporting to the Trade Negotiations Committee. Committees which might be involved are the Committee on Trade in Industrial Products and its subordinate bodies, the Agriculture Committee, the Special Group of Trade in Tropical Products and the Dairy Products Working Party. The Committee on Trade and Development is established under Part IV with specific functions additional to those involved with the preparations for the trade negotiations.

62. The procedures to be established could be expected to provide, inter alia, for the possibility of groups of countries negotiating as a unit and for developing country participants to have due account taken of their joint interest in specific products.

Membership of Trade Negotiations Committee

63. The Trade Negotiations Committee would presumably be composed only of the representatives of all participating countries. It will be necessary to define the requirements that a country would need to meet in order to be considered a participant.

Participation of developing countries which are not contracting parties

64. There are a number of possible procedures for the participation of these countries in the negotiations. The traditional procedure would be for non-contracting parties to participate on the basis that if the negotiations are successfully concluded they would accede to the GATT. Another approach would be not to lay down any precondition for the participation of these countries in the negotiations but to leave mutually acceptable terms to be worked out in the negotiations themselves.

Time-table of the negotiations

65. Should a deadline be set for the conclusion of the negotiations? If a deadline is to be set, how is it to be made credible? Should the deadline be 31 December 1975?

66. The Trade Negotiations Committee would presumably hold its first meeting shortly after the meeting at ministerial level. Should this meeting be held in the last week of October?