

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COMMITTEE III - EXPANSION OF TRADE

Report on the Meeting 21 to 28 March 1961

1. In accordance with the decision taken by the Committee during the seventeenth session (COM.III/38) the Committee met from 21 to 28 March 1961 to consider in detail its future work programme and the best ways of implementing this programme.
2. During its meeting the Committee examined a report by the secretariat (COM.III/40) on the progress made by individual contracting parties since its last meeting in carrying out the recommendations of the Committee, as contained in its second, third and fourth reports (see documents L/1063, L/1162 and L/1321 respectively). Further progress, reported during the meeting by several delegations, is contained in document COM.III/40/Add.1. The Committee welcomed the measures taken but expressed disappointment at the very limited progress achieved. The measures taken were largely confined to the relaxation or removal of quantitative restrictions; the Committee noted that in a number of cases the removal of quantitative restrictions applied only to the raw material while the products processed from the material remained subject to restriction.
3. The Committee decided to postpone the drawing up of a report on the progress until the meeting of the Committee in September which would be an opportune time to undertake a full review of the Committee's work in the light of the results of the Tariff Conference and other developments in the programme of expansion of trade. In the meantime, the Committee felt that a preliminary examination of the situation, including the examination of any additional progress expected to result from the Tariff Conference could be undertaken when the Committee reconvenes for its next meeting on 23 May 1961.

Participation of less-developed countries in the general round of tariff negotiations

4. It was brought to the attention of the Committee that many less-developed countries had not yet taken steps to avail themselves of the possibilities which were open to them in the forthcoming tariff

negotiations to request tariff and other concessions on the products of interest to their export trade. In this connexion, some less-developed countries explained the difficulties which they envisaged in participating in the negotiations. If products in which they were interested became subject to negotiation they felt that the present system, based as it was on reciprocity, required them to grant tariff reductions in exchange, which for developmental and fiscal reasons they could ill afford. Moreover, they were rarely principal suppliers of the products on which they would seek concessions. In addition, a large part of the import outlays of less-developed countries was often for capital goods for which duties were in any case low or negligible.

5. With regard to these problems, the attention of the Committee was drawn to a number of ways in which less-developed countries may usefully participate in tariff negotiations. A detailed explanation by the Executive Secretary of the possibilities available to less-developed countries in participating in the tariff negotiations is contained in Annex A.

6. In view of these possibilities which did exist for meeting the difficulties envisaged by less-developed countries, the Committee urged the less-developed countries to avail themselves of the opportunities offered by the negotiation procedures for obtaining reductions in the barriers confronting their exports by submitting request lists of items of interest to them. The Committee urged that industrialized countries in turn, when preparing for and entering into negotiations, should bear in mind and give sympathetic consideration to the needs of less-developed countries and expressed the hope that industrialized countries would not require full reciprocity. In this connexion the Committee noted the statement made by the representative of the European Economic Community in the Tariff Negotiations Committee which is referred to in Annex A.

7. The Committee felt that because of the technical difficulties which had again been voiced by less-developed countries concerning their ability to participate in the forthcoming negotiations, the attention of the Tariff Negotiations Committee should again be directed to this problem.

Secretariat document on barriers to the expansion of exports of less-developed countries

8. At its meeting during the seventeenth session, the Committee had requested the secretariat to prepare a working document which would indicate and illustrate the findings of the Committee with respect to the various types of barriers imposed by contracting parties, particularly industrialized countries, which affected exports from less-developed countries

of the products which had so far been examined by the Committee. In accordance with the request, document COM.III/W.14 was prepared on the basis of the reports of the Committee, the commodity information prepared for the Committee, and recent GATT documents such as reports on import restrictions and liberalization communiqués. In order to ensure that the information contained in this document is accurate and up to date, the Committee agreed that contracting parties should submit any factual amendments required as requested in paragraph 4 of the document. The Committee was of the opinion that the secretariat document would prove useful to individual contracting parties in connexion with the forthcoming tariff negotiations as well as in other work of the CONTRACTING PARTIES.

Third list of products

9. The Committee, recognizing that certain less-developed countries, particularly those which have recently acceded to the General Agreement or associated themselves with the work of the CONTRACTING PARTIES, might wish the Committee to undertake an examination of the difficulties confronting certain products not yet examined by the Committee, had invited less-developed countries to submit additional requests for a third list of products. On the basis of the requests received the Committee decided to establish a third list of the following products: (i) copper rollings, i.e. copper foil, plate, sheet, strip, wire, piping and tubing; (ii) ferric-chrome and ferro-manganese; (iii) cement; (iv) phosphates; (v) steel furniture; (vi) coir manufactures; and (vii) fish, including prawns and shrimps, canned and in other airtight containers. The Committee requested the secretariat to prepare draft summary schedules showing details on tariffs, quantitative restrictions, revenue duties and internal fiscal charges, State trading and other measures in force in relation to imports of these products. The Committee agreed that these draft summary schedules should be submitted to individual contracting parties for comment in sufficient time for the final versions to be made available for the autumn meeting of the Committee.

Channelling of expansion or establishment of industries by less-developed countries

The Committee undertook a discussion of Section II/2 of its basic work programme which calls for a "study of the possibility of channelling expansion of existing industries by less-developed countries into directions where such countries will be economically efficient producers". It will be recalled that the Committee had invited less-developed countries among contracting parties to furnish information on any plans which they might have for the development of their industries, on export targets for various products, and on their estimated overall foreign currency requirements and exchange receipts from exports. In response to this request a number of governments have submitted development plans.

11. The Committee examined suggestions which had been put forward by the secretariat (COM.III/43) with a view to defining and establishing the programme of studies which would be undertaken by the Committee under its terms of reference. The Committee agreed to examine, in the first instance, the Indian Third Five-Year Plan, the draft outline of which had been distributed to all contracting parties in December 1960. The approved programme for the Committee's study of development plans is set out in Annex B.

12. For the purpose of the discussion on plans, factual papers to be prepared by the secretariat will set out the planned production and export targets for the more important export products mentioned in the plans, for which additional information will be sought from the competent authorities. The industrialized countries, for their part, should be requested, in so far as possible, to supply information on their import capacities, both actual and potential, for such products or for other products which may be of interest to less-developed countries such as India. With the advance of technology, the increasing concentration of production in capital intensive industries and, in some countries, the shortage of manpower in relation to demands for investment, the industrialized countries may find that their industries can attain higher levels of competitiveness and productive efficiency if their requirements of semi-finished and finished components and of the simpler industrial products are met by imports from less-developed countries instead of being manufactured at home. The establishment of the Common Market and the Free Trade Area, would appear to offer special possibilities in this direction.

13. The Committee felt that the commodity studies carried out so far would provide useful documentation for the detailed examination of national development plans which the Committee had decided to undertake.

Implementation

14. The Committee stressed the importance of the implementation of its recommendations to contracting parties for the elimination of obstacles to the trade of less-developed countries and considered that the forthcoming round of tariff negotiations would provide an excellent opportunity for the reduction or removal of many of the barriers confronting the exports of less-developed countries. The Committee, therefore, appealed to industrialized countries to examine speedily and sympathetically the possibilities offered by the Tariff Conference for removing or reducing tariffs and other negotiable obstacles to the trade of less-developed countries and also to examine every possibility of removing other obstacles identified by the Committee as confronting the exports of less-developed countries.

15. The Committee instructed the secretariat to follow closely any developments relating to the implementation of the Committee's findings and to report to the Committee for further discussion any suggestions in this regard. Contracting parties were also invited to communicate to the secretariat their suggestions and to inform the secretariat of all measures and developments relating to the implementation of the Committee's recommendations particularly with regard to the products which have been examined by the Committee.

ANNEX A

PARTICIPATION OF LESS-DEVELOPED COUNTRIES
IN TARIFF NEGOTIATIONS

Explanatory Note by the Executive Secretary

1. The question of the capacity of less-developed countries to participate fruitfully in GATT tariff negotiations was discussed by the CONTRACTING PARTIES at the fourteenth session. The question was referred to Committee I.

2. As set out in the reports of Committee I to the CONTRACTING PARTIES (BISD., 8th Supplement, pages 101 et seq.) there are a number of ways in which less-developed countries may participate in tariff negotiations with a view to securing meaningful concessions. For example, a country which is not a large supplier of a commodity would not be excluded from making a request for concessions on that commodity on the grounds that it is not the principal supplier. In such cases it could join forces with other suppliers and take part in multilateral negotiations with the importing country and this group could be considered as the "principal supplier" and obtain a concession which could be matched by a joint offer on the part of the group. It should also be borne in mind that the "principal supplier rule" is applied by most importing countries with some elasticity. Secondary suppliers have joined in tariff negotiations either in cases where the principal supplier was not prepared to make a request or where the secondary suppliers wished to obtain a better concession than the one which the principal supplier accepted. Moreover, the Tariff Negotiations Committee, in 1956, was instructed to place itself at the disposal of any country or group of countries to arrange for negotiations on a triangular or a multilateral basis. It was thus possible for secondary suppliers to improve the scope of concessions. This technique has given valuable results and the CONTRACTING PARTIES have again included this procedure in the terms of reference of the present Tariff Negotiations Committee. Less-developed countries might use this technique in cases where their export interests are similar to those of the main suppliers and join forces with the latter to negotiate multilaterally.

3. The principle underlying GATT tariff negotiations is the exchange of reciprocal and mutually advantageous concessions. This does not mean, however, that less-developed countries would always be held to strict reciprocity. In fact, according to the provisions of Article XXVIII bis:3(b), negotiations shall be conducted so as to enable account to be taken of "the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes". It is appropriate here to refer to the remarks of the representative of the European Economic Community at the last meeting of the Tariff Negotiations Committee (TN.60/SR.8, page 14) to the effect that the Community is not considering requesting full reciprocity from less-developed countries during the second phase of the Tariff Conference. The request for reciprocity in exchange for the Community's offer of a linear reduction of 20 per cent is directed towards industrialized countries.

4. Less-developed countries should also bear in mind that concessions which they grant under the GATT are firm only for short periods, generally for three years, and that Article XXVIII gives them the right, at the end of those periods, to modify or withdraw concessions which might conflict with their development plans. Furthermore, the provisions of Article XVIII A give them the possibility of re-negotiating concessions at any time, when such action is necessary for development purposes, and a special procedure has been provided to expedite such re-negotiations.

5. Moreover, concessions do not necessarily imply reductions of the existing rates. The less-developed countries may offer bindings on items of interest to their partners and such bindings may be considered of value by the exporting countries. The tariff negotiation procedures also provide for concessions in the form of the binding of ceilings which may exceed the rates in force at the time of the negotiations and this technique has been used in previous Tariff Conferences.

6. As indicated in paragraph 4 of the report, certain less-developed countries feel it extremely difficult to bind their tariffs because of the revenue element involved therein. This difficulty could be easily avoided if the Governments concerned were prepared to separate the revenue from the protective element of their duties. This would enable them to negotiate and grant concessions on the protective element only, while keeping their freedom of action on the revenue element. There would not appear to be any major technical difficulty in either segregating the two elements or in converting the revenue element into an internal tax applicable both to the imported and to the domestic like product. As a matter of fact, a number of less-developed countries have already modified their tariff structure in that way.

7. Finally, the Rules and Procedures for the Tariff Conference (Section II:b(ii)) explicitly provide for the negotiability of a number of non-tariff measures, such as internal taxes. While certain industrialized countries have indicated that they did not expect to be able to negotiate such concessions, it should be borne in mind that the representatives of industrialized countries have stressed, in the discussions of Committee III, the readiness of their Governments to consider sympathetically the efforts made by less-developed countries to expand their exports. The less-developed countries should take the opportunity of the Tariff Conference to present requests for concessions on specific non-tariff measures, at least as an indication of the direction in which, in their view, action of industrialized countries could be most beneficial.

ANNEX BARRANGEMENTS FOR STUDYING DEVELOPMENT PLANS(A) Programme and Timing

1. Section II/2 of the basic work programme of Committee III (COM.III/1) calls for a "study of the possibility of channelling expansion of existing industries or starting of new industries by less-developed countries into directions where such countries will be economically efficient producers". For this purpose the Committee invited contracting parties to furnish supporting information on any plans which they might have adopted for the development of their industries, on export targets for various products and on their estimated overall foreign currency requirements and exchange receipts from exports. The secretariat was requested to prepare, in consultation with less-developed countries, the necessary background information for circulation in due course (COM.III/38, paragraph 5).
2. In response to this, some contracting parties have forwarded their current economic development plans or have indicated that such plans would be supplied shortly. In December 1960, there was circulated to members of the Committee a "Draft Outline of the Third Five-Year Plan", published by the Indian Planning Commission, covering the period 1961/66.
3. The Committee has considered the scope and timing for the study of the Indian Plan and any other plans which may have been supplied by contracting parties. The Committee has agreed that the Indian Plan should be studied during the meeting of the Commission scheduled for 23 May 1961 and that the study of any other plans submitted by contracting parties should follow in the light of that experience. The secretariat should put in hand an analysis of the Indian Plan, and later, of other plans available. As far as the study of the Indian Plan is concerned the Indian delegation has agreed to give the necessary assistance in the collection of the material and other supplementary information required.

(B) Scope and Contents of Study

4. As regards the scope of the examination, the Committee felt that it should not lose sight of its primary purposes as defined by its terms of reference which relate to the maintenance and expansion of export earnings of the less-developed countries and the importance of this to the development and diversification of their economies. Plans of economic development are of necessity complex and comprehensive. While it is true that no single aspect, such as the expansion of exports, of a development plan could be considered in isolation from other aspects, the Committee may find it profitable to concentrate its attention on matters of direct relevance to the questions of export industries and export earnings. Any discussion of the political, social and institutional aspects of the economy, where inevitable, would have to be strictly limited.

5. All development plans must of course take due account of the limitations placed on the rate of growth by the available investment resources. The lack of adequate foreign exchange constitutes a limiting factor which can be remedied only by additional inflows of capital and, in time, by expanded exports. Assumptions regarding the rate at which aggregate exports can be expanded are therefore an important determinant in a development plan of a more or less long-term nature. In studying the Indian Plan and any other plans, a convenient starting point would seem to be a comparison of the expected export earnings with the foreign exchange resources required during the period of the Plan. In the case of India, for example, the Government has estimated the total export earnings during the period of the Third Five-Year Plan to be Rs.34.5 thousand million, while total foreign exchange outlay is estimated at about Rs.66.5 thousand million. The exports are only 12 per cent higher than the total expected to be realized in the preceding five-year period. The estimate seems to reflect a number of assumptions regarding India's capabilities in export production and trade possibilities in foreign markets, on which the Committee may wish to invite comments from the Indian delegation and discuss the possibility of improvement in India's productive capacity and export markets.

6. With regard to export production, the Indian Third Plan, for example, sets targets for a number of traditionally exported products and certain other new products. For some of these, increased outputs are envisaged, but for others, expectation of increased production has been discouraged by the disappointing realization in the preceding plan period. The Committee may wish to pick out the export products which, on the basis of the available natural resources, the climatic and other conditions of the country and other factors relevant to a consideration of the efficiency and costs of production, the Indian authorities consider can best be developed with competitive advantage and examine in relation to them the magnitude of, and accessibility to, foreign markets. This would not only cover the products whose expanded production and export have already been specifically indicated in the development plan, but also any other products which may be exports with expansion potentialities.

7. Obstacles to the expansion of export earnings of less-developed countries are the main concern of the Committee and should, of course, be the principal subject of its attention in the examination of a development plan. In the case of the Indian Plan the estimates of export earnings seem to reflect certain limiting assumptions regarding the export markets. Account is clearly taken of the customs tariffs and import restrictions in other countries which affect India's exports, and it appears that the fixing of the export targets for certain products has been influenced by assessments of the absorption capacity in other countries and conditions of competition. The Committee may wish to examine the contribution which commercial measures of any kind, for instance the reduction in obstacles to the various Indian exports, will make to the expansion of India's export earnings.

8. Any such improved prospects would facilitate the efforts of the Indian authorities to develop economic and efficient industries where, on the basis of natural resources and factors of production, cost advantages are highest. This will lead to a higher level of international trade which will not only be beneficial to the Indian economy, but will also be of value to other countries having an interest in seeing an expansion in the Indian market.

