

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Trade and Development

Ad Hoc Group on the Expansion of Trade
between Less-Developed Countries

RECORD OF DISCUSSIONS OF MEETING HELD ON 3 AND 4 JUNE

Introduction

1. The Group held its first meeting on 3 and 4 June.¹ The Group had before it documents COM.TD/D/W/1 - a pilot study of trade flows between less-developed countries, prepared by the secretariat - and COM.TD/D/W/2 - a secretariat note which summarizes earlier discussions in GATT on preferences among less-developed countries, and gives the text of two proposals on the subject presented by the United States and the United Arab Republic delegations respectively.
2. Since, at its first meeting, the Group had only a preliminary exchange of views on the information and proposals before it, it was agreed to limit any submission it would make to the next meeting of the Committee to the transmission of the present record of discussions, for the information of the Committee. The Group proposes to meet again in September to take up in more detail the questions falling under the four points of its mandate, including the examination of the specific proposals submitted by the United States and the United Arab Republic delegations

General²

3. In discussing the more general aspects of the questions before it, a number of delegations emphasized the importance they attached to measures aimed at achieving an expansion of trade among less-developed countries. Reference was made in this context to Article XXXVII, paragraph 4 in the new Part IV of the General Agreement, which envisages appropriate action by less-developed countries for implementing the provisions of Part IV of the General Agreement for the benefit of the trade of other less-developed countries.

¹For the composition of the Group and its terms of reference see the Annex.

²To the extent possible, the discussion has been summarized in relation to the different major points made during the meeting.

4. While the Group focussed most of its discussions on the question of the establishment of preferences between less-developed countries, it also noted that there were a number of other important aspects relating to trade expansion between less-developed countries which would need to be dealt with. Specific reference was made to problems arising from the lack of complementarity of the economies of less-developed countries; inadequate transport facilities; high freight rates; development of synthetic substitutes in place of primary products; their chronic foreign exchange difficulties - and the repercussions thereof on their import policies and possibilities, as well as a number of barriers of a structural and institutional nature to trade expansion. In this connexion it was emphasized, inter alia, that corporate ties, patent rules and other forms of business interconnexions between industrial organizations in developed and less-developed countries should not be used by the former to prevent the expansion of exports of the manufactured products of the less-developed countries concerned, in particular as regards exports to other less-developed countries in the same region.

5. Pointing to the fundamental nature of many of the problems in relation to trade expansion between less-developed countries - problems which did not seem to diminish as time went on, a number of delegations suggested that governments of less-developed countries might have to adopt special measures for assisting the expansion of trade between their countries. Representatives of less-developed countries suggested that, notwithstanding other forms of action which the Group might ultimately wish to recommend to the Committee - consideration should also be given to possibilities for facilitating import liberalization among less-developed countries. In this respect account should also be taken of the work already carried out, and the experience gained in this regard, by the Regional Commissions of the United Nations. It was further suggested that one course of action which the Group might wish to explore might be the drawing up of an action programme for trade expansion among less-developed countries - possibly containing also some targets for an increase of such trade.

Proposals on Preferences

6. In presenting the specific proposals on preferences which stand in the name of the United States and United Arab Republic delegations respectively, the United States and the United Arab Republic representatives stated that these proposals were intended primarily to serve as a basis for discussion and should not be regarded as rigidly defined texts to which their governments were formally committed. Other delegations, in commenting on these proposals, indicated that their observations were intended primarily to seek clarification of various aspects of the arrangements under discussion, and to reflect their preliminary thinking on the subject and should not be considered as representing the fixed position of their governments.

7. In introducing the United States proposal, the representative of the United States explained that, while his Government firmly advocated adherence to the most-favoured-nation principle as the general rule for the conduct of international trade, it recognized that there might be instances where a deviation from this principle could be of assistance to less-developed countries - particularly those having only small domestic markets - in expanding production and trade. At the same time, any preferential arrangements among less-developed countries should further economic integration, leading to international competitiveness and to trade creation, rather than to trade diversion, if they were to be of benefit to these countries. To ensure that an increase in trade resulting from preferential arrangements will, in fact, make a positive and lasting contribution to the welfare and development of the countries concerned, the United States proposal envisaged that agreements in the interest of progress of economic development - with provision for preferences where needed, and subject to appropriate criteria and safeguards - would be permitted in respect of less-developed countries in the "same economic region". The United States delegate thought that less-developed countries in the same geographic region might normally be considered to be in the same economic region. Geographic proximity, through the saving in transport costs and the more intimate knowledge of market conditions, was an important factor in promoting economic co-operation and in fostering the development of industries intended to serve both the domestic and external markets on a continuing basis. However, it was not necessary to insist on geographical contiguity in every instance, nor was it necessary to have a precise definition of the term "economic region". Whether two or more countries did, or did not, belong to the same economic region might well be left to commonsense judgment in specific instances.

8. A number of representatives of industrialized countries indicated that, although they saw value in the arguments underlying the United States proposal, they also endorsed the establishment of preferences among less-developed countries on a more general basis, if this should prove helpful to these countries. A number of representatives from developing countries also expressed support for a general system of preferences among less-developed countries which would not be limited to countries in the same region, it being understood that due account would be taken of the legitimate trade interests of developing countries at a very early stage of economic development, and of the effects of any such new preferences on the trade of countries already trading within preferential systems. In this connexion some delegations mentioned the difficulties of defining an economic region and were doubtful whether the term could be limited to refer only to countries in the same geographical region. It was pointed out that in the United States proposal, preferences would be established to ensure a sound and adequate market for particular industry, or branch of agriculture, or group thereof. Some delegations, however, felt that preferences could also be used more generally to expand sales by developing countries to one another's markets, particularly in situations where the expansion of trade exchanges was inhibited by the balance-of-payments difficulties of these countries.

9. It was noted that the United Arab Republic's proposal envisaged the conclusion of preferential agreements also between countries not belonging to the same economic region. Some members of the Group thought that the United Arab Republic's proposal did not give a sufficiently precise indication of the basis on which preferences negotiated between two or more less-developed countries could be extended to other less-developed countries. It was suggested by some delegations that, if the conditions under which other countries could accede to such agreements were not clearly defined, the result might be a proliferation of bilateral agreements of a discriminatory character without economic rationale. In response to the suggestion made by some delegations that the factors governing accession to such agreements should be more precisely spelt out, the United Arab Republic delegate explained that the text they had proposed was not intended to limit the possibilities for accession. The United Arab Republic's proposal envisaged that the agreement could be extended to all developing countries wishing to join, if they accepted the terms and conditions governing the application of the agreement.

10. Some delegates felt that preferences under agreements concluded between two or more less-developed countries should be automatically extended to all other less-developed countries.

11. Some delegations felt that it might be possible to operate a scheme of regional preferences in conjunction with a more general system of preferences. If this were agreed, it might be possible to merge proposals of the United States and the proposals of the kind described in paragraph 8. The United States delegation did not consider that this would be possible.

12. It was also pointed out that it was possible to envisage several types of preferences among developing countries. Thus there might be preferences which could be extended only between countries belonging to the same economic region; it was possible that some of these preferences might represent policy measures in the direction of more comprehensive forms of economic integration and could thus be dealt with inside the framework of Article XXIV. There might be preferences which were extended by developing countries to all other developing countries, or which were extended by some developing countries to some other developing countries. There might also be the possibility of countries being parties both to a regional and a more general system of preferences. On the other hand, it was possible that a general system of preferences would be incompatible, or at least difficult to reconcile, with preferences extended on a regional basis. The Group agreed that the question would need to be further studied in the light of the points brought out in the discussions of the United States' and United Arab Republic's proposals.

13. There appeared to be a general consensus on the point that any preferential arrangements among less-developed countries should serve the purpose of fostering the economic development of these countries. Some delegations felt that there would be merit in spelling out this condition specifically in any provisions for preferential arrangements which might eventually be adopted by the CONTRACTING PARTIES.

14. The Group also exchanged views on a number of other issues relating to preferences among developing countries which arose from various aspects of the United States' and United Arab Republic's proposals.

15. Members of the Group generally recognized that the extension of preferential treatment to specific products would depend upon the agreement of the developing countries concerned. The point was made, however, that a provision such as that set out in paragraph 3(i) of the proposal by the United Arab Republic (specifying that preferences would not be granted on items affecting adversely the interests of domestic industries) might limit considerably the possible scope of any preferential agreement since it should, in fact, be expected that all such agreements would affect, in one way or another, the interests of certain industries or countries participating in the scheme. It was accordingly suggested that it might be useful to give further consideration to the criteria governing the selection of items on which preferences might be accorded.

16. It was noted that the United States' proposal envisaged the possibility of extending preferential treatment to agricultural products. A number of representatives were in favour of limiting - at least in practice - the exchange of preferences among developing countries to semi-manufactured and manufactured products as otherwise there was a greater danger of such preferences leading to trade diversion rather than trade creation. It was pointed out, however, by a number of delegations that there seemed to be no a priori reason for explicitly excluding non-manufactured items from preferential agreements. In this connexion it had to be remembered that some agricultural products - such as certain spices - were also traded largely between less-developed countries. Moreover, there might be a certain complementarity in trade and production in respect of certain food-stuffs and agricultural products. In any event, it should be assumed that - particularly as far as primary products and raw materials are concerned - no measures would be taken by governments which would lead to increasing the cost of production in their respective countries and thus reducing their international competitiveness, if, as a result of preferences, there should be a shift to higher cost sources of supply. Some delegations felt that this problem for participating countries could be dealt with if preferences were to be based, as envisaged in the proposal by the United Arab Republic, on negotiated agreements.

17. It was noted that, while the United States' proposal appeared to envisage preferences only in the field of tariffs, the preferential agreements envisaged in the United Arab Republic proposals could prima facie cover non-tariff measures as well. A number of delegations expressed the view that, although most of the earlier discussion on preferences in the GATT had related primarily to customs duties, it might be necessary to accord preferential treatment also in respect of non-tariff barriers such as quota restrictions, since, in the situation of less-developed countries (several of which were entitled to apply quantitative import restrictions to safeguard their balance of payments) tariff preferences could easily be nullified by other restrictions. They felt that such action would also be covered by an amendment of Article I of the General Agreement. In this connexion one delegation suggested that there was some analogy between the situation of less-developed countries and that for which provision was made in the formerly operative Annex J (relating to exceptions to the rule of non-discrimination).

18. It was also indicated by a representative of a less-developed country that, in his view, preferential treatment in the use of quota restrictions should be limited to imports from other less-developed countries in the same region - for instance under regional free-trade arrangements, or customs unions.

19. In the discussion of how the envisaged preferential duties would be related to present most-favoured-nation rates, and/or to preferential margins currently in force in some countries, the view was expressed that it would be useful if developing countries, in considering the exchange of preferences amongst themselves, would also give an undertaking not to raise present duties so as to provide possibilities for increased margins on the new preferential duties. It was pointed out, however, that a general undertaking of this sort might cause some difficulty for countries which currently applied very low customs duties on the products which might be proposed for coverage under a preferential system.

20. Many delegations emphasized the importance they attached to the insertion of provisions which would adequately safeguard the interests of third countries in any preferential agreements between less-developed countries. Some delegations suggested the adoption of provisions along the lines envisaged in paragraphs 6(b) and (c) of the proposal by the United States, or, alternatively, those of paragraph 6 of Article 15 of the Havana Charter. The representatives of industrialized countries pointed out that it would seem desirable to make provision in the safeguard clause for due consideration being given by developing countries, when exchanging and implementing preferences, to the effect which such preferences might have on industries of other contracting parties, including industrialized countries. It was also suggested that specific provision be made for consultation regarding the effects of the envisaged preferential agreements on the trade of third countries. Some delegations pointed out that the drawing up of the safeguard provisions of the type embodied in the Havana Charter antedated the adoption by CONTRACTING PARTIES of the new Part IV of the General Agreement. In line with the provisions of the new Chapter, it might be appropriate if safeguard provisions would also reflect the understanding that less-developed countries are not expected to grant reciprocity for concessions obtained from industrialized countries. Accordingly, it might be assumed that less-developed countries would not be expected to offer compensation to industrialized countries in respect of action taken by them to further trade exchanges between their respective countries.

21. Some representatives also pointed out that the question of safeguards for less-developed countries was linked with the kind of preferential arrangement which was permitted. While the question of such safeguards would not arise if preferences negotiated between two or more less-developed countries were required to be extended to all other less-developed countries on a non-discriminatory basis, different safeguards might be required where preferences were permitted only on a regional basis, or where these could be negotiated between two or more countries not necessarily belonging to the same region, without being automatically extended to other developing countries.

22. In further discussion of the control to be exercised by CONTRACTING PARTIES in respect of preferential agreements, a number of delegations expressed support for prior approval by the CONTRACTING PARTIES before action establishing, or expanding such preferences, was taken. Other countries accepted the need for control of such arrangements by CONTRACTING PARTIES, but felt that prior approval should not be made a necessary and general condition for action by less-developed countries to extend preferences to one another. It was pointed out by one delegation that the degree and type of control exercised by CONTRACTING PARTIES was also to some extent linked with the kind of preferential agreement envisaged.

23. With reference to the question of control to be exercised in respect of such agreements, the Group noted that the United States' proposal provided a time-limit for the termination of such agreements. The United States' representative explained that they had inserted in their proposal a specific provision for the termination of preferential agreements, after a reasonable period of time had elapsed, mainly to ensure that such preferences would operate only so long as they were needed to foster the development of efficient competitive industries (or branches of agriculture).

24. While there seemed to be agreement, in principle, on the desirability of inserting a provision for the termination of the envisaged preferential agreements in any provisions which might be adopted, it was felt by some delegations that it might be difficult to prescribe any fixed time-limits for this purpose. For example, preferences designed to bring about complementarity in industrial development might require a longer operative period than agreements designed primarily to assist less-developed countries in overcoming the special difficulties they encounter when attempting to export their products to markets of other less-developed countries.

25. In the light of the discussion on the other aspects of the question of preferences among developing countries, the Group also discussed the legal provisions required to sanction such arrangements. Different formulae for sanctioning such preferences which were mentioned in the Group included: (i) the adoption of a protocol, amending Article I; (ii) a general waiver under paragraph 5 of Article XXV; or (iii) separate waivers for each preferential agreement, granted by virtue of the same provisions; (iv) recourse by less-developed countries to the provisions of Article XXIV, either as it stands, or as it might be amended; and (v) adoption of an amendment to the General Agreement permitting the exchange of preferential arrangements, either along the lines of the United States' proposal, or those of Article 15 of the Havana Charter; (vi) the granting of preferences being affected under Article XXXVII:4, paragraph 5 of the same Article providing the necessary procedures for consultations in case of difficulties.

26. Some delegations felt that, for practical purposes, it might be best to amend Article I in such a way as to permit less-developed countries to grant "special MFN treatment" to other less-developed countries. This system might have the additional advantage - by preventing discrimination in the application of tariff rates on imports from different less-developed countries in the operation of preferences - of avoiding abuses, by facilitating the supervision of the operation of any such schemes.

27. Representatives of a number of less-developed countries also expressed the view that the question of preferences between less-developed countries could not be dealt with in isolation from the question of preferences to less-developed countries to be granted by industrialized countries.

28. Some representatives of industrialized countries thought that the basic problem was that of expanding production capacity and increasing productivity levels in less-developed countries and improving their trade promotion techniques. These delegations were doubtful of the value of preferences in promoting trade exchanges between these countries.

29. The Group took note of a number of points - drawn up by the secretariat at the request of the Chairman of the Group - summarizing the major questions which arose during the discussion of proposals in the establishment of preferences among less-developed countries. It was suggested that contracting parties might wish to give consideration to these questions in preparation for the next meeting of the Group. These points are listed on the following pages:

Points for consideration

1. Is it feasible to envisage a system in which less-developed countries can maintain preferences on a regional and a more general basis simultaneously; for example, by having a restricted list of products on which preferences are applied on a general basis, and a wider list in which they are applied on a regional basis? Should a system for sectoral preferences on a regional/non-regional basis be established independently and/or as a complement to more general systems?
2. Where preferences are extended on a regional basis, can it be assumed that they would be established as a step towards full economic industrial integration, either on a sectoral or an overall basis, and thus be related to the requirements of Article XXIV?
3. Should preferences between developing countries be limited to semi-manufactures or manufactured goods, or can they be extended also to primary and agricultural products?
4. Would such preferences cover both tariffs as well as other import regulations, such as quota restrictions? What positive rôle can preferential arrangements between less-developed countries, covering

both tariffs and other import regulations, play (a) on a regional basis, (b) on a more general basis, as between less-developed countries not belonging to the same region?

5. Is it agreed that preferences among less-developed countries would be established only in respect of such products as are selected by less-developed countries for preferential treatment through negotiations?
6. Should preferences be permitted only between countries belonging to the same economic region, or should they be allowed also between less-developed countries belonging to different regions?
7. If they are limited to countries belonging to the same economic region, how is an economic region to be defined, or understood, for this purpose?
8. If preferences are allowed between countries not necessarily belonging to the same economic region, should preferences negotiated between two or more less-developed countries be automatically extended on a non-discriminatory basis to all other less-developed countries?
9. If preferential arrangements negotiated between two or more less-developed countries are not automatically extended to all other less-developed countries what is the basis on which other less-developed countries can qualify for participation in such arrangements?
10. If preferences are not extended on a non-discriminatory basis to all less-developed countries, what safeguards are required to protect the interests of those less-developed countries which cannot participate in these arrangements?
11. What safeguards should be prescribed for other third countries in respect of a regional or more general system, of preferences among developing countries?
12. Should prior approval of the CONTRACTING PARTIES be necessary for all types of preferential arrangements between less-developed countries? To what extent is the degree of control to be exercised in respect of these arrangements linked with the type of arrangement under consideration?
13. What legal machinery would be appropriate for permitting the establishment of preferences between developing countries, e.g. adoption of a suitable protocol, or ad hoc arrangements for the grant of waivers under Article XXV, or a more general waiver, or the insertion of a general provision in the General Agreement?
14. To what extent does the establishment of a system of non-discriminatory preferences among less-developed countries depend upon agreement on the establishment of preferences by developed to less-developed countries?

15. Should different rules for termination of preferences apply (a) in cases where the preferences are designed to promote integrated industrial and economic development, and (b) those designed to expand sales and purchases among less-developed countries generally, e.g. in situations of balance-of-payments difficulties?

30. The representative of the United States suggested that, in preparation for the next meeting of the Group, contracting parties might also give particular attention to the following questions:

- what economic difficulties of less-developed countries might be alleviated by preferences, and how might (a) regional and (b) general preferences amongst less-developed countries help meet these difficulties?
- what are the disadvantages of (a) regional and (b) general preferences?
- what would be the implications for investment decisions in less-developed countries of preferential trading arrangements among them (a) on a general basis and (b) on a regional basis?

31. The delegation of the United Arab Republic suggested in this connexion that it be examined whether countries belonging to the same region would derive benefits from a regional system of preferences which they could not obtain if preferences were also admissible to countries outside the region.

32. The delegate of Brazil suggested that it be considered whether a system of sectoral preferences on a regional/non-regional basis should be established independently, and/or as complement to more general systems.

33. The Group felt that, in view of the short time available at the present meeting, it would not be possible to engage in a detailed discussion of the data contained in the pilot study prepared by the secretariat (COM.TD/D/W/1). In their preliminary comments on the data, a number of delegations pointed, however, to what appeared to be high trade barriers in a number of developing countries in respect of the products under study. While recognizing that the question of trade barriers in less-developed countries would have to be considered in the light of import possibilities open generally to these countries, having regard to their foreign exchange availability and development needs, members of the Group noted the need for carefully considering how the impact of these barriers on the trade of other less-developed countries could be minimized. The level of existing duties and other non-tariff barriers also had some implications for the rôle which preferences would play in trade between less-developed countries. Some members also recalled their general observations on the problem of trade between less-developed countries and pointed out that it might not be possible to assess the impact of such barriers on trade flows between less-developed countries in isolation from other factors.

34. Since the Group did not find it possible to discuss the pilot study in detail, and to ascertain what conclusions might be drawn from the data in the study, it was felt that it would be premature to decide on an enlargement of the study to cover additional products and/or categories of information. Nevertheless, since a number of delegations felt that the type of information provided in the summary tables in the study would be useful to their authorities in determining the problems which required most urgent attention, it was suggested that the Committee, at its next meeting, might wish to take up the question of enlarging the study. Some members of the Group felt that, if an enlargement of the study were to be decided on, it would be useful to provide data also in respect of some items known to be essential imports of less-developed countries.

ANNEX

AD HOC GROUP ON THE EXPANSION OF TRADE
BETWEEN LESS-DEVELOPED COUNTRIES

Chairman: Mr. L.F. COLLYMORE (Jamaica)

Membership:

Argentina	Ghana	Netherlands
Australia	Greece	Nigeria
Belgium	India	Pakistan
Brazil	Indonesia	Peru
Canada	Israel	Switzerland
Ceylon	Italy	Uganda
Chile	Jamaica	United Arab Republic
Cuba	Japan	United Kingdom
Denmark	Kenya	United States
Fed. Rep. of Germany	Madagascar	Uruguay
		Yugoslavia

The Commission of the European Economic Community will participate in the work of the Group.

Terms of reference

- To examine the problems involved in the expansion of trade between less-developed countries, with particular reference to the rôle of preferences between less-developed countries in promoting such trade, and taking full account of the work done earlier in the Working Party on Preferences and its findings;
- to examine in this context, any specific proposals submitted by contracting parties for the establishment of preferences between less-developed countries;
- to examine the pilot studies on trade flows between less-developed countries produced by the secretariat and to arrange for the extension of these studies to additional lists of products;
- to report, with appropriate findings and recommendations, to the Committee on Trade and Development at the next meeting of the Committee and to transmit its findings also to the Working Group on Preferences.