

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

L/3886

11 July 1973

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COMMITTEE ON TRADE IN INDUSTRIAL PRODUCTS

Report on Status of Work

Establishment and Mandate of the Committee

1. The Committee was set up pursuant to conclusions adopted by the CONTRACTING PARTIES at their twenty-fourth session in 1967 as part of the co-ordinated programme of work under the three main headings (industrial products, agriculture, and trade and development) of the Programme for Expansion of International Trade. On its establishment the CONTRACTING PARTIES gave the Committee the following terms of reference: "To explore the opportunities for making progress toward further liberalization of trade, taking into account the discussion on the subject at the twenty-fourth session".¹
2. The Committee has reported regularly to the Council which was given the task of supervising and co-ordinating the Programme for Expansion of International Trade. At each of their sessions the CONTRACTING PARTIES have adopted these reports, which were forwarded to them by the Council, and have given the Committee additional directives in the light of the progress of the work.
3. The work of the Committee has fallen into three parts. Firstly, the identification and continuous up-dating of the basic data required for trade negotiations in the industrial sector; secondly, the analysis of various possible modalities and techniques of negotiation and thirdly, the drafting of proposed ad referendum solutions to selected problems in the non-tariff area.
4. This report summarizes the present status of the Committee's work which has been done under the chairmanship of Mr. G. Stuyck (Belgium). The Committee expressed the hope that this report will be of assistance in connexion with the work of the Preparatory Committee for the Trade Negotiations.

¹See BISD Fifteenth Supplement, page 74.

Developing countries

5. At each stage of its work the Committee has held discussions on the implications for the trade of the developing countries of the suggested modalities and techniques of negotiation and has directed particular attention to problems raised in the context of these discussions. Furthermore, the various subordinate bodies of the Committee both in the tariff and the non-tariff measure fields have been instructed to give priority attention to the problems of the developing countries. The developing countries stated that within any negotiating approach that might be adopted, both in the tariff and in the non-tariff areas, it would be necessary to accord special treatment to the developing countries. In the following paragraphs reference is made to trade and development problems of the developing countries within the context of the field of work in the different subordinate bodies.

I. TARIFFS

(a) Techniques and modalities of negotiation

General comments

6. After having completed a preliminary analysis of a number of possible techniques and modalities of negotiation, the Committee has decided to concentrate for the time being on three types of technique. These are: techniques for achieving duty-free trade in industrial products, linear tariff reductions, and tariff harmonization techniques. The Committee is also keeping in mind the possibility of a combination of any of these techniques. It is understood that no technique is definitely excluded and it is not for the Committee to choose the technique or techniques to be used in the negotiations, but, as in other areas of its work, to establish a better comprehension of their implications in order to facilitate decision-making at the appropriate time. It was suggested by developing countries that within each technique, special provision might be made for granting them preferential treatment.

7. During the discussions developing countries voiced apprehensions that they were likely to come out of the negotiations as net losers, particularly as preferential margins on products included in the Generalized System of Preferences were likely to be eroded, through reduction of tariffs on a most-favoured-nation basis. Some delegations stressed the danger of assuming that benefits under the Generalized System of Preferences would necessarily be eroded by reductions in most-favoured-nation tariffs. Some delegations, however, took the view that the effect on the Generalized System of Preferences would be felt only in the very long term, taking into consideration the time that would be required for implementation of the reductions which might be negotiated. In reply, it was pointed out that the least developed among the developing countries have not yet been able to take any advantage of the Generalized System of Preferences and it will be many years before they can even begin to reap any benefits. In the light of these concerns it was suggested that the implications of duty-free trade for the Generalized System of Preferences should be carefully studied. It was noted, however, that general tariff reductions would also reduce the discrimination inherent in special preferential arrangements and thereby provide additional benefits to developing countries which are not parties to such arrangements.

8. Some delegations pointed out that some developed contracting parties have one third or more of their imports entering under unbound rates. It was suggested that one objective of the forthcoming multilateral trade negotiations should be to bind these rates which constitute an important source of uncertainty and a threat to the maintenance of access.

9. The following paragraphs summarize the discussions held in the Committee on the three techniques referred to above.

Duty-free trade

10. It was pointed out that duty-free trade in industrial products was an objective rather than a technique, and that other techniques could be used in the phasing of the reductions to achieve this objective.

11. Some delegations said that the main advantages of complete tariff elimination are its unique appeal as an easily understandable objective and as a counterbalance to rising world-wide protectionism. It was suggested that the technical advantages of complete tariff elimination would be its simplicity, the fact that it would solve the disparity problem, the problem of tariff escalation, problems connected with specific and mixed duties, and the problem of para-tariff barriers (e.g. tariff nomenclature problems and problems connected with valuation for customs purposes). The elimination of tariffs would also have the advantage that full benefit could be gained from the exploitation of the comparative advantages enjoyed by different countries. Another advantage cited is that this technique would require commitments from all participants and that there would be no free rides. Some delegations pointed out that one advantage of the tariff elimination technique would be to eliminate trade diverting effects of regional arrangements. Finally, the abolition of all existing tariff preferences which the abolition of duties would entail would be an advantage for countries which do not enjoy preferences.

12. Certain disadvantages of this formula were also cited. Some delegations said that the total abolition of tariffs would only be possible if parallel action were taken to bring about a certain harmonization or co-ordination of the economic and social policies of different participants and if at the same time non-tariff measures were eliminated, as experience in some regional groups had demonstrated. These delegations recognized that an ambitious objective could stimulate progress, as the objective of a 50 per cent reduction had done in the Kennedy Round, but said that an objective which was too ambitious might be harmful. The advantages referred to above would only apply if there were no exceptions to the general rule, but there were likely to be a greater number of items or exceptions lists than in the case of a simple reduction of duties. The abolition of tariffs would also create considerable problems for certain sectors, regions and professions, and even for national budgets to the extent that the abolition of tariffs is accompanied by adjustment assistance provided by governments. It could also constitute an incentive to the introduction of non-tariff measures which were more difficult to deal with than tariffs, or to the frequent recourse to safeguard

measures. In addition, even if tariff free trade led to the full exploitation of comparative advantage, it would not ensure that all participants benefited equally; imports of individual participants might increase more than exports, creating problems for exchange rates. The abolition of all existing tariff preferences which the abolition of duties would entail would be a disadvantage for those countries which benefited from them. Developing countries stated that there should be no exceptions for products on which duty-free treatment was already granted to certain developed countries. It was pointed out, however, that difficulties in certain sectors might be dealt with in special negotiations, that experience of regional groups had shown that tariffs and non-tariff measures could be eliminated without the extensive harmonization of policies and that the point made about the harmonization of policies would apply to the substantial reduction of tariffs and not only to their elimination.

13. Some delegations suggested that a possible technique for reaching the objective of duty-free trade might be what was referred to as the "tadpole approach", a technique for progressive elimination of duties through staged operations which entailed dividing the tariff schedule into tariff/rate intervals - wider intervals for higher tariffs and narrower for lower tariffs, reducing all rates within each interval to the lower limit of that interval in the first stage, reducing the standardized rates to the lower limit of the next lower interval in the second stage, this reduction being continually operated in stages until all duties were reduced to zero.

Linear reduction of tariffs

14. It was noted that the linear technique could be used to achieve different objectives and that its effect would vary depending on the depth of the reductions, their phasing and the number of exceptions. Variations in both the rate of reductions, e.g. the provision of a smaller reduction of duties in sensitive sectors, and the time-table for the reductions, e.g. the provision of a different time-table for high and low duties, could be introduced.

15. Among the advantages of this technique were the ample experience of its value, the absence of complications, its simplicity and clarity and the fact that it made it relatively easy to obtain domestic support for tariff cutting.

16. Among the disadvantages cited was the fact that it would once again raise the problem of tariff disparities, certain rates rapidly losing their protective effect while others still remained relatively high. It was suggested that this disadvantage might be met by combining a linear with a harmonization technique.

17. Some delegations from developing countries stressed the need for some flexibility in the working hypothesis in the application of the rate of reduction for products of interest to developing countries, so that the rate of reduction could be less than the general rule when there was an established trade flow under the Generalized System of Preferences, and above the general rule when products were not included in the Generalized System of Preferences or when this was necessary to reduce tariff escalation.

Harmonization techniques

18. It was noted that there were many different harmonization techniques but that all would require high tariffs to be cut more than low tariffs.

19. Some delegations doubted whether the assumption underlying these techniques, that cuts in low rates would produce a greater increase in trade than the same percentage cuts in high rates, was necessarily true - for instance a country might have the same rate of duty on two different products but different supply and demand conditions for the products might mean that the two rates had widely different protective effects and the same would apply in the case of two countries which had the same rates on the same product. They also said that these techniques require a greater contribution from some participants than others which would give an unbalanced result which would make it difficult to achieve reciprocity. These techniques might, however, be useful in certain sectors. Some delegations said that harmonization techniques would be useful in reducing tariff disparities but would not necessarily produce a reduction in tariffs; they therefore considered these as supplementary to other techniques.

20. In the view of some delegations, tariff harmonization techniques can be classified under the following general headings:

- (i) Reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in the country concerned

21. It was noted that several possibilities existed under this heading and in particular that the progressivity of the reduction could be more or less steep. Among the advantages cited were that this method would reduce tariff disparities, that it would require no tariff concordances, and that it would reduce tariff escalation with the degree of processing.

- (ii) Reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in other participants

22. Possibilities included the reduction of rates which are higher than those in the tariff of another participant, or in the lowest tariff in a number of other participants, or in the average tariff in a number of other participants. Among the disadvantages of this technique are the difficulty of agreeing which participants should be taken for reference purposes and the fact that tariff concordances would be required. A similar technique had been tried in the Kennedy Round but had given rise to endless discussion during which it had not been possible to agree on a general rule of this sort.

- (iii) Reduction or elimination of the difference between tariff rates and a "normative" or "target" rate or rates

23. It was noted that this approach might or might not provide for the raising of rates which were below the target rate. One variation of this approach would be to reduce all rates above the target rate to that rate (écrêtement). It would also be possible to reduce the gap between each tariff rate and a target rate by an agreed percentage. Target rates could vary from sector to sector. Different target rates could also be set for raw materials, semi-finished products and finished products.

24. Some developing countries suggested that for their products the "normative" rate would, whenever possible, be higher than the highest preferential rate for the product in question in the Generalized System of Preferences; a more sophisticated alternative would be to set the "normative" rate at such a level as to apply uniformly the highest preferential margin.

25. Among the advantages cited were simplicity (automatic formula, no tariff concordances required).

26. Among the disadvantages was the fact that this technique might lead to an increase in effective protection and the difficulty of agreeing on the "normative" or "target" rate or rates.

(iv) Harmonization rules which provide for the reduction of the average of duties in a given sector

27. Among the disadvantages of this technique are the difficulty of choosing the type of average to be used, and the fact that some high rates might not be reduced at all. This disadvantage might be met by stipulating a ceiling rate to which all duties would have to be reduced.

General comments on tariff harmonization

28. One delegation urged that those delegations which proposed the study of harmonization techniques give thought to the way in which reciprocity might be achieved by action in other areas of the negotiations if there were no built-in balance in the tariff field. Other delegations said that preferences should be given, wherever possible, to techniques which would come as near as possible to providing a balance. One delegation suggested that should the harmonization technique be used, one way of achieving a balance of reciprocity might be to increase certain low tariffs. For instance, if a floor were established for the reduction of rates, this same floor could serve as a ceiling for increases in rates. However, in the view of this delegation, a more desirable way of achieving reciprocity might be to make deeper cuts where items are also subject to preferential rates since they distorted trade as much or more than high duties. Other delegations felt, on the other hand, that the raising of tariffs would not be in accordance with the general aims of the trade negotiations. Some delegations said that the question of whether the preferential rates distort trade was an open one.

29. Other delegations said that high tariffs normally were more protective than low tariffs, and recalled the provisions in Article XXVIII bis that "binding against increase of low duties or of duty-free treatment shall, in principle, be recognized as a concession equivalent in value to the reduction of high duties". They added that a further argument in favour of harmonization techniques was that a linear reduction of any magnitude would leave low tariff countries with tariffs which had no significant protective effect and thus no bargaining power in future negotiations while other countries which had a tariff made up of both high and low rates would be left with many tariffs which still retained a significant protective effect. One specific suggestion that was made was the introduction of tariff ceilings with all tariffs higher than an agreed level to be reduced to that level.

30. Developing countries pointed out that in the selection of techniques for tariff harmonization, account will have to be taken of the special needs of the developing countries and in particular the need to preserve the preferential margin under the Generalized System of Preferences and the need to eliminate tariff escalation.

Combination of the above techniques

31. Many possible combinations existed. It was, for instance, suggested that the problem of tariff disparities raised by a linear reduction of duties might be met by providing that participants with low rates should maintain these at their initial level until higher rates in other participants had been reduced to that level, after which all rates would be reduced by the same percentage. This solution was not without its own disadvantages, however, among which was the need for detailed tariff concordances. To avoid this disadvantage, one other solution would be to provide for a slower reduction of the low duties in the first steps of reduction. It was also suggested that the combination of different techniques might facilitate balance.

Other techniques

32. Other techniques which have been discussed by the Committee include: the item-by-item technique, a continuation of the Kennedy Round cuts and the elimination of low duties. The following is a résumé of the discussions held in the Committee regarding these techniques of negotiation.

Item-by-item technique

33. This technique had the advantage that it made for a flexible negotiation, since participants could select the products on which they would make reductions and the rate of reduction. This technique would also permit the participation of some countries on a minimal basis, and some delegations emphasized that no technique should be ruled out if its use would permit the participation of some additional contracting parties and the reduction of some more tariffs. It could also meet some of the concerns of the developing countries since products of particular export interest to them could be chosen or products covered by the Generalized System of Preferences could be excluded.

34. However, it was widely felt that the disadvantages which had led to the abandonment of this technique as a basis for recent multilateral negotiations still applied. Its most serious disadvantage was that the overall scope of the negotiations was set by the least enthusiastic participants. It was suggested that this might be overcome by stipulating a minimum level of offers, but it was acknowledged that some disadvantages were nevertheless likely to remain. These would include the risk that tariff escalation and tariff disparities might be increased; that some participants might find their products excluded from the negotiations, that sensitive items would be excluded and that products of little importance in world trade would be selected for reduction.

35. Many delegations were of the opinion, however, that there was likely to be some item-by-item element in any future negotiations, as there had been in the Kennedy Round. Some delegations felt that some item-by-item elements would be desirable.

Continuation of Kennedy Round cuts

36. This technique would have the disadvantage that it froze the situation of several years ago and that, on the one hand, there would be too many exceptions while, on the other, sensitivities had changed since the Kennedy Round. Some delegations said that another disadvantage of this technique was that it would not solve the problem of preferential tariff treatment.

37. It was suggested that a continuation of the Kennedy Round cuts, combined with a re-examination of exceptions and disparities, might establish a continuous process of trade liberalization and that this might be preferable to a discussion of ambitious techniques which might never be put into practice. Some delegations suggested that the value of this technique lay rather in the fact that a number of further reductions might be carried out as an interim measure before the conclusion of the forthcoming negotiations.

Elimination of low duties

38. Another technique would be the elimination of all rates below (say) 5 per cent ad valorem. This could be used simultaneously with other techniques. The main advantage of this technique was that it should be easy to eliminate low duties, which had little protective effect and which were mainly nuisance tariffs.

39. It was, however, pointed out that the protection afforded by some of these duties was not insignificant and that for these reasons, and also for others, it would not be as easy as it appeared at first sight to abolish all low duties. Another disadvantage was that the abolition of low duties on raw materials would increase the protection granted to products further up the chain of production.

(b) The Tariff Study

40. The Tariff Study formed a part of the Programme of Work adopted in 1967 and had the purpose of preparing an objective analysis of the tariff situation following the full implementation of the Kennedy Round concessions. The basic documentation was prepared by the secretariat under the guidance of a Group of Technical Experts on the Tariff Study established by the Committee which met during the period May 1968 to July 1970. With the help of the contracting parties concerned, the secretariat has assembled on computer tapes basic files on most of the developed countries. Each of these files contains detailed information on duty rates, their status under the General Agreement, and on imports, generally for two or three recent years, under each tariff line. The basic information from the country files is available, in the form of computer print-outs or computer tapes, for consultation in the secretariat.

41. In February 1971, the Working Party on the Tariff Study was established by the Committee with a mandate to carry out an objective analysis of the post-Kennedy Round tariff situation (the full terms of reference of the Working Party are published in document L/3609, paragraph 14). Subsequently, this mandate was enlarged by the Committee to include the examination of any proposals made concerning ways in which tariff and trade data might be presented to facilitate an assessment of various possible negotiating techniques and modalities.
42. The secretariat is at present up-dating the data of the Tariff Study on the basis of trade statistics for the year 1971. Up-dating to 1972 will be undertaken as soon as figures are available. Future tabulations will be based on figures for the European Community of nine member States; the new tabulations will also take into account the non-implementation of the Agreement relating principally to Chemicals. The scope of the up-dated Study will cover the enlarged European Community, United States, Canada, Japan, Austria, Finland, Norway, Sweden, Switzerland, Australia and New Zealand. Some delegations suggested that there should be additional data showing the trade and tariff data separately for the United Kingdom and Denmark for the years 1971 and 1972 so that, in the case of 1972, trade figures could be related to the tariff rates which had actually been in effect.
43. The basic data on the Tariff Study has been summarized in three tabulations (known as the "White Books"), by BTN headings, by twenty-three industrial product categories and by stages of industrial processing. Supplementary tables to the basic documentation have also been prepared which present the data in a form more suitable for analysis (the "Green Book"). In addition, the secretariat, under the guidance of the Working Party, has prepared preliminary analyses of the tariff and trade situation in each of the 23 product categories established for the purpose of the exercise as well as for the industrial sector as a whole.
44. In the implementation of this work programme special attention has been given to those sub-categories and individual products of export importance to the developing countries.
45. The Working Party also examined the feasibility of analyzing and developing better measures of the effects on trade of tariffs and tariff changes in accordance with paragraph 3 of its terms of reference. However, the Working Party found that sufficient data was not yet available for the implementation of this project and further consideration of this matter has been deferred to a later date.

46. In accordance with the additional instructions given by the Committee, the Working Party has prepared some preliminary tabulations which are designed to clarify the implications of alternative techniques and modalities for tariff negotiations. These tabulations appear in document CQM.IND/W/91 and Add.1-9. The Working Party has recently accepted a presentation of trade data which would make it possible to identify the most-favoured-nation trade flows and certain trade flows effected under other régimes. Consequently, the earlier tabulations except those related to specific techniques and modalities will now be revised to take into account the up-dated material. Certain additional tabulations illustrating further approaches for negotiation techniques which were proposed by some contracting parties will be discussed at a subsequent meeting of the Working Party. Some delegations proposed that these statistical tabulations should not be held up any longer on the grounds that they might be interpreted in ways that some delegations would regard as disadvantageous or prejudicial to them.

II. NON-TARIFF MEASURES

47. A comprehensive inventory has been drawn up on the basis of a list of measures notified by exporting countries. This Inventory shows the country maintaining the measure, a brief description of the measure, the names of the notifying countries, and a summary of the debate held in the Committee on each item bringing out comments on the effects of the measure and its relationship to GATT provisions. Generally speaking, this information is descriptive and the effects on trade are discussed in general non-quantitative terms. At the present time the Inventory is being up-dated on the basis of corrections and new notifications received from members of the Committee.

48. The Committee has established five Working Groups to deal with Parts 1 to 5 of the Inventory as follows:

- Working Group 1 - Government Participation in Trade
- Working Group 2 - Customs and Administrative Entry Procedures
- Working Group 3 - Standards
- Working Group 4 - Specific Limitations on Trade
- Working Group 5 - Charges on Imports

On the basis of an Illustrative List of Items drawn up by the Committee (see document L/3298, Annex I), each Working Group has conducted a preliminary discussion on each of the main types of measure within its area of competence, with the purpose of exploring the possibilities of concrete action both in regard to reducing or removing such measures and to developing possible rules of conduct. The reports of each of the Working Groups on

this first stage of their work may be found in Appendices 2 to 6 of L/3496. In addition, the Joint Working Group on Import Restrictions undertook a comprehensive item-by-item review of import restrictions on the basis of notifications made to GATT in different contexts, including the notifications in Part 4 of the Inventory. The meeting of the Joint Working Group obviated the need for Working Group 4 to review individual restrictions in detail.

49. At present the Groups are attempting to work out ad referendum solutions to selected problems which have been referred to them by the Committee which has selected those topics which appear to lend themselves most readily to concrete action and with a view to giving priority attention to problems of interest to developing countries. Until now draft ad referendum solutions have been drawn up for Valuation for Customs Purposes (COM.IND/W/64), Automatic Licensing and Licensing to Administer Import Restrictions (COM.IND/W/82 and Corr.1) and Standards (COM.IND/W/108). The texts prepared on the first two subjects have been referred by the Committee to governments for careful examination and for consideration of implications arising from their acceptance. With regard to product standards, the Committee recommended that national administrations should examine (a) the outstanding issues with a view to finding mutually-acceptable solutions to them at the appropriate time, and (b) the implications arising from the acceptance of the instrument. Some delegations expressed the hope that it would be possible, if reciprocity were obtained, to implement these solutions prior to the conclusion of the multilateral trade negotiations.

50. Furthermore, solutions are actively being sought to problems in the following fields: Export Subsidies, Domestic Subsidies that Stimulate Exports, Subsidies that have Import Substitution Effects and Countervailing Duties (Working Group 1); Import Documentation including Consular Formalities (Working Group 2); Packaging and Labelling (Working Group 3); and Quantitative Restrictions including Embargoes and Export Restraints (Working Group 4). One delegation from a developing country referred to the proposals which it had made concerning export subsidies in the Committee on Trade and Development.

51. A number of topics have not, as yet, been referred to the Groups for work on ad referendum solutions. These include; Government Procurement; State-Trading Enterprises in Market Economy Countries; Anti-Dumping Duties; Customs Classification; Certificates of Origin; Samples Requirements; Marks of Origin; Minimum Price Regulations; Motion Picture Restrictions; Prior Deposits; Credit Restrictions for Importers; Fiscal Adjustments either at the border or otherwise; Restrictions on Foreign Wines and Spirits; Discriminatory Taxes on Motor-Cars; Statistical and Administrative Duties; and Special Duties on Imports.

52. Attention in the work of the Working Groups of the Committee has been concentrated on problems which appear to call for multilateral solutions. It has, however, been suggested that some non-tariff measures lend themselves more to plurilateral or bilateral solutions, i.e. to hold negotiations among the countries with a trade interest in a particular measure, rather than dealing with these in the context of a multilateral negotiation on broad categories of non-tariff measures.

53. The Committee emphasized that the search for solutions gave rise to certain fundamental legal problems. In particular, reference was made to two problems that had arisen in the deliberations of the Working Parties. The first problem was the imbalance that would be created, in legal if not in trade terms, if only a limited number of participants adhered to an international agreement but were obliged to grant the benefits of the agreement to all contracting parties under the most-favoured-nation clause. The second problem was the adequacy of Article XXIV:12 to deal with measures of regional and local governments, which were not under the direct control of central governments.

54. If satisfactory ad referendum solutions were to be found it was to be expected that in many areas certain participants would be making a larger contribution than others and that in these cases the implementation of solutions would have to wait until packages could be put together which would give individual participants a broad balance of advantage. These packages would not necessarily be restricted to non-tariff measures but might also include action on tariffs and other trade measures in both the industrial and agricultural fields. Some delegations said efforts should be made to put ad referendum solutions into effect even before the conclusion of the negotiations.

55. The view was widely held that meaningful results would best be obtained via specific commitments on specific measures. It was suggested that general principles might be drawn up if it did not prove possible to resolve all of the individual problems listed in the Inventory during the prospective negotiations. These principles might be used to guide countries' actions and to serve as a framework for further negotiations of specific non-tariff measures. It was also suggested that if this approach were adopted it would be necessary to examine the principles in terms of two categories of non-tariff measures, those that are designed to restrict or distort trade and those designed for some other purpose but which incidentally have trade restricting effects.

56. It was suggested that preparations for new negotiations should not discourage countries from reducing the adverse effects of non-tariff measures unilaterally and that such reductions should be taken into account in the negotiations.

57. Some developing countries stressed that it would be necessary to devise special measures in the case of each of the non-tariff measures dealt with, in order to provide additional benefits to developing countries.

58. The Committee discussed the possibility of drawing up a priority list of Non-Tariff Measures. It was understood that such a list would not be exhaustive and it would be possible to add further items at a later stage. It is not for the Committee to fix priorities for the negotiations as this would be the task of the Trade Negotiations Committee when established.

59. Some delegations took the view that it would be impossible to prepare such a list at the present time given that all measures proposed for inclusion would have to be included, and premature when the Inventory of Non-Tariff Measures was still in process of revision. These delegations, however, offered certain general principles which, in their view, should guide future work in the area of non-tariff measures; namely, that work should proceed on those subjects which seem to offer the best prospects for finding agreed multilateral solutions within the context of the trade negotiations, and those which appear from the Inventory to constitute the greatest obstacles to trade. Examples of non-tariff measures which conformed with these principles were those which were already under study in GATT and in the OECD. These delegations also suggested that the question of the abolition of the Protocol of Provisional Application be taken up in the multilateral trade negotiations.

60. The following subjects were proposed by a number of delegations for inclusion in the priority list: Export Subsidies including Domestic Subsidies that stimulate Exports and Subsidies that have Import Substitution Effects; Countervailing Duties; Anti-Dumping Duties; Government Procurement; Valuation for Customs Purposes; Standards, including Packaging and Labelling; Quantitative Restrictions including Embargoes and Licensing Systems. Other subjects which were mentioned were: Import Documentation and Consular Formalities; Minimum Price Systems, Internal Taxes and Levies; Import Taxes; Prior Deposit Schemes; Restrictions concerning Credit and Foreign Currency; Sanitary and Health Regulations.

61. One delegation from a developing country stated that the establishment of a list of priorities would be inconsistent were it to include at the same time both measures of a general nature, such as anti-dumping measures and countervailing duties, and measures that may be of higher or lower priority in relation to specific areas of negotiation, such as internal taxes.

62. Other delegations stated that the eight categories which have been or were being considered by the existing Working Groups would provide a good basis from which to begin preparation of a common list of priorities. One delegation, while supporting this view, felt that this list was not necessarily an accurate reflection of country priorities, since the list comprised only those categories on which full agreement could be reached for inclusion in the work programme.

III. THE SECTOR APPROACH

63. This approach calls for all factors affecting trade in specific sectors, including tariffs and non-tariff measures, to be dealt with together within particular product groups. It can involve some or all of the techniques for eliminating or reducing tariffs or non-tariff measures.

64. A number of delegations said that the sector approach could be used to liberalize to the greatest extent possible trade on a most-favoured-nation basis in precisely defined and closely related groups of products. This approach is not viewed as the sole or necessarily the most important negotiating approach but it would complement other techniques for reducing or eliminating either tariff or non-tariff measures. In defining a sector it would be important to make the sector broad enough to be meaningful but not so broad that it would be unmanageable. In broad terms, any commodities or product groups traded by a number of countries could be candidates for sector negotiations. Prime candidates were industries which could take account of economies of scale and a range of industrial materials. In conducting the sector negotiations, contracting parties should have authority to abolish tariffs and deal effectively with non-tariff measures.

65. Another possibility which was not discussed in detail was that all industrial products would be divided into sector groupings, as had already been done in the tariff study, and techniques for negotiating on all factors affecting trade elaborated sector by sector.

66. It was suggested that as to the advantages of the sector approach, it would enhance the degree of trade liberalization by improving the prospects of:

- (a) coming to grips with all major trade barriers, non-tariff measures, as well as tariffs, within a sector;
- (b) achieving a more efficient international allocation of resources; to the extent that it is applied to the resource sector, it would allow the geographical allocation of processing and fabricating facilities and value added on the basis of international comparative advantage;
- (c) permitting greater progress towards freeing trade than would otherwise be possible; within each sector, the speed of trade liberalization could be tailored to the needs and peculiarities of individual sectors; the reduction in impact of tariffs and non-tariff measures could in individual sectors be either faster or slower than provided under general liberalization formulae;
- (d) dealing with the problems of tariff escalation, effective protection, tariff disparities, by including all stages of production;
- (e) achieving liberalization of trade in product groupings of particular export interest to developing countries.

67. Apart from the difficulty related to the definition of the sectors themselves, among the disadvantages in the view of some delegations were that it might create trade distortions and lead to an increased effective protection if barriers to trade in raw materials were reduced more than barriers to trade in the related finished products, and that there could also be a substitution problem with

regard to other products for which liberalization would be slower. It might also complicate the negotiations by posing problems in regard to the balance of concessions, since there might be a tendency to seek reciprocity within each sector. It was doubtful, in the view of some delegations, whether many such sectors could be found. One important disadvantage of a political nature raised by this approach was that it might be more difficult to resist protectionist pressures in individual sectors if these were picked out for special treatment than if general rules were applied across the board. The sector approach might also be used to minimize rather than to maximize trade concessions.

68. Other delegations pointed out that these difficulties arose with most negotiating techniques and that the sector approach could provide the means to identify anomalies at an early stage and facilitate the development of the techniques to cope with them. It was recognized that while reciprocity was unlikely to be achieved within specific sectors, this approach could be used to achieve a balanced package in the context of the multilateral negotiations.

69. Representatives of developing countries said that this approach was well suited to their needs, since their exports were concentrated in certain sectors and since it could lead to a liberalization of trade in products and sectors at present excluded from the Generalized System of Preferences and to the solution of problems of tariff escalation. These countries had a particular interest in exporting their raw materials in a more processed form. One of these representatives agreed with the advantages described in paragraph 66 above. He thought that in some cases less orthodox ways than the most-favoured-nation reductions should be envisaged. It was particularly attractive since it would allow them to decide both on the timing and the extent of the liberalization in order to protect the Generalized System of Preferences margins. This sector approach, in his view, might facilitate the evaluation of the benefits accrued to developing countries. If the approach was adopted, there should be a selection of products of interest to developing countries to be dealt with on a priority basis; the whole range, or all stages, of the products should be included, and within each sector some specific provisions should be devised for dealing with the developing countries' problems. He further saw the approach as a complementary one.

IV. SAFEGUARDS

70. The Committee recalled that it had agreed to examine the adequacy of existing safeguard provisions in the context of the General Agreement, (i) in the light of present conditions and efforts to achieve and preserve a further liberalization and expansion of trade, and (ii) for ensuring the maintenance of access.

71. The Committee took note of the Factual Note on Safeguards (COM.IND/W/88/Rev.1) and the Factual Note on Safeguards for Maintenance of Access (COM.IND/W/104) which were prepared by the secretariat.

72. A proposal was made by one delegation that an integrated approach to adjustment to the effective dismantlement of tariff and non-tariff measures affecting industrial trade should be explored. This approach might comprise three essential elements:

- (i) Rules designed to ensure that the burden of adjustment be borne to the extent possible by the importing country, through concerted and improved programmes of domestic adjustment assistance rather than the restriction of imports.
- (ii) Emergency action, including the use of import restrictions, to deal with transitional problems of sensitive industries should be governed by rigorous internationally agreed criteria, including the presence of injury or threat of injury, subject to multilateral surveillance.
- (iii) Improved institutional arrangements should be established to ensure against the abuse of safeguard rules and the nullification or impairment of concessions negotiated and to provide for compensation.

The objective of such a system of safeguards should be to enhance the willingness of the industrialized countries to undertake the meaningful exchange of trade concessions and to provide more effective assurances against their impairment.

73. Some delegations stressed that the task of the Committee was to assess whether existing safeguard provisions were appropriate for future situations. In their view, the type of safeguard provision to be adopted depended on the extent of trade liberalization which was aimed at. It would be necessary to find the ideal equilibrium between, on the one hand, the progress towards elimination of trade barriers and, on the other hand, the safeguard clauses which would permit this liberalization. Some delegations recalled that the primary purpose of the Committee's work was to liberalize trade, not to facilitate the erection of new trade barriers. Some delegations did not consider the existing GATT provisions to be adequate for a future situation.

74. One representative said that negotiations on safeguards would constitute an essential part of the trade negotiations. He said that the widespread resort to measures other than Article XIX suggested that this Article was not adequate to meet the changing needs of a dynamic world economy. The emerging view of his country was that in the forthcoming negotiations it was necessary to consider a multilateral non-discriminatory safeguard system that gave economically sensitive industries in participating countries sufficient time to adjust to rapid shifts in trade. In the opinion of his country, safeguards were necessary in situations where the adjustment required was too large to be accomplished in a short period of time without excessive social and political cost. Such a multilaterally negotiated safeguard system could include agreed standards for imposing temporary protection, a procedure for international review and procedures that prevent the systems from being abused. Domestic adjustment programmes should complement the safeguard system. Effective adjustment programmes were essential in order to stimulate the reallocation of resources which would otherwise require permanent protection from the pressures of the market. His country was now exploring new methods of providing adjustment assistance to those sectors, and especially to

those groups of workers which were subject to exceptionally rapid adjustment problems as a consequence of competition. In its view such adjustment assistance provisions might also be discussed internationally.

75. One delegation, supported by other delegations, agreed that the question of providing a multilateral and non-discriminatory procedure with regard to safeguards should be examined in GATT, with a view to facilitating further liberalization and also to guaranteeing the results of such liberalization. Such an examination was all the more necessary in view of the present proliferation of bilateral safeguard clauses and export restraints. In their view the elimination of bilateral safeguard clauses, quotas and export restraints should be included in the examination. The preliminary view of his country was that any review of the question should include the following elements, a linkage of the safeguard clause with domestic adjustments, a review of the criteria for the use of the safeguard clause, the setting of time limits and time schedules of application, modalities of the safeguard measures, and multilateral surveillance of the use of the clause.

76. Some delegations said that a balance must be struck between the interests of importers and those of exporters. A system should be created which would give sufficient protection against imports causing market disruption while not affecting other imports, and which provided adequate stability of concessions. These delegations said that the discussions should cover all the various elements, including the definition of injury, the imports to which action should apply, the scope and duration of action, the burden of proof, the procedure in urgent cases, consultations and international surveillance. Finally, consideration should also be given to the suggestion for the use of a panel procedure.

77. Some delegations of developing countries considered that further work on safeguard measures should proceed with caution. They suggested that in this work the Committee should concentrate on ensuring better access to markets and that adjustment assistance measures should be preferred to safeguard action. They stressed that safeguard action, if taken by a developed country, should be applied only temporarily and in exceptional situations. To this end they supported the development of a system of internationally defined objective criteria and the establishment of appropriate international consultation procedures which could give effective safeguard against erosion of acquired concessions by unjustifiable resort to escape clause action by developed countries. It was also suggested that the following points be taken into consideration:

- (a) rules should be set for preserving the additional benefits gained by the developing countries in the negotiations;
- (b) no safeguard action against exports from developing countries, should be imposed by developed countries and if market disruption entailed the imposition of safeguard measures, the developing countries should be consulted beforehand;
- (c) the previous export volume of developing countries should not be reduced and there should be provision for increases;

- (d) provisions should be made for adequate compensation for developing countries.

78. Some delegations from developing countries referred to the proposals before the Committee on Trade and Development to the effect that developing countries be exempted from emergency measures applied under Article XIX and said that it was inequitable that developed countries should apply safeguard measures, on a most-favoured-nation basis, towards exports of both developed and developing countries. This practice caused grave injury to exports of developing countries and was not consistent with Part IV of the GATT. These proposals should be taken into account when the Committee dealt with the overall problem of safeguards. They also considered that developing countries should have greater freedom to apply safeguards.

79. At its meeting in May 1973, the Committee established a Working Group on Safeguards with the following terms of reference:

"To examine, in the context of the work of the Committee on Trade in Industrial Products on various techniques and modalities for effective and comprehensive future negotiations, the adequacy of the multilateral safeguard system of the General Agreement

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

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

80. During the discussion of this matter, some delegations pointed out that they had agreed to the setting up of a Working Group on Safeguards on the understanding that at this stage of the preparatory work the Group would be simply a technical one which would look at the factual situation and perhaps proceed to a preliminary exchange of views. According to these delegations, the Group should base its work on the documentation already provided by the secretariat. Another delegation stressed that the Working Group should not be a negotiating body but should examine the facts and compare views on the elements of a possible safeguard mechanism.

81. Other delegations added additional elements should, in their opinion, be included in the discussions of the Group. These included the definition of injury, the imports to which action should apply, the burden of proof, the procedure in urgent cases, and the question of consultations.

82. The Committee took note of the comments made by delegations on the subject of safeguards.