

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

TN.64/28
21 May 1964

Special Distribution

OPENING OF THE KENNEDY ROUND

Summary of Progress Report by the Chairman to the Meeting
of the Trade Negotiations Committee on 5 May 1964

1. The Chairman said that, in view of the length and complex nature of some of the reports which were before the Committee, it might be helpful if he made a general survey of the position which had been reached in preparation for the negotiations.
2. Document TN.64/15 together with its three annexes contained an analysis of the position reached on the Tariff Negotiating Plan.
3. The first point dealt with in this paper was the depth of the tariff reductions and the rules for exceptions. Here the Trade Negotiations Committee could record this degree of progress, that whereas at the meeting last May it had not been possible to put in a figure for the percentage cut to be made in the negotiations, it could now be confirmed that the working hypothesis should be a 50 per cent linear cut across-the-board and that negotiations should proceed on this hypothesis.
4. Equally it could now be confirmed that the exceptions to the 50 per cent cut could be kept to a bare minimum and that they should be subject to consultation and justification. The Trade Negotiations Committee had also suggested that, in order to provide a basis for that justification, there should be an objective criterion that the exceptions should be based on considerations of overriding national interest. Procedures had also been agreed for dealing with the rather technical question of the base date for the tariff reductions and the level of tariffs by reference to which the reduction would be calculated.
5. The main issue which remained unsolved in the Tariff Negotiating Plan was the treatment of tariff disparities. So far little success had been achieved in working out rules which could ensure that the disparity items would be limited to those meaningful in trade terms. The areas of difference had, however, been narrowed and the difficulties were not of a nature that they should not yield to a further effort of negotiation. Basically in the disparity issue, there were two main problems: the first was the problem of identification of significant disparities and the second was, having identified them, what to do

about them. Most of the work in the Trade Negotiations Committee had been concentrated on this first question of identification. On some aspects of this question there was a considerable amount of common ground; it had been agreed for example that the identification of high rates should be confined to the tariffs of the three or perhaps four major participating industrialized countries. It was also generally accepted that the first step in the treatment of this problem would be to identify, by relation to arithmetic criteria, what had been called prima facie cases of tariff disparity. On this point many members of the Committee would have preferred a formula which would have included a cut-off. But it had not been possible to arrive at a generally accepted formula using a cut-off approach, and instead it had agreed to see if it was possible to find a solution based on the "double écart" proposal of the European Economic Community under which the prima facie cases of disparity would be regarded as existing wherever the high rate was at least double the low rate and where there was a gap between the two rates of at least ten percentage points. There was a difference of view on whether this last requirement should apply to semi-processed products.

6. The European Economic Community had felt that the arithmetic criterion should have been sufficient in itself to identify the significant disparities but in an attempt to meet the views of other delegations they had indicated their willingness to agree to the use of further limiting criteria or principles. In this connexion agreement had been reached on a number of points. For example, subject to some refinements and differences, it had been agreed that disparities should not be regarded as meaningful where there was no production or no imports of the product concerned in the country with the low rate. It was also agreed that some provision was needed for cases where the country with the high rate imported substantial quantities of the product concerned, but in the view of the Community such a provision was needed only where the import came from the country with the low rate. Other members of the Committee felt that imports from any source were relevant, provided that they were in fact subject to the rate in question. There was also disagreement on whether there should be provision for discussion of cases of this sort, or whether they should be dealt with by an automatic criterion.

7. The main outstanding problem was that of third countries, i.e. countries whose own duties were not high but who might find as a result of the invocations of the disparity rules in respect of high duties in the tariff of another country, that duties in the market of great importance to them were reduced by less than the full 50 per cent. The two views on this question were described in Annexes 1 and 3 to document TN.64/15. The European Economic Community had taken the view that problems facing third countries in this respect could be taken care of by a product-by-product consultation and negotiation. The other view, taken by most members of the Committee, was that the problem should be met by an automatic criterion, which would exclude from the scope of disparity treatment, and reintroduce into the sector where the full linear cut would apply, all cases where participating third countries were major suppliers to the country which had the low rate. One of the preoccupations of the countries which had difficulty in accepting the consultation or negotiation procedure proposed by the Community, was that the procedure in itself involved uncertainty.

The consultations could be long drawn out, and until the consultations and negotiations were completed, it would not be possible to ascertain what the effects of the disparity rule would be. A number of suggestions for bridging this difference of view had been made. The representative of Sweden, for example, had made a proposal which would recognize the right of the low rate country to invoke the disparity on the understanding that it would unilaterally, so to speak, renounce the right in cases where a third country was in fact the major supplier.

8. With regard to agriculture, the Committee on Agriculture was requested to submit recommendations on the rules to govern and the methods to be employed in the negotiations on agriculture. The report of the Agricultural Committee (TN.64/23/Rev.1) showed that it was not at the present stage in a position to submit agreed recommendations. This was a fact but he hoped it could be agreed that this should not remain a fact too long. He would like to point out to the representatives of the European Economic Community that all delegations were aware that in many respects there was a real dilemma for them, because they were really engaged in two operations at the same time. They were trying to elaborate and put into force a common agricultural policy for the Community, and anyone who had dealt for so many years with the problems of agriculture would not underestimate the difficulty this represented as an internal piece of business. It was clearly difficult to be required at the same time, and before the basic decisions had yet taken shape in the Community, to participate in an international negotiation covering the same field. At the same time he believed that the Community recognized that other countries, which were entering into negotiations which would have very grave implications for their future commercial policies, found it very difficult to move resolutely ahead without, as matters stood, any indication as to the conditions which would govern international trade in products in which the Community played an important rôle as an importer and in some directions as an exporter. A great effort of imagination and comprehension on both sides was needed over the next few months to try to co-ordinate this process of negotiations which were at least for one of the parties necessarily in parallel.

9. The documents before the Committee were a record of the points of view expressed and supported by delegations from a number of countries and brought out the fundamental nature of the problem. Above all they brought out quite clearly the key to the whole problem of agriculture which was that of realistic guarantees of terms of access to markets for exports of agricultural products.

10. The several delegations which were referred to in Annex I to document TN.64/23/Rev.1 had made it plain that in their view it was not feasible to conduct the agricultural negotiations on the basis of a rule of general application. They therefore suggested that, when the bulk of the trade in a commodity was accounted for by countries using tariffs only, the objectives of the negotiations should be sought through the reduction and binding of the tariffs. But where tariffs were not the major barriers to trade, or where internal policies were also important factors affecting access to markets, negotiations should also deal with these

other measures. In the approach suggested by the Community the various instruments of support were also brought into the negotiations but only as regards the aggregate effect of these measures, and this aggregate effect was expressed in the so-called margin of support which was defined as being equal to the difference between a negotiated reference price on the world market and the return obtained by the producer in the importing countries. The Community plan was then directed to the negotiation and binding of this margin of support. This they suggested would be a single method for the bulk of agricultural products, and excluded from it would be only the products for which technical difficulties relating to the implementation of the support margin method were found to be insuperable. In those cases the Community suggested the traditional method of tariff negotiations as set out in Section III of the EEC paper. On this point, although it applied only to the residuary category, there seemed to be some convergence with the principles and procedures suggested by the other countries. Although the two different approaches in their basic concept were quite divergent there might be more areas in common. Clearly this should be further explored.

11. One area of common ground related to the objectives to be pursued, and it might be appropriate for the Committee to reaffirm that the objectives of the negotiations were those set out in the Resolution of May 1963. Among the other work still before the Agricultural Committee was the question of the definition of agricultural products. A more precise definition of the list of products to be covered by the agricultural part of the negotiations was necessary, indeed essential, to make it possible to proceed on the industrial side.

12. In regard to products for which general arrangements might be required, the Committee had reports from the Groups on Cereals and Meat. In regard to these two groups of products, and also in regard to dairy products, the Committee would not presumably wish to go further than to note that in the case of the first two groups, negotiations had already been initiated with a view to the formulation of general arrangements, and that in relation to dairy products preparations had been made for the early initiation of such negotiations.

13. On non-tariff barriers some surprise and concern had been expressed that no procedures had been agreed upon. There had indeed been some considerable reluctance to plunge into this rather novel field, but the fact that the main non-tariff barriers which governments wished to bring into negotiations had been identified was still something, and the procedures for dealing with these should be fairly straightforward.

14. With regard to the question of participation of the less-developed countries, a special committee had been established to consider these problems and a report by that committee had been circulated (document TN.64/21). Perhaps the two most important elements which were dealt with in this paper were the reaffirmation that in the Trade Negotiations every effort should be made to reduce barriers to the exports of the developing countries and the agreement that this consideration should be borne particularly in mind in considering the question of exceptions. At

some stage perhaps greater precision would have to be given to these points and to other points which were contained in the report before the Committee. If this had not been done so far, it did not mean that any of the participating countries regarded this element of the negotiations as unimportant or one to which priority should not be given. On the contrary, it was clear that all the participating governments attached the greatest importance to this aspect of the negotiations. It was inevitable that more detailed work on certain aspects of this question had to wait until there was greater clarity on certain more general aspects of the negotiating plan as a whole.

15. At their meeting last year the Ministers had recognized that there were some countries with a special economic structure, such that a linear tariff reduction might not yield to them an overall reciprocity. Some of these countries were in that position because of their overwhelming dependence on the exports of agricultural and primary products. The Trade Negotiations Committee had examined this question further and had recognized that Canada, Australia, New Zealand and South Africa would fall within the description which was then agreed upon by Ministers, and that these countries should aim at the objective which was indicated by Ministers at the same time. Procedures to contribute to attainment of this objective had also been agreed.

16. There was a reference in the 1963 conclusions to the question of countries with a very low average level of tariffs. These countries had not requested or suggested at this stage any special rules. They had, moreover, on frequent occasions indicated that their final views on this point would be very much affected by the ultimate settlement of the question of tariff disparities.

17. There was also a reference in the papers before the Committee to the position of Greece and Portugal. These countries had indicated their intention to participate actively in the negotiations and to submit proposals at a later date on the basis for their participation.

18. Discussions had been taking place for some time on ways and means of Poland's participation in the negotiations. This consideration had taken place on the basis of proposals which had been set out together with explanatory notes in a paper submitted by the Polish delegation (document TN.64/NIB/15). The Committee had welcomed the interest of Poland in participating actively in the trade negotiations, and it was generally agreed that it should be feasible to work out a practical arrangement. The Committee might wish to urge that these discussions should be actively pursued to an early conclusion.