GENERAL AGREEMENT ON
TARIFFS AND TRADE

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AGREEMENTS BETWEEN THE EUROPEAN COMMUNITIES AND SWEDEN

Report of the Working Party

1. At the meeting of the Council on 19 September 1972, the contracting parties were informed that the negotiation of the Agreement establishing a free-trade area between the European Communities and Sweden had been concluded on 22 July 1972 (C/M/80). This negotiation resulted in the following Agreements[1]:

- Agreement between the European Economic Community and the Kingdom of Sweden, with the annexes and protocol forming an integral part thereof;

- Agreement between the Kingdom of Sweden on the one hand, and the member States of the European Coal and Steel Community and the European Coal and Steel Community, on the other hand, with the annex and protocol forming an integral part thereof;

- the text of the letter concerning certain agricultural products sent by the Head of the Swedish Delegation to the Head of the Delegation of the Community;

- the text of the exchange of letters concerning certain fishery products;

- the text of the exchange of letters concerning decisions on the application of Article 60 of the Paris Treaty;

- the text of the exchange of letters concerning qualitative modifications of certain steels.

2. At their twenty-eighth session the CONTRACTING PARTIES decided to set up a Working Party with the following terms of reference:

> "To examine, in the light of the relevant provisions of the General Agreement on Tariffs and Trade, the provisions of the agreements between, on the one hand, the European Economic Community, the member States of the European Coal and Steel Community, and the European Coal and Steel Community and, on the other hand, the Government of Sweden, signed on 22 July 1972, and to report to the Council."

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[1] For reasons of convenience, the term "Agreement" will be used in this document as designating both agreements mentioned in this paragraph.

3. The Working Party met on 13 December 1972, 28-30 May and on 26-27 July 1973 under the chairmanship of Mr. P. Nogueira Batista (Brazil). It had available the texts of the Agreements (L/3782/Add.1) and the replies from the parties to the questions asked by contracting parties (L/3846). The Commission of the European Communities had provided the Working Party with certain statistical data reproduced in Addendum 1 to document L/3846.

4. In an introductory statement, the representative of Sweden noted that the Agreement had been duly notified to the GATT and that the customary question-and-reply procedure had been followed. His Government had used its best efforts in answering the questions and was ready to answer any additional enquiries that members of the Working Party might wish to raise. As stated in the Preamble to the Agreement between his country and the European Economic Community, the parties to the free-trade area were of the opinion that all the requirements of Article XXIV of the General Agreement had been met. The representative of the European Communities said that the parties' replies confirmed their attitude that the Agreement was fully consistent with the relevant provisions of the General Agreement, in accordance with the objectives set out in the Preamble to the Free-Trade Agreement.

5. One member of the Working Party said that his government took a serious view of the Agreement, which was important and should be examined thoroughly. In the view of his government, the Agreement was a preferential arrangement, not a free-trade area; and was contrary to the letter and spirit of Article XXIV; it would severely impair third country trade interests and would constitute a derogation from the most-favoured-nation principle involving significant amounts of trade. In particular, the Agreement was contrary to the General Agreement because the rules of origin would frustrate the purpose of a free-trade area as stated in Article XXIV:4 in that they would frustrate intra-trade in products that could not meet the origin criteria and raise barriers to third-country trade in intermediate products; the requirement of Article XXIV:8(b) for elimination of restrictions on "substantially all the trade" had not been met because of the exclusion of most agricultural products and the effects of the rules of origin; the requirement of Article XXIV:5(b) that external restrictions shall not be higher than in the constituent territories had not been met because of the rules of origin; and Article VIII was contravened by the increased complexity of trade formalities on account of the rules of origin. As well as being restrictive in many substantive provisions, those rules of origin were so complex and cumbersome as to be a barrier to trade in and of themselves; in the absence of compelling reasons to the contrary, manufacturers within the free-trade area would favour origin sources over outside countries merely to be sure of qualifying under the rules of origin. Once trade shifts of that kind took place, the damage to third countries' exports would be difficult to remedy. He also noted that to the extent the rules of origin increased restrictions against import from third countries subject to tariff concessions, those concessions would be nullified or impaired. As to Article XXIV:8(b), the GATT did not include a definition of "substantially

all the trade"; his government thought the phrase meant all the trade with minor exceptions, certainly not the exclusion of an entire sector such as unprocessed agricultural goods, along with arbitrary exclusions in the industrial sector because of rules of origin.

6. Other members of the Working Party said that they had doubts about the conformity of the Agreement with Article XXIV, particularly as regards the exclusion of the agricultural sector from the scope of the Agreement and the restrictive rules of origin. The over riding concern of their authorities was that the Agreement constituted an additional erosion of the most-favoured-nation principle and would severely affect some of their countries' important exports where they had an international competitive advantage under normal conditions of access. These delegations hoped that the parties to the Agreement would take advantage of the forthcoming multilateral trade negotiations to effect a far reaching most-favoured-nation liberalization of trade and reduce the adverse impact on third countries of this Agreement.

7. One member, generally supporting the views referred to in paragraph 6, called attention to the danger which the Agreement presented to developing countries which had obtained benefits under the Generalized System of Preferences (GSP). Another member shared this concern about the possible erosion of these benefits, a process which could be expected to continue as barriers to the intra-European trade were further reduced, creating a huge internal market which would comprise one third of world trade. In the view of his delegation, developing countries' exporters should at least be placed on an equal footing with those in the parties to the Agreement. It would seem that in Article XXIV the drafters of the General Agreement only contemplated regional arrangements whose trade-creating effects were, on the whole, more significant than any trade-diverting ones. In the light of this dichotomy, a careful examination of any arrangement would require that these two opposing tendencies be added together so as to permit a prediction of whether the arrangement would have a net overall trade-creating tendency, and accordingly whether it would comply with the General Agreement. This member also referred to the question of the simultaneous establishment and co-existence of customs unions and free-trade areas, and suggested that a study on the subject might be useful. The parties to the Agreement had recalled that, under Article XXIV:8(b), a free-trade area was to be understood to mean a group of two or more customs territories. And a customs union was by definition a customs territory.

8. The parties to the Agreement noted - with some surprise - that some members of the Working Party seemed to base their evaluation of the Free-Trade Agreement on a misunderstanding of the intentions of the parties to the Agreement. The parties to the Agreement were fully determined effectively to establish free-trade relations in accordance with Article XXIV of the General Agreement and had drafted their Agreements carefully so as to fulfil all the requisite conditions of all sections of the General Agreement. Thus, since the Free-Trade Agreement fulfilled all the conditions laid down in Article XXIV for the establishment of a free-trade area, it could not on any view be classified as a preferential arrangement.

9. In the view of the parties to the Agreement, it was for them in the first instance to see to it that the provisions of Article XXIV:4 were satisfied and they were confident that intra-area trade would be facilitated and that closer integration of their economies would be achieved. The parties to the Agreement were convinced that the effects of the operation of the Agreement would not impair the trade interests of third countries, but that on the contrary, the faster economic development resulting from the Agreement would stimulate demand for third country products including products from countries benefiting from the Generalized System of Preferences. That would be in line with the experience of earlier free-trade areas.

10. They did not subscribe to the view that the operation of the rules of origin would restrict the trade coverage of the Agreement. There was also no evidence that the operation of the origin rules would raise barriers to third country trade in intermediate products, or that regulations of commerce resulting from the Agreement would be more restrictive than they were prior to the formation of the free-trade area. The aim of the formation of the free-trade area was only to facilitate trade between the constituent territories in products originating in these territories. To that end, as had always been recognized, rules of origin were of course required. The origin rules included in the Free-Trade Agreement had as their essential aim the prevention of undesirable deflection of trade and care had been taken to make them as simple as possible. Thus it was not believed that rules of origin were so complex and the documentation so cumbersome that they constituted a barrier to trade either between the parties to the Agreement or in their trade with third countries. If, however, at a later stage, it appeared that a simplification of the rules or the documentation would be sensible, such a simplification would be considered.

11. The representative of Sweden recalled his country's active support, e.g. in connexion with the preparation of the multilateral trade negotiations, of efforts aiming at the liberalization of trade on a world-wide basis. The Agreement constituted, in his view, an important step in the direction of a global dismantlement of tariffs.

12. A member of the Working Party voiced the opinion that the plan and schedule of the Agreement for the progressive reduction of internal tariffs seemed to indicate that this Agreement was intended as an interim agreement leading to the formation of a free-trade area rather than the free-trade arrangement itself. The

parties to the Agreement explained that the plan and schedule of the Agreement for the progressive reduction of tariffs between the parties were only a part of the Agreement and that the Agreement also laid down all rules and regulations necessary for the smooth functioning of the free-trade area, so that there was no reason for considering the Agreement as an interim agreement.

13. One member of the Working Party, sharing some of the concerns referred to in earlier paragraphs, said that in the view of his delegation the Agreement would adversely affect the co-operation agreements that had been entered into between producers in his country and those in the member States of the free-trade area. The parties to the Agreement were of the opinion that bilateral co-operation agreements with third countries would not be adversely affected by the operation of the Free-Trade Agreement.

14. After the general discussion set out above, the Working Party proceeded to an examination of the Agreement during which the parties provided various explanations to the statistical information which had been submitted as well as further clarification of some of the replies contained in document L/3846. The main points made during the discussion are summarized below.

Trade coverage

15. Some members of the Working Party recalled their earlier statements to the effect that their governments interpreted Article XXIV:8(b) clearly to mean free trade in all products and not merely industrial products. That provision of the General Agreement certainly did not permit the exclusion of an entire sector such as unprocessed agricultural products. The almost total exclusion of agricultural products, therefore, served to limit the degree of free trade involved. Thus the Agreement could not be said to eliminate duties and other restrictive regulations of commerce on substantially all the trade between the parties.

16. The parties to the Agreement considered that the high trade coverage made the Agreement fully compatible with the requirements of Article XXIV:8(b) and that the Agreement covered substantially all the trade. The meaning of "substantially all the trade" had never been defined in the GATT but the percentage of trade covered by the Agreement must be considered to satisfy the requirements of Article XXIV:8(b). The exclusion of agricultural products from the scope of the Agreement should not be considered in theoretical terms but in relation to its practical significance for the overall trade coverage of the Agreement. Furthermore, the actual situation was that, for several reasons, the General Agreement had never been applied with equal strictness to the agricultural sector.

17. One member of the Working Party pointed out that, in his view, since the entire sector of unprocessed agricultural products was virtually excluded under the Agreement, and a number of processed products including industrial products were

given special treatment by the Annexes and Protocol of the Agreement, a possible change in the economic and trade structures of the parties could affect the percentage of trade coverage calculated in accordance with the present trade data, and accordingly the possibility might be seen in the future that the Agreement could no longer meet the requirements of "substantially all the trade". The parties to the Agreement explained that any calculation of the trade coverage of the Agreement must of necessity be based on the existing situation. Furthermore, even if changes occurred in the composition of trade flows in industrial products, they would have no effect on that part of the trade that was covered by free trade.

Import and export duties

18. One member of the Working Party expressed the hope that there was no risk that the provision for the introduction of a compensatory charge, as referred to in Article 27, paragraph 3(b), would encourage an increase in the customs duties on products imported from third countries, and in fact make third countries bear the cost of adjustments between the parties arising from the Agreement. He hoped that the assurance given by the parties to the Agreement would prove valid in practice.

Agriculture

19. Some members of the Working Party considered that Protocol No. 2 to the Agreement providing for the reduction but not the elimination of certain duties of processed agricultural products created new preferences and thus was in contravention of the General Agreement. By the same token, these same members of the Working Party were of the opinion that the Swedish unilateral concessions on certain agricultural and fishery products, provided for in the Exchange of Letters, could not be justified under Article XXIV:8(b) of the General Agreement, which referred to elimination of tariffs and not to unilateral concessions. These had the effect of establishing a preferential area for some agricultural products. They were moreover concerned about the implication in the replies to questions on this point that the parties to the Agreement considered that the invocation of Article XXIV or a provision of their own Agreement constituted a de facto derogation from other provisions of the GATT particularly as regards the most-favoured-nation principle for trade in products not scheduled for free trade. While the trade involved was small, it was provisions such as these which had given rise to the concern of polarization of world trade and the impact upon third countries.

20. The parties to the Agreement reiterated their view that since Protocol No. 2 of the Agreement provided for the elimination of industrial protection, there would be no question of creating new preferences, but only of maintaining the present situation in the agricultural raw material sector. They also pointed out that the measures taken as a result of this Exchange of Letters represented an application of Article 15 of the Agreement with the EEC which stated the parties' readiness to foster the harmonious development of trade in agricultural products. The concessions were thus a part of the free-trade arrangement and were also covered by the provisions of Article XXIV.

Relations with developing countries

21. Representatives of some developing countries members of the Working Party were of the view that the movement towards further economic integration in Western Europe would lead to new distortions in international trade to the particular detriment of the export interests of developing countries. In particular, they considered that the Agreement would impair, if not nullify the benefits enjoyed by developing countries under the Generalized System of Preferences, thus prejudicing the trading positions that these countries were seeking to establish and improve. The erosion of the margin of benefits of preferences would be greater where preferential treatment was partial or limited than where total liberalization existed. These members considered that in the context of the multilateral trade negotiations, the parties to the Agreement should find ways and means to ensure for developing countries the possibility of competing in their markets on at least an equal footing with the parties themselves.

22. The parties to the Agreement felt that the trade creating effects of the Agreement would also benefit the trade of developing countries. They could not accept that the question of any reduction in benefits of a unilateral scheme like the GSP was relevant in the discussions on the Agreement concluded in accordance with Article XXIV. Although it was too soon to conclude that any benefits under the GSP would in fact be reduced as a result of the Agreement, the parties were, nevertheless, aware of the possible effects of the tariff reductions, and they would have this in mind during the multilateral trade negotiations. The representative of the European Communities stated that the possibility of negative effects arising from tariff reductions depended on the extent to which trade between the parties to the Agreement was in products of export interest to developing countries. The Community had stated, in the context of the multinational trade negotiations, that any such effects of tariff reductions would be alleviated through improvements to the GSP.

23. The representative of Sweden pointed out that his Government had always, and inter alia through extensive voluntary support of the activities of the UNCTAD GATT International Trade Centre, given considerable assistance to developing countries in their efforts to increase their export potential and earnings. Furthermore, his Government had on several occasions gone on record to state that the interests of developing countries should be given priority consideration in the multilateral trade negotiations.

Rules of origin

24. One member of the Working Party said that his government had a number of reservations with regard to the rules of origin of the Agreement. In the view of his delegation those rules would result in trade diversion by raising barriers to third countries' exports of intermediate manufactured products and raw materials. This resulted from unnecessarily high requirements for value originating within the area. In certain cases (e.g., microphones) the rules disqualified goods with value originating within the area as high as 96 per cent. The rules of origin

limited non-origin components to just 5 per cent of the value of a finished product of the same tariff heading in the 179 tariff headings in BTN Chapters 84-92, or nearly one fifth of total industrial tariff headings. In many other cases a 20 per cent rule applied. The value added requirements would tend to encourage manufacturers in the member States to switch away from third countries' products to ensure origin-sourcing. Moreover, Article 23 of Protocol No. 3 would exclude the possibility of drawback. Rules of origin might be justified for free-trade areas so as to prevent trade deflection from high to low tariff points of entry for later trans-shipment. That was less relevant, however, in cases where there was a relatively low tariff differential between the countries, as in the present instance, raising the question whether in fact the rules had been aimed at preventing trade deflection. Moreover, the rules were more restrictive than the EFTA rules of origin. A line-by-line comparison made by his government's experts had revealed that out of 338 tariff headings where a direct comparison could be made, in 335 the present rules were more restrictive than the EFTA rules. In only three cases were they more liberal. Also the EFTA rules provided alternatively for either the physical segregation of non-source inventory or for the proportional allocation on a yearly acquisition basis, the latter method being especially applicable to the chemical industry for example.

25. He stated that another disturbing element lay in the unduly complicated nature of the rules, which in some cases required as many as four separate criteria for conferring origin, and provided for eight different types of movement certificate. Such requirements could be expected to hinder the intra-trade. In this context he noted, for example, that the Berlin Chamber of Industry and Commerce 197[illegible] Annual Report deplored the potential trade impediment represented by the new rules. The rules also imposed upon importers and other users of imported products in the free-trade area a greatly increased and complicated documentation burden, contrary to the intent of Article VIII of the General Agreement. His delegation felt that although there was no objective rule in GATT on the operation of rules of origin, contracting parties by reason of Article XXIV:5(b) did not have a free hand in setting up such rules. His government estimated that approximately half of his country's industrial exports to the member countries were affected by the rules. It had already received numerous reports of export losses, including for example, losses in corn, textiles, transistors, and electronic parts. However, those reports appeared to be only "the tip of the iceberg".

26. Several members pointed out that the sole purpose of rules of origin in a free-trade area was to prevent trade deflection arising from differences in the external tariffs of the parties to the arrangement. However, the rules of origin in these Agreement did not relate to specific tariff differentials and appeared in many cases to be far more restrictive than necessary to prevent trade deflection, and thus created an unnecessary restriction on exports of intermediate products from third countries. Some of these members pointed out that in the absence of an examination of the differences in tariffs of the parties to the Agreement, there was no analysis as to whether these rules of origin were justifiable in relation to the trade deflection which might occur.

27. Another member of the Working Party stated that his authorities were also concerned about the rules of origin which were more restrictive than those of the EFTA - they would operate not only between the EEC and EFTA countries but also between the EFTA countries themselves. In that sense, while the GATT provided no objective standards for the establishment of rules of origin, Article XXIV:5(b) required that "the duties and other regulations of commerce" in a free-trade area be no higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area. That they were in fact more restrictive was one of the reasons why his authorities doubted the conformity of the Agreement with the GATT. Aside from these important questions of principle, this member stressed that the export of intermediate products for further processing in EFTA countries would be jeopardized. In his view it was not too early to attempt an assessment of the probable adverse effects particularly in light of the fact that some products for further processing, which met the origin requirements, were fetching premium prices in the countries concerned. He expressed the hope of his authorities that the parties would give a sympathetic hearing to any representations made in this regard.

28. Some other members of the Working Party generally supported the views referred to in the preceding two paragraphs. One of these members said that rules of origin should be trade-neutral. Although they might contain both technical and policy elements, the rules of origin contained in the Agreement could not be considered to meet this requirement. Another member said that the rules would have a trade diverting effect, and questioned whether exceptions would be made for products coming under co-operation agreements. This member was furthermore of the opinion that further consultations between the parties concerned should be held to seek appropriate solutions to prevent such situations where impairment of the concessions might occur. Another member expressed the hope that the rules would have no damaging effect on his country's exports of copra and jute packing products, and said that bilateral efforts would be made in this connexion.

29. In reply to the statements set out in paragraphs 24-28 above, the parties to the Agreement stated that the rules of origin were not intended to be trade diverting nor were likely to be in effect, but were aimed at preventing undesirable trade deflections under the free-trade arrangement. A system based on the actual differences in the tariffs of the parties to this Agreement would entail several specific sets of rules of origin. Such a system would be too complex to operate effectively and furthermore would permanently introduce a high degree of uncertainty due to tariff changes. The rules that had been adopted were based on the objective principle of substantial processing and were designed to ensure that only goods meeting this principle could be considered as originating in the area. With regard to the simultaneous use of more than one criterion for conferring origin, the conditions for applying the criterion of substantial processing had led to the limitation of the use of the value added criterion which was not sufficiently objective since the devaluation or revaluation of a country's currency could fundamentally alter the situation and could also introduce questions regarding valuation for customs purpose. In certain cases, however, a change in tariff classification alone (which was the basic criterion to be applied) would not involve substantial enough processing; and in such instances an additional value added criterion was needed. The parties to the Agreement pointed out that it was misleading to talk of a requirement in the rules of origin of value in the area as high as 96 per cent, as claimed by one delegation. In fact, e.g. in the case of microphones, the rules of origin permitted the use of non-originating components of the same tariff heading up to 5 per cent of the value of the finished product, and allowed a total of 40 per cent of non-originating products of other headings than that of the finished product to be used. Only the use of non-originating transistors was limited to 3 per cent.

30. The parties considered any attempted comparison between the EFTA rules of origin and those under discussion in the Working Party to be invalid. The new set of rules of origin were applied in a new situation and for the most part in trade between countries where previously no rules of origin existed. Arguments as to whether the new rules were more or less restrictive than the previous EFTA ones were not soundly based. In fact, they were not unduly complex and it was not expected that customs officials would experience any difficulty in applying the rules. Business interests did not appear to be experiencing problems in connexion with the rules and any request for guidance, e.g. in connexion with setting up a proportional allocation inventory for sourcing, would be met. In the view of the parties the General Agreement offered no objective measure for evaluating rules of origin. Contracting parties were accordingly free, within the framework of Article XXIV and consistent with the objective of establishing a free-trade area, to adopt systems which met their needs and those of third countries. It was clearly too early to judge the operation of the rules and only experience of how they worked in practice over some time would make it possible to draw conclusions on whether any changes in the rules were necessary. In this connexion

the parties to the Agreement expressed their readiness to take into account any detailed evidence of export losses by third country traders reported to them. The parties to the Agreement considered that the normal provisions for consultations in the General Agreement would suffice.

31. With respect to drawback, the parties to the Agreement stated that it was normal that drawback should not be allowed in free trade between them, since the tariff on third country products had to be paid at one point of entry. There was of course no second tariff payable when the finished product was given area origin treatment. However, drawback could always be granted when area treatment was not claimed so that there could be no question of paying duty twice.

Other questions concerning the Agreement

32. Some members of the Working Party expressed their concern that the parties to the Agreement seemed to interpret the provisions of Article XXIV:8(b) of the General Agreement to allow discriminatory application of Article XIX when safeguard action was being taken. They would like it to be understood in the Working Party that the reply given by the parties to the Agreement to the question on application of safeguard provisions did in fact mean that safeguard action would be taken on a strictly most-favoured-nation basis.

33. The representative of the European Communities called attention to the omission of Article XIX from among those mentioned in Article XXIV:8(b), which required the elimination of certain "other restrictive regulations of commerce" as between members of the free-trade area. His authorities, accordingly, were of the view that they were free to exempt these members from possible restrictions imposed under Article XIX.

34. Some members could not accept that explanation. In their view, the invocation of Article XXIV did not mean that other Articles of the General Agreement should cease to apply; and these members could not agree that the invocation of Article XXIV permitted the discriminatory application of Article XIX.

General considerations

35. Some members of the Working Party were of the opinion that the Agreement constituted a preferential arrangement rather than a free-trade area. That derogation from the most-favoured-nation principle was contrary to the spirit as well as the letter of the General Agreement. Whereas a free-trade area would be required by Article XXIV:8(b) to cover substantially all the trade between the constituent territories in products originating in such territories, the

arrangement under consideration virtually excluded trade in unprocessed agricultural products. Moreover, the complex and restrictive rules of origin not only hindered inter-area trade but also raised new barriers to imports from third parties and thus conflicted with the requirement of Article XXIV:5(b) that regulations of commerce applicable to the trade of third parties not be more restrictive than the corresponding regulations of commerce existing in the constituent territories prior to the formation of a free-trade area.

36. Some members held the view that to the extent the rules of origin increased restrictions against third parties on products subject to tariff concessions, these concessions would be nullified or impaired. They pointed out that in the absence of an examination of the differences in tariffs of the parties to the Agreement, there was no analysis as to whether these rules of origin were justifiable in relation to the trade deflection which might occur. Some members considered that the plan and schedule for the progressive reduction of internal tariffs seemed to indicate that this was intended as an interim agreement leading to the formation of a free-trade area rather than the free-trade arrangement itself.

37. Other members of the Working Party pointed out that the adverse effects of the arrangement on third countries might be reduced by the participation of the parties to the Agreement in the new negotiations envisaged with a view to increased liberalization of trade on the basis of the most-favoured-nation clause.

38. Other members of the Working Party were of the opinion that the movement towards further economic integration in Western Europe would lead to new distortions in international trade to the particular detriment of the export interests of developing countries. In particular, they foresaw the danger of erosion of the benefits which developing countries had obtained under the GSP. These members felt that in the context of the multilateral trade negotiations the parties to the Agreement should find ways and means to ensure that developing countries were at least placed on an equal footing with the parties to the Agreement.

39. The parties to the Agreement, together with some other members of the Working Party, expressed their conviction that the Agreement effectively created a free-trade area and was in full conformity with Article XXIV of the GATT. It could not, therefore, in any view be considered as a preferential arrangement. Furthermore, it was in no way an interim agreement and included all the elements necessary for the definitive establishment of the free-trade area. The Agreement covered substantially all the trade between the parties and the exclusion, as appropriate, of agricultural products was of relatively minor

practical significance. Rules of origin were an indispensable element for the operation of a free-trade area and the Agreement necessarily contained such rules of origin to prevent undesirable deflection of trade, and thus ensure the correct functioning of the free-trade area. Those rules of origin were introduced essentially to prevent such deflection and had been designed as objectively and simply as possible. They in no way increased restrictions on trade with third countries. The parties to the Agreement declared that after some experience of the working of the rules of origin they would consider any revisions of them in the light of evidence of difficulties encountered.

40. The parties to the Agreement would ensure that the benefits expected by the developing countries in the framework of the GSP would be effectively attained in their trade relations with the developing countries.

41. The Working Party could not reach any unanimous conclusions as to the compatibility of the Agreement with the provisions of the General Agreement. Thus, it felt that it should limit itself to report the opinions expressed to the competent bodies of the CONTRACTING PARTIES.