

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Group on Preferences by Industrialized Countries

BACKGROUND PAPER PREPARED BY THE SECRETARIAT

1. The Working Party on Preferences has submitted two reports to the CONTRACTING PARTIES. In its first report (L/2196/Rev.1), presented at the twenty-first session, the Working Party reported that while many, but not all, delegations had been, in principle, in favour of the granting of preferences, there had been differences of opinion on the terms, conditions and procedures which might govern any preferential arrangements. A summary of the proposals which had been made up to that time was included in the report.
2. The second report (L/2282), and recommendations made on it by the Council, were discussed at the Second Special Session of the CONTRACTING PARTIES. At that session the CONTRACTING PARTIES invited contracting parties wishing to do so to submit proposals on the granting of preferences by industrialized countries to less-developed countries, and on the exchange of preferences among less-developed countries. The CONTRACTING PARTIES also agreed that the Committee on Trade and Development should examine these proposals with a view to making an appropriate submission to the CONTRACTING PARTIES at their annual session.
3. At its meeting in March this year, the Committee on Trade and Development recognized that it would be desirable to distinguish between preferences granted by industrialized countries, and preferences exchanged between less-developed countries. It was, therefore, agreed that studies of the two types of preferences should be carried out in two distinct groups, at the same time ensuring that there would be liaison between them, since it was pointed out that some of the problems involved in the exchange of preferences between less-developed countries might need to be taken into account in the study of the question of preferences by industrialized countries in favour of less-developed countries.

4. In accordance with the terms of reference given to the present Working Group, the Group is required to examine proposals submitted for the establishment of preferences by industrialized countries to less-developed countries, taking into account discussions in other international bodies. The Indian delegation had suggested to the Committee on Trade and Development, in document COM.TD/W.11, that the proposal on preferences which had been put forward by the developing countries in the UNCTAD, and adopted by its Second Committee, should serve as a basis for further work by the CONTRACTING PARTIES in this field. This proposal is reproduced in the Annex to the note. The Indian delegation had also suggested that the Working Group, in reporting to the Committee on Trade and Development on its examination of this proposal, should include recommendations on the points set out in paragraph 9 of document COM.TD/W.11. The Special Committee on Preferences established by the United Nations' Trade and Development Board has prepared a report on its recent discussions of the question of preferences. The report is being distributed to members of the Group. It can be seen from the report that no discussion took place on the differences of principle. The Committee decided to consider the practical aspects of a system of preferences and the arrangements for the operation of such a system, in the event that agreement was reached on the introduction of preferences in favour of developing countries. No conclusions were reached by the Committee regarding the methods of implementing preferences proposed in paragraphs 8, 9, 10 and 16 of the report. It will also be noted in paragraph 15 of the report that the proposal in the Annex to this note was supported by the developing countries. However, in view of the divergent positions taken by delegations of other countries, the Group might consider whether at the present meeting it should undertake any detailed discussion of this proposal, or of the points mentioned in paragraph 9 of document COM.TD/W.11.

5. The present Working Group was also required to consider the findings of the Ad Hoc Group on the Expansion of Trade among Less-Developed Countries in regard to the exchange of preferences inter se. At the recent meeting of this Group a number of issues were brought out which would be examined further at the next meeting of the Group. Some members of the Group also felt that it would not be possible to establish preferences among less-developed countries until the question of the granting of preferences by developed countries to less-developed countries was resolved.

ANNEX

PREFERENCES¹

"The United Nations Conference on Trade and Development:

1. recognizes the urgent need for the diversification and expansion of the export trade of developing countries in manufactures and semi-manufactures in order to narrow the gap resulting from the present trends in international trade;
2. emphasizes the general agreement on the objective of securing a significant increase in the share of the developing countries of international trade in manufactures and semi-manufactures;
3. accordingly it urges the governments of developed countries to adopt the following measures with the object of facilitating access to their markets for the exports of manufactured and semi-manufactured goods from the developing countries.

A

4. Provision shall be made in the rules of international trade for preferential entry in respect of import duties and quotas into all developed countries of manufactures and semi-manufactures originating in developing countries without reciprocal concessions from the latter.

I. PREFERENTIAL TARIFFS:

5. Duties applied by developed countries to the following categories of products originating in developing countries will be immediately eliminated:
 - a. goods on which the "most favoured nation" duty is 10% or less;
 - b. products of cottage industries and hand-made goods;
 - c. semi-manufactured goods which are subject to further industrial processing;
 - d. goods processed or manufactured primarily from products or materials originating in developing countries.
6. Import duties on goods imported by developed countries from developing countries which are not accorded the treatment mentioned in the previous paragraph should be immediately reduced by a minimum of 50% of the "most favoured nation" duty; the remaining tariffs will be phased out in equal stages over a period not greater than 5 years.

¹Reference: paragraph 4 of this note.

7. The preferential treatment described above shall be extended uniformly by all developed countries to all developing countries in a non-discriminatory manner.

8. The duration of the preferential treatment mentioned in paragraph 6 will be for a period of at least ten years counted from the date from which the particular industry in a developing country begins to benefit from the zero tariff, subject to further extension in accordance with such international procedures as may be established. While extension of such preferences is under consideration such preferences should not be suspended or interrupted until further agreement is reached in the appropriate international body designated by UNCTAD.

9. In the event of the appropriate international authority being, on the motion of an importing country, satisfied, in accordance with the agreed procedures that imports under preferential arrangements are causing disproportionate dislocation in its domestic market, provision may be made for suspension of the preferential tariff margins for a temporary period for facilitating smooth adjustment, subject to the establishment of preferential tariff quotas on imports from developing countries during the period of suspension.

II. NON-TARIFF BARRIERS:

10. Quantitative restrictions, internal taxes and other charges of an equivalent effect as well as all types of discriminatory measures, governmental or otherwise, affecting the importation of manufactured and semi-manufactured goods from the developing countries into the developed countries shall be immediately eliminated.

11. Developed countries shall not establish any type of restrictions which would in any way hinder or discourage exports to their markets of manufactured and semi-manufactured products by developing countries.

12. The competent international body designated by the United Nations Conference on Trade and Development will proceed immediately to identify any existing non-tariff trade barriers affecting the export of manufactured, processed and semi-manufactured goods to developed countries by developing countries with a view to obtaining their immediate elimination.

III. ADDITIONAL MEASURES:

13. Without prejudice to the general provisions made in paragraph 7 special treatment may be granted by developed countries to the less-developed amongst developing countries in accordance with criteria to be determined and/or established by an appropriate body designated by UNCTAD.

14. When preferential treatments established in paragraphs 5, 6 and 10 are insufficient to give rise to a steady and effective flow of manufactured, processed and semi-manufactured products from developing countries in the initial phases of

industrialization towards developed countries, action shall be taken to grant additional support to their national development and export programmes. Such measures will include, amongst others, financial and technical assistance through the appropriate international institutions designated by UNCTAD. Consideration will be given in this connexion to developing countries with limited domestic markets.

15. Bilateral or multilateral arrangements relating to financial and technical aids currently in force shall remain undisturbed in connexion with such assistance.

16. When relatively less developed countries are participating in regional economic programmes, the aforementioned measures, in accordance with the wish expressed by such countries, should preferably be channelled through existing regional economic organizations.

17. A special group of experts appointed by the United Nations Conference on Trade and Development should study the manner of immediately applying such additional measures and will report directly to the international body designated by the United Nations Conference on Trade and Development.

IV. EXISTING PREFERENCES:

18. Preferential arrangements between developed countries and developing countries which involve discrimination against other developing countries and which are essential for the maintenance and growth of the export earnings and for the economic advancement of the less developed countries at present benefiting therefrom, should be abolished pari passu with the effective application of measures described in paragraphs 5, 6 and 10 providing at least equivalent advantages for the said countries. Preferences which are not being made use of will, however, be replaced by the provisions in part (A) of this recommendation.

B

19. Trade plans for centrally planned developed countries will provide for:

- (a) significant increases in their imports from developing countries in consonance with the latter's trade requirements;
- (b) diversification of imports from developing countries with a view to securing a rapid increase in the proportion of manufactures and semi-manufactures within the total volume of imports from said countries.

20. Other appropriate measures shall be taken, within the general framework of the economic policies pursued by centrally planned economies, to encourage importation and consumption of products originating in developing countries.

The centrally planned countries will give an undertaking gradually to reduce the margin between the import price and the resale price of manufactures and semi-manufactures imported from the developing countries in order to make such imports more attractive to the final consumer.

21. Centrally planned countries shall abolish tariffs on imports from developing countries.

22. In drawing up national and regional development plans, due account should be taken by centrally planned economies of the production potential in developing countries and provision should be made for the inflow from developing countries of products of the industries set up in these countries with capital, equipment and other assistance received by them from developed countries.

23. Centrally planned countries should avoid competing in markets of the developing countries in the sale of produce which these countries export.

24. Centrally planned countries should also avoid competing in world markets in the sale of products manufactured with materials imported from developing countries.

25. Steps should be taken to broaden and amplify purchase and payment arrangements with a view to supplementing trade exchanges under bilateral and multilateral agreements.

26. Centrally planned economies shall eliminate any trade obstacles which have analogous effects to tariffs, quotas or internal taxes. In all cases the developed countries with centrally planned economies shall, as regards access to their markets, financing and other facilities grant to the developing countries terms in no way inferior to those which the developing countries obtain from the developed countries with market economies, in accordance with the recommendations of the United Nations Conference on Trade and Development.

C

27. Any developed country may grant additional preferences to imports from developing countries without extending them to other developed countries provided that it applies them to imports from all developing countries.

28. Provision should be made for periodic review by an appropriate international organization designated by the United Nations Conference on Trade and Development of measures which may be taken by national governments in developed and developing countries to permit adjustments of their industrial production structures with a view to facilitating the expansion of the export trade of the developing countries in manufactures and semi-manufactures.

29. The international body designated by UNCTAD should make appropriate provision for adoption by developed and developing countries of suitable measures to permit industrial co-operation between developed and developing economies so as to build up export production in developing countries of manufactured and semi-manufactured items required by consumers and industrial users in developed economies.

30. While the preferential treatment is being established developed countries will not raise present tariff or non-tariff barriers to exports of manufactured and semi-manufactured items from developing countries, nor will they at any time establish new tariff or non-tariff barriers or any discriminatory measures which may impede or prevent the free access into their markets of such products from developing countries. The developed countries will always refrain from undertaking anti-dumping measures oriented against the industries of developing countries."