

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Working Group on Preferences

RECORD OF DISCUSSIONS OF THE MEETING HELD FROM 21-25 June 1965

1. The CONTRACTING PARTIES at their twenty-second session endorsed the decision of the Committee on Trade and Development to establish a working group on preferences with the following terms of reference:

- to examine the proposals submitted for the extension of preferences by industrialized countries to less-developed countries, taking into account discussions in other international bodies;
- to consider also the findings of the Working Group on the Expansion of Trade among Less-Developed Countries in regard to the exchange of preferences inter-se;
- to submit to the Committee on Trade and Development, by October 1965, appropriate findings and recommendations in the light of the practical and legal problems involved.

The first meeting of the Group was held on 21-25 June 1965.

At the opening of the discussion one representative, referring to a statement made in a meeting of another international organization ~~by a member of the GATT secretariat~~, asked whether the inclusion of the phrase "taking into account discussions in other international bodies," in the terms of reference of the Group, implied any limit on the competence of the CONTRACTING PARTIES to deal with all aspects of the question of preferences and whether it was not intended in the phrase referred to, that the Group should take account of discussions held in other bodies of the GATT. The Deputy Director-General replied that the CONTRACTING PARTIES had agreed to examine specific proposals for the granting of preferences by developed to developing countries, and had remitted this examination to the present Working Group through the Committee on Trade and Development. The Working Group in carrying out its task had of course to take full account of all the discussions which had taken place in the GATT on the question of preferences. The execution of any scheme involving the granting of preferences would necessitate an amendment to the key provisions of Part I of the General Agreement. It was therefore evident that the CONTRACTING PARTIES were competent to deal with and were dealing with the principles involved in the proposal before the CONTRACTING PARTIES in the same way as they were concerned,

interested in and were dealing with the substance and execution of such a proposal. Further, the GATT was an international legal instrument and it followed that as far as the legal aspects of the question were concerned, the CONTRACTING PARTIES had the responsibility to deal with the principle of preferences in a legal context. In carrying out their task, the CONTRACTING PARTIES had decided in accordance with the provisions of the new Part IV to take into account relevant discussions carried out in other bodies, particularly the UNCTAD which was a body having a broad political and economic responsibility on matters relating to trade and development. This did not detract from the specific responsibilities of the CONTRACTING PARTIES which was an autonomous body.

2. The Group had before it a background paper prepared by the secretariat in document COM.TD/E/W/1. In an annex to this paper was attached the only specific proposal put forward in response to the invitation of CONTRACTING PARTIES at the Second Special Session. This proposal, first submitted by the Indian delegation in document COM.TD/W/11, has suggested that consideration be given to adoption of the Recommendation of the Second Committee of the UNCTAD taking into account the points raised in paragraph 9 of document COM.TD/W/11. The secretariat paper noted that this proposal had been supported by the developing countries which were represented at the recent meeting of the United Nations Special Committee on Preferences. The Group also had before it the first part of the report of the Special Committee.

3. It was pointed out by members of the Group that there had been some modification of the original proposal contained in the annex to the secretariat paper, and that the text of the proposal as it was submitted by the less-developed countries to the United Nations Special Committee on Preferences could be found in one of the annexes to the report of that Committee. As this report was not yet available in its entirety, the Group appreciated that a very detailed discussion of the proposal would not be possible.

4. Introducing the debate on the documentation before the Group, one representative from a developing country said that in the discussions in the United Nations Special Committee on Preferences there had been no differences among delegations regarding the need to increase the export earnings of developing countries with a view to promoting their economic development and, in particular, to provide greater access for their products in the markets of the developed countries. He reiterated the view of his Government that the granting of preferences by developed countries to developing countries was one of the means by which these objectives could be achieved, though other additional measures would also need to be adopted. He said that the developing countries which took part in the United Nations Special Committee on Preferences had maintained the view that the developed countries should grant general non-discriminatory preferential treatment to the developing countries as one of the measures designed to promote their economic development, and had reaffirmed the desire to see the introduction of a non-discriminatory system of preferences which would incorporate safeguards for developed countries as well as adjustments to secure fair and equitable treatment for all developing countries.

5. He said that the developing countries had shown their willingness to take account of the concerns of the developed countries that they might not be able to grant preferences on all the items listed in paragraph 5 of the proposal annexed to the secretariat paper COM.TD/E/W/1, and had therefore agreed that there might be some merit in having an initial exceptions list which they were willing to discuss with the developed countries. In the United Nations Special Committee on Preferences there had been some discussion concerning the duration of preferences and the amended proposal had indicated clearly how the question of duration could be discussed. Commenting on the safeguards which were provided for in the proposal, he said in the past, when developed countries had claimed that their markets had been subject to difficulties from exports from developing countries, the developing countries had always demonstrated their willingness to discuss the matter and to evolve constructive solutions. The same spirit was demonstrated in paragraph 9 of the proposal. The increase in the volume of exports from the developing countries under a system of preferences was not likely to be so large as to justify concern on the possibility of market disruption in advance of actual events. Fears of market disruption should therefore not be used as a basis for excluding many products from a system of preferences in favour of developing countries. The proposal had also taken account of the problem of non-tariff barriers. The value of preferences could be nullified by the use of non-tariff barriers; it was therefore necessary to ensure that this would not occur.

6. This representative noted that some delegations were against an amendment of the most-favoured-nation clause and had argued that the advantages of preferences had not been demonstrated. He felt that experience with the Commonwealth preferences system had shown that it had been of considerable benefit to many less-developed countries and had helped them to achieve diversification of export earnings. He felt that the system of preferences as proposed by the developing countries should first be tried and judgement reserved until its merits could be demonstrated in practice. In his Government's view the granting of preferences would tend to have trade creating effects for both developing and developed countries. The additional earnings of the developed countries would be used to increase their imports from developed countries.

7. If there were no merits in preferential schemes he wondered why attempts were still being made on a piece-meal basis to establish various types of preferential arrangements. If a system based on the most-favoured-nation principle were the answer to all the problems of the international trading community then these special arrangements should not be allowed to proliferate. If, on the other hand, this were not the case, there should be no objections to the type of general preferential scheme proposed by the developing countries, considering that the most-favoured-nation rule had not permitted the developing countries to increase their share in world trade in manufactured and semi-manufactured products.

8. He recalled that it had been argued by some that developing countries would be better advised to concentrate on improving their market techniques, etc., rather than pressing for a system of preferences. In his view such measures were complementary and not alternative to the establishment of a system of preferences in favour of developing countries. It was also argued that developing countries should concentrate on organizing markets among themselves. It was surprising that countries taking this view were willing to suffer discrimination by such arrangements but were against the establishment of preferences on a general basis. Another argument had been put forward to the effect that as the most-favoured-nation tariffs would be reduced in the Kennedy Round there would not be much scope for substantial benefits from a system of preferences. The developing countries did not yet know what they would obtain from the Kennedy Round. Assuming that the most-favoured-nation tariffs were reduced, it should be borne in mind that the protective effect of a tariff was sometimes much higher than the nominal rate so that preferential duty reductions would still afford tangible benefit. His delegation placed great store on the non-discriminatory aspects of the scheme suggested in the proposal of the developing countries. The greater the number of developed countries which took part in such a scheme the greater would be the benefits for all. From the point of view of the developed countries there would be less concentration by developing countries on a few products if preferences were given on a large number of items. This would lead to a better international division of labour.

9. Representatives of developing countries reaffirmed their general support for the principle of the granting of preferences by developed countries to developing countries on a non-discriminatory basis without reciprocity, and reiterated the various reasons why their governments were in favour of preferences. Some delegations referred to paragraph 15 of the report of the United Nations Special Committee on Preferences and indicated that the consensus between representatives of developing countries on the Special Committee, set out therein which also takes into account the special needs of developing countries at the early stages of development, covered their position. One representative stressed that whilst at this stage his delegation had accepted paragraph 14 of the report of the United Nations Special Committee as representing the general view of less-developed countries, it wished to point out that provision should be made for the least developed among the developing countries. At this stage his delegation would not insist on this, as it regarded this aspect of the matter as a point of detail. His delegation also wished to stress the point raised by one representative of a developed country that account should also be taken of the consequential loss of any benefits presently enjoyed by some less-developed countries following the introduction of general non-discriminatory preferences. Another representative in supporting a generalized system of preferences in favour of developing countries, said that existing preferences should be maintained until they were replaced by adequate international arrangements which would guarantee to the countries currently benefiting from preferences at least the advantages they enjoy at present. Some representatives felt that the arguments put forward by those opposed to the granting of preferences to developing countries were contradictory. On the one hand it was

feared that the scheme would cause difficulties to industries in importing countries, while on the other hand it was claimed that preferences would not be useful. It was also argued that a system of preferences would hinder the reduction of tariffs in the Kennedy Round. It had not been argued, however, that systems of regional groupings would unfavourably affect the Kennedy Round. Several of these representatives felt that at the present stage of discussions it would be useful to know whether the developed countries had managed to make any progress with regard to the differences in their respective positions.

10. One representative felt that in order to assuage the concerns of developed countries regarding the protection of their domestic industries, consideration might be given to a proposal made at the Committee concerning a scheme based on global tariff quotas. He pointed out the advantages which in his opinion were inherent in such a scheme.

11. One representative from a developed country emphasized that the fact that developing countries which had attended the United Nations Special Committee on Preferences had agreed on a proposal for a scheme of preferences was a major advance from the situation which had existed when the question of preferences was last discussed in the GATT. As far as the developed countries were concerned he considered it important that action should be taken by the major industrial countries in concert. Commenting on the future work of the Group he felt that duplication should be avoided. He suggested that the object should be to make the work of GATT and the UNCTAD on preferences complementary rather than in conflict. In his view the GATT was the most appropriate body to deal with the legal aspects, detailed implementation and control of any scheme on preferences, whilst the object of discussions elsewhere would be to seek the necessary general political agreement to the introduction of a system of preferences. The next step should be for the Group to deal seriously with the proposal of the developing countries and to study carefully the report prepared by the United Nations Special Committee on Preferences.

12. The representative of another developed country said that in the absence of complete documentation from the recent meeting of the United Nations Special Committee on Preferences it was difficult for his delegation to comment in detail on recent developments. His delegation was in favour of selective and temporary preferences providing there would be a widespread participation of developed countries. Referring to the proposal annexed to the secretariat paper he said that from the opening paragraphs of the operative part it could be seen that what appeared to be a selective approach was really a general approach and his delegation could not agree to it under its instructions. Nevertheless, some of the categories of products listed in paragraph 5 could serve as a valuable basis for discussion. With regard to sub-paragraph (a) of paragraph 5 he felt that low tariff countries might find difficulty with this point. Sub-paragraphs (b) and (c) could create difficulties of definition which in the long run could perhaps retard rather than progress the work in hand. However, the general idea in sub-paragraph (b) was in line with the approach of his delegation. A study of the EFTA rules of origin could be helpful with regard to sub-paragraph (d). Commenting generally on paragraphs 5 and 6 he said that his delegation had always stated that

it could agree to an approach in which the margin of preferences would vary. Paragraphs 7 and 8 would provide a valuable basis for discussion. His delegation would, however, find some difficulty with paragraph 9, and would prefer an approach somewhat along the lines of Article XIX, reserving the judgement to the industrialized country concerned in emergency cases.

13. The representative of a developed country said that his Government continued to be interested in the economic advancement of developing countries and was taking many concrete measures to assist them. His Government also continued to support a liberal policy of non-discrimination in world trade, but felt that this was not a doctrinaire matter. Indeed certain departures from the most-favoured-nation principle were provided for under the General Agreement. Furthermore, his Government had indicated that it would support an amendment to the GATT permitting departures from the most-favoured-nation principle under specified conditions to promote trade among developing countries on a regional basis. However, his delegation was still not convinced that there was need to authorize a general departure from the most-favoured-nation principle for the granting of preferences by developed countries in favour of developing countries. Nor had it noted any widespread agreement that such arrangements would be practicable and be effected in a manner in which the overall benefits would outweigh the overall disadvantages. Nevertheless his Government was prepared to devote continued attention to full and careful consideration of the economic elements and practical aspects of preferences as well as any specific proposals which may be put forward concerning the granting of preferences by developed to developing countries.

14. He noted that there were different views as to the purpose of the scheme for preferences which had been put forward by the developing countries in the United Nations Special Committee. Some delegations felt that the purpose of the scheme was to provide greater export possibilities for developing countries which were in need of greater export earnings. Others felt that the purpose of the system was to put all countries in a position to receive in some sense equal benefits from world trade. With regard to the latter statement he doubted whether it was realistic to believe that any trading system could guarantee in detail an equitable distribution of benefits. The views of his delegation on the proposal were set out in paragraph 12 of the report of the United Nations Special Committee on Preferences. The proposed system was based on the assumption that the countries taking part in the scheme could be divided into two categories and that the countries involved would accept this division. It was not known whether this classification would be permanent or temporary, and if temporary, when it would change. It was a very real question whether it would be economically and politically acceptable to divide countries into two categories. This was a critical question for many countries.

15. He wondered whether the preferential system envisaged would in fact be temporary. It had been stated that the system would commence with a ten-year period which could be further extended. It might be asked whether it would be possible to predict how this system of preferences would be extended or how criteria for its extension or termination could be established. Was it assumed that at the end of ten years the developing countries would no longer be short of foreign exchange? If so, was this a reasonable expectation? He wondered whether

industrialists and investment planners would be able to plan new investments when it was known that any preferences established might disappear. Assuming that some countries obtained benefits from preferences, what would happen to their interests when preferences disappeared. It was doubtful whether the kind of assistance envisaged in a system of preferences was really necessary. Past experience was unlikely to cast much light on this question. Hitherto the exports of developing countries had consisted largely of primary products; the present concern was mainly with manufactured and semi-manufactured goods. Trade figures for the year 1963 had shown that the United States, which was not a preferential market, had been the largest single importer from developing countries and the largest market for their manufactured and semi-manufactured products. This situation made it questionable whether it was essential for countries to obtain preferences in order to be able to export manufactured and semi-manufactured goods. What was important for exporters for manufactured products from developing countries to the United States market was not so much competition to be faced from other industrialized countries but rather competition from manufacturers in the United States.

16. He said that it was not clear whether countries at present enjoying preferences would expect to be compensated to the extent of their loss or would expect to receive total advantages greater than those they now enjoy if existing preferences were dissolved in favour of a general system. The proposal of the developing countries was not clear as to how and at whose expense such compensation would be provided. It has been assumed that compensation would be implemented through international programmes of technical assistance. Would this not have some implications for the volume of such assistance available for other purposes?

17. He felt that it was questionable whether the system of preferences proposed would be a stable one. It might be asked what would happen when a country was reclassified. What would happen when any country felt that it was not obtaining a fair share of the benefits from preferences? What would happen when an industrialized country which had agreed to grant preferences on a non-reciprocal basis found itself unable because of internal pressures to extend the preferences? The proposal under consideration did not give sufficient answers to the questions raised above and until an analysis had been made of all these points it would be very difficult to judge what would be the economic effects of the proposal under consideration. For these and other reasons some of which were set out in an Annex to the report of the United Nations Special Committee on Preferences, the proposal had not convinced his Government that a preferential trade system could be established which could accomplish the objectives set out in the concluding paragraph of the report of the United Nations Special Committee on Preferences.

18. The representative of a developed country said that from the beginning of the exercise his Government had been in favour of preferences as a means of assisting the developing countries. His Government was convinced that the most-favoured-nation principle should govern trade in the future and that introduction of preferences should therefore involve the least possible deviation from the most-favoured-nation rule. This could only be done if such preferences were extended to all developing countries. In order to bear a share of the burden and to secure the desirable multilateral character of the scheme, it would be

necessary for preferences to be granted by the majority of developed countries. Although it was the view of his Government that preferences should cover all manufactured and semi-manufactured products this did not mean that preferences on selected goods would not be considered. A list of products on which preferences might be accorded should be discussed and established by the CONTRACTING PARTIES. Such a system of preferences should be looked upon as an important step towards the gradual abolishment of tariffs on a world-wide scale and the preferential margins should not be bound. Preferences should be abolished when exports of the less-developed country enjoying them had attained a certain level. This would mean that the least developed country would enjoy the preferences for the longest possible period. The preferences should also be granted without reciprocity.

19. Another representative from a developed country said that the position of his Government had been clearly stated on earlier occasions. His Government was in favour of general and far-reaching tariff reductions. He would report back the discussion to his Government.

20. Another representative from a developed country said that the authorities in his Government were not convinced of the benefits from preferences. The reasons were set out in the report of the United Nations Special Committee. It was difficult to ascertain whether trade had developed between the United Kingdom and the Commonwealth countries as a result of preferences or whether trade had developed because of traditional commercial and financial ties. He felt that action in implementing preferences among less-developed countries might yield more positive results. The factor of geography was important and it was likely that as consumers in industrialized countries were more demanding than consumers in developing countries it may, perhaps, be easier for less-developed countries to exchange products produced by them within the framework of a preferential system. He added that account should be taken of the level of tariffs in developed industrialized countries. Accordingly, if the price of products exported by developing countries were higher than the prices in the importing country there could be no proof that a system of preferences could wipe out this disadvantage, where the possible margin of preference was less than this difference in price.

21. The spokesman for a group of industrialized countries said that it was well-known that the countries belonging to this group had no difficulties with the principle of granting preferences to developing countries, and they considered that it should be possible to work out a system in which the advantages would outweigh the disadvantages. At the present stage in the discussion there were differences in the points of view of these countries concerning the precise way in which preferences should be implemented. These points of view were described in paragraphs 8 and 9 of the report of the United Nations Special Committee on Preferences. With regard to the work of the present Group it was noted that there was no general agreement, particularly as to whether preferences should be selective or general. As was brought out in the statement of one member of the group, there were certain aspects which had not yet been examined. These could be studied within the framework of the Working Group so that the Group could assess the value of those objections expressed.

22. Several representatives from developing countries commented on the remarks made by the developed countries. One such representative referring to the question asked by a representative of a developed country as to whether developing countries at present enjoying preferences would suffer any net loss through the introduction of a system of preferences stated that his Government would not subscribe to any situation which would result in a net loss in its export earnings. His Government had given its support to establishment of general non-discriminatory preferences, precisely because it hoped that such a system of preferences would result in an expansion of the export earnings of all countries. Commenting on a statement made by another representative from a developed country, he expressed surprise that a member of a free-trade area was not convinced that preferences served any useful purpose when they were to be applied for the benefit of all developing countries. One delegation drew the attention of the Committee to the lack of trade opportunities between less-developed countries which produced the same type of commodities. He pointed out that this was a result not of the imposition of tariffs but of the lack of demand for commodities produced by each other.

23. Another representative from a developing country referred to the figures quoted by one representative to show that preferences did not significantly affect the share of exports of developing countries in different markets. It was the belief of developing countries that their present share in the United States' imports of manufactures and semi-manufactures which was stated to be 13.8 per cent could be improved upon. Moreover preferences would help developing countries not only to improve their share of trade but also to achieve a more diversified pattern of exports. Further, in the figures quoted by the speaker to which he had referred it was not known whether in respect of manufactures or semi-manufactures, items such as non-ferrous metal and petroleum products were included. This could make a considerable difference to the conclusions to be drawn from these figures. He noted further that the same speaker had felt that the benefits which preferences would provide were not demonstrated. It would be very difficult to quantify expected benefits from a system of preferences. He also disagreed with the view that if preferences were given this would affect the volume of aid. This could only happen if the developed countries granting preferences to the developing countries did not want any meaningful benefits to accrue to the latter. Considering the magnitude of the economic problems faced by the developing countries, actions by the developed countries in the field of trade and aid had to be complementary to, and not destructive to each other. A positive way of continuing with the work on preferences would be for the industrialized countries to submit a list of products on which they felt that if preferences were given it would cause injury to their domestic producers. It had been argued that preferences would not enable developing countries to compete effectively with domestic producers in highly industrialized countries. If this were the case, it could not be seen why there was so much difficulty in accepting the idea of preferences. Many of the questions raised did not permit an answer in quantitative terms. A more constructive approach would be to agree on a system of preferences for a period of ten years and to provide for a review at the end of the period to decide whether to extend or continue the system.

24. Another representative from a developing country said that the drafters of Article 1 of the General Agreement had recognized the influence of preferences on trade. This was a case in support of the fact that preferences were useful and some trust should be placed in the statements of those delegations of less-developed countries at present enjoying preferences to the effect that preferences were useful to their countries. With regard to the comments made regarding those countries he felt that traders were realistic individuals and if the trade which had developed between the countries linked by preferences had not proved profitable, then it was certain that trade would have been diverted to other countries.

25. The Group concluded that its discussions had been useful and would serve as a basis for its next meeting in which it was hoped that further progress could be made in dealing with the matter. At this meeting more detailed consideration would be given to the proposal submitted to the United Nations Special Committee on Preferences by the developing countries. The Group also agreed that it should hold its next meeting before the end of October 1965 so that it may submit a report to the Committee on Trade and Development.