

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Multilateral Trade Negotiations

### GROUP 3(c) - THE SECTOR APPROACH

#### Report to the Trade Negotiations Committee

1. In conformity with the decision taken by the Trade Negotiations Committee at its July 1974 meeting, Group 3(c) met on 7, 8 and 9 October 1974 to examine the methodology for the sector approach (MTN/P/3, paragraph 26). In this respect, it was noted that the Tokyo Declaration provides for an examination of the possibilities for the co-ordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique.
2. The Group had before it a report by the Committee on Trade in Industrial Products (L/3886) containing, inter alia, a summary of a previous discussion on the sector approach and a note on the sector approach as a technique for multilateral trade liberalization submitted by the delegation of Canada in June 1973 (COM.IND/W/109).
3. One delegation<sup>1</sup> supported by some other delegations stated that in its view the sector approach, which called for all factors affecting trade, including tariff and non-tariff measures, to be dealt with together within particular product groups, could make an important contribution to trade liberalization. These delegations considered that the sector approach would have the following advantages: it would deal with all trade barriers, including tariffs and non-tariff measures, within a sector; it would deal with problems of tariff escalation, effective protection and tariff disparities, by including all stages of production in a particular sector; it would achieve a more efficient international allocation of resources; and it would permit maximum progress towards trade liberalization, in respect of products included in each sector.
4. Some of these delegations proposed that the secretariat might prepare one or two pilot sector studies on an illustrative basis by drawing from the information contained in the tariff study and the NTB inventory in order to provide a concrete basis for examining what could be involved in sector negotiations as envisaged in COM.IND/W/109 and how it could usefully complement other techniques. These studies

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<sup>1</sup>The text of the Canadian statement appears in MTN/3C/W/3.

would need to take account of possible criteria for defining sectors and include data with respect to production, consumption, imports, exports, tariffs, including tariff escalation, and non-tariff measures.

5. Some delegations expressed the opinion that the pilot studies referred to in paragraph 4 should include both industrial and agricultural product areas. Some other delegations stated that they were opposed to this proposal.

6. There was general agreement that the sector approach should be regarded as a complementary technique for the negotiations and that the purpose of utilizing this approach should be to achieve the maximum degree of trade liberalization.

7. It was noted that the sector of tropical products fell outside the purview of an examination of the sector approach.

8. One delegation stated that it was premature to begin illustrative studies of particular product sectors. Referring to the Tokyo Declaration and the July 1974 directive of the Trade Negotiations Committee, this delegation stated that it was imperative to first thoroughly examine the technique, not specific sectors. It was noted that the experience of previous sector negotiations in the Kennedy Round did not provide adequate guidelines for the Tokyo Round since the negotiators did not envisage the goals embodied in paragraph 3(c) of the Tokyo Declaration. This delegation suggested, therefore, that in the interest of exploring the usefulness of this technique, the secretariat prepare two papers. The first could be a description of the use of the sector approach in previous multilateral trade negotiations and the background of the use of that approach. The second could be a series of conceptual questions as they may relate to subsequent decisions by delegations about general principles and procedures which might guide sectoral negotiations and questions relating to criteria for the identification of product sectors appropriate for sectoral negotiations.

9. Some delegations, while acknowledging that the sector approach might have some advantages, noted that this technique had been used only to a limited extent in earlier negotiations. They considered it premature to try to single out possible sectors for illustrative studies without first determining what the general objectives of the negotiations would be with respect to tariffs and non-tariff measures. There were conflicting notions of what constituted a sector approach and to proceed too early might not only lead to exceptions to general tariff cuts, but also slow down the negotiations as governments tried to preserve their bargaining power. They noted that in so far as developing countries were concerned, the problem of tariff escalation had been reduced, at least to some extent, by the implementation of the Generalized System of Preferences (GSP). These delegations considered that the sector approach might be relevant to problems of raw materials as it could facilitate a certain degree

of reciprocity between producers and consumers. It was suggested in this respect that industrial raw materials as a whole might constitute a sector for negotiation.

10. Some delegations stated that the sector approach could be resorted to only in the later stages of the negotiations. One delegation suggested that further consideration of the sector approach might be deferred until such time as the general approaches to the negotiations had been agreed upon, as sectoral negotiations were to be considered as a complementary technique.

11. Delegations from developing countries in supporting the use of the sector approach as a complementary technique in the trade negotiations said that it would make it possible to deal with problems such as tariff escalation and effective protection which affected their exports. These delegations stated that no sector which developing countries considered essential and which in their view lent itself to the sector approach should be excluded from the negotiations. Sectors should include all relevant products whatever their degree of processing might be. They considered that differentiated treatment in favour of developing countries, as referred to in paragraph 5 of the Tokyo Declaration, should be applied to the sector approach in order to comply with paragraph 2 of that Declaration. For example, in order to implement differentiated treatment, sectors of special importance to developing countries should be negotiated on a priority basis and products of interest to them should be subject to maximum liberalization. Furthermore, the special procedures for developing countries bearing on the general areas of the negotiations should also be followed in the sectoral negotiations. It was suggested, for example, that in the tariff field any methodology for the sector approach should be sufficiently flexible to take into account the need for establishing, improving and preserving preferential margins to developing countries in the framework of the GSP. These delegations proposed that the secretariat prepare a note identifying possible product sectors or areas of interest to developing countries and suitable for sectoral negotiations. The note might include data on tariffs and non-tariff measures, tariff escalation, effective protection, GSP, trade figures and indicate the main suppliers in each sector.

12. With respect to criteria, one delegation suggested the following for use in the selection of sectors for negotiation: the sector should be significant in terms of international trade; the sector should be broad enough to be meaningful in trade terms; the sector should be one in which economies of scale and intensive capital investment are important factors in the development of internationally competitive industries; the sector should be one in which trade barriers, particularly tariff escalation and non-tariff measures, are a major constraint to the realization of internationally competitive industries; and the sector should lend itself to substantial reduction or elimination of all barriers to trade.

13. Some delegations in commenting that these proposed criteria for selecting sectors should be further studied, expressed reservations on certain points. In their view the existence of economies of scale, for example, and the need for intensive capital investment were not essential criteria. These delegations suggested two additional criteria which might be taken into account: (i) the selection of sectors where tariff reductions alone would not lead to a significant liberalization of trade because of the existence of other factors such as fiscal policy, subsidies, activities of multinational enterprises, etc. and (ii) in selecting sectors, situations of oligopoly control which arise and lead to distortions of international trade flows should be borne in mind.

14. Referring to possible criteria for selecting sectors, representatives of some developing countries stated that in their view sectors should not be constituted only of groups of products significant in terms of world trade as this criteria would leave out many products of interest to developing countries. One delegation from a developing country supported by some other delegations of developing countries suggested the following criteria for selecting sectors of interest to developing countries: existence of tariff and non-tariff barriers; existence of tariff escalation; and the value of the trade of developing countries with respect to specific product groups.

15. One delegation asked a number of questions<sup>1</sup> concerning basic principles and procedures relating to the sector approach. These questions referred, inter alia, to the purposes of sector negotiations, circumstances in which the sector technique might be utilized and the relationship of general negotiating formulae to the sector approach, the use of this approach as a complementary technique for securing additional benefits for the trade of developing countries, reciprocity, product coverage of each sector, participation in and timing of sectoral negotiations, application of the results of sector negotiations and the degree of flexibility in staging concessions.

16. One delegation wondered if the criteria mentioned in paragraphs 12 and 14, when coupled together, would leave any meaningful group of products as not being subject to the sector approach, thus leading either to a very limited scope for the application of general approaches or to a tendency by negotiators to reserve their bargaining position with respect to general approaches.

17. In offering some preliminary comments on the questions raised concerning the sector approach, one delegation said that if all barriers to trade within a particular sector at all its different degrees of processing were removed, it would lead to equivalence of access to markets. The sector approach should aim

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<sup>1</sup>Issued as MTN/3C/W/2

to go beyond the scope of any general formulae for the reduction of tariffs and non-tariff barriers. Furthermore, in the view of this delegation, the sector approach could secure additional benefits for the trade of developing countries if sectors selected for negotiation on a non-discriminatory basis included those of significant export interest to these countries. Reciprocity would generally not be expected within specific sectors. In terms of the Tokyo Declaration overall reciprocity would be expected. However, reciprocity might conceivably be achieved within individual sectors depending upon the definition of sectors, the elements constituting sectors and the participants in specific sector negotiations. Referring to the product coverage and the scope of sector negotiations, this delegation said that they need not be the same for all sectors as they would depend on the characteristics of each sector. Only the examination of some specific examples would provide answers to such questions. The participation of various countries in each sector negotiation should be a matter for the Trade Negotiations Committee in the light of an assessment by each country of its interest. The guiding principle for the application of concessions resulting from sector negotiations should be the Tokyo Declaration which, inter alia, provides in paragraphs 5 and 9 for the observation of the most-favoured-nation rule. This delegation considered that flexibility was inherent to the sector approach; the sector approach would make it possible to take into account the specific problems and characteristics of each sector in connexion with any staging of concessions. Finally, with regard to the question of timing, this delegation considered that preparations for the use of the sector approach in the negotiations should proceed in parallel with other elements contained in the Tokyo Declaration which specifies in paragraph 3 that the various elements should move forward together.

18. A number of other delegations stated that these questions raised difficult points and required time for reflection.

19. In the light of the various suggestions made relating to further work, the Group agreed that the secretariat should prepare a background note covering the following elements: (i) the use of the sector approach in previous negotiations; (ii) the main features of a sector approach as suggested by delegations in Group 3(c) and in earlier discussions on the subject; (iii) objectives, principles and procedures for the sector approach drawing on the Tokyo Declaration, including differentiated treatment and additional benefits for developing countries as set out in this Declaration, as well as the criteria suggested and questions raised in the meeting of Group 3(c); (iv) a technical examination of the possibilities of identifying products subject to different stages of processing within a sector for negotiating purposes using tariff study and other relevant data; (v) identification of the main sectors of interest to developing countries, and (vi) the availability of basic data suggested by delegations at the present meeting as being necessary for the purposes of a sector negotiation.