

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Multilateral Trade Negotiations

### GROUP 3(e)

#### Report to the Trade Negotiations Committee

1. In conformity with the decision by the Trade Negotiations Committee at its July meeting, the Group met on 9-11 October in order to deal with the questions referred to in paragraph 50 of the Report of the Group (MTN/5).

2. The Group had the following documents before it:

#### Work on Task 4 of MTN/2

Rice	MTN/3E/W/17 and Add.1 and Corr.1
Tobacco	MTN/3E/W/18 and Add.1, 2 and Corr.1
Preserved Meats	MTN/3E/W/19 and Add.1
Grapes	MTN/3E/W/20 and Add.1, 2
Vegetable Oils	MTN/3E/W/21 and Add.1
Tomatoes	MTN/3E/W/22 and Add.1
Strawberries	MTN/3E/W/23 and Add.1
Suggestion by Turkish Delegation (in relation to tobacco)	MTN/3E/W/24
Fats and Oils -- List of Documents	MTN/3E/W/25

#### Work on Task 15 of MTN/2

Sanitary and Phyto-sanitary regulations Note by the Secretariat	MTN/3E/W/2
Draft Code on Standards Note by the Secretariat	MTN/3E/W/11
Some aspects of the Applicability of the Draft Code on Standards to Agriculture Note by the Secretariat	MTN/3E/W/26

Work on Task 4

3. In accordance with paragraphs 11 and 50 of MTN/5, and on the basis of the relevant documents before it, the Group continued its work on Task 4 in respect of the products listed in paragraph 11 of the above document. The main points raised are recorded below.

Rice

4. Several members noted that rice trade and prices had shown pronounced instability since the mid-1960's. Whereas the world market had been characterized during the period 1967-71 by surpluses and a fall in prices, since the middle of 1972 there had been strong import demand, a relative limitation of export availabilities and consequently a considerable increase in world prices. The fundamental problem in that sector, as in the cereals sector to which it was to some extent linked, was to find the means of avoiding such surpluses and shortages and of alleviating sharp price swings; wide fluctuations in supply and demand were not in the interest of either importers or exporters. The multilateral negotiations should be the occasion for seeking jointly measures that could assure sufficient availabilities of rice at reasonable prices for importing countries, particularly those whose harvests were periodically afflicted by natural disasters, while trying to guarantee stable markets at reasonable prices for exporting countries. In that approach account should be taken of the fact that the developing countries accounted for more than three quarters of world imports and 50 per cent of world exports of rice and that nearly 60 per cent of developed countries' exports were on special terms.

5. Several members pointed out that the tendency toward surpluses, which had dominated the rice supply and demand situation in the five years ending in 1972, had been mainly due to the remarkable development of high-yield varieties in South-East Asia and to favourable weather conditions. The decline in production in 1972 as a result of bad weather conditions had reversed that situation and traditional suppliers had only limited availabilities for export. Despite an improvement in the following year, attributable to the production incentive policies of many governments and also to favourable weather conditions, demand had remained strong, in particular because of the need to replenish stocks. Prices had remained high in 1973 and early 1974 and despite a decline since April they were still at a level more than twice as high as the level in early 1968. In examining market problems of rice, certain factors should be taken into consideration: the small volume of international trade in relation to production (3-4 per cent); the importance of rice in countries where it constituted the staple foodstuff; marked preferences for certain varieties that had led many countries to seek to attain a high level of self-sufficiency; the regional character of rice trade (production and consumption are concentrated in Asia); the principal partners in this trade were developing countries; the price-elasticity of demand was fairly low; production required particular conditions

in respect of irrigation and drainage facilities, and consequently long-term planning and production policies. The solution to problems in the rice sector must be sought first within the context of production policies; the fundamental conditions for supply and price stability at present lay in improved and more stable production. The relevant measures to be taken, in particular by producing and consuming developing countries with the broadest possible co-operation of developed countries, should include development of better varieties, improvement of land facilities, such as irrigation and drainage systems, introduction and development of advanced production and storage techniques, and supply of the necessary inputs in sufficient quantities.

6. A member stated that on the basis of the data available in the document no reliable evaluation could be made of the long-term problems facing the rice market. Because of the relative scarcity of rice stocks and the small proportion of production entering into international trade, very slight variations in production by countries that did not usually participate in international trade could generate considerable variations in international prices. For example, production in 1972/73 had been 5 per cent below the level for the preceding crop year whereas prices had increased severalfold between 1972 and 1974.

7. While not disputing the concept of reasonable price, one member noted that it was difficult to define. At a given moment, for example, exports at a relatively low price had been subject to considerable levies, whereas later no levy had been charged on exports whose price had doubled. It might be appropriate, furthermore, to differentiate between certain rice varieties of special quality and taste and to take account thereof in customs tariffs. The principal market for a certain rice quality exported by his country was a country whose accession to the European Communities had deprived his country of the privileged position it had formerly enjoyed. Lastly, because of one country's tariff structure the type of rice that his own country exported to it was dutiable at rates eight times higher than those applicable to other varieties.

8. The representative of a traditionally rice-exporting country said that the long-term problem for his country's exports was that of the domestic support prices and export subsidies granted by certain developed countries. In his view it would be useful to identify those measures and their effects, and he requested the secretariat to do so. The Group considered that this might be done on the basis of information and data to be supplied by interested governments.

#### Tobacco

9. Many members noted that tobacco was produced in the temperate as well as the tropical zone and exported by both developed and developing countries, and that many of the latter drew a considerable part of their export earnings from this commodity. Up to 1968, world production had exceeded current consumption, but

in the following year the situation had become reversed. The supply situation had become particularly tight since 1971. According to some forecasts, world production would have to reach 6.4 million tons at the end of the decade in order to meet consumption, as compared to a production of some 4.6 million tons in 1972.

10. They further noted that the present stocks were at low levels, and that, with demand continuing strong, prices remained at higher levels than in earlier years. It was expected that demand would continue to rise especially for the higher quality types, in particular those with low nicotine and tar content. Some members said that it was therefore in the interest of certain producers to adapt the quality of their production accordingly, so as to enable them to benefit from the expansion possibilities offered by this demand.

11. Several members considered that one of the main obstacles to trade consisted in non-tariff barriers, including various taxes and other charges. Many members felt that many of these had a particular incidence on the processing stages, so that cigarettes and other finished products were unduly affected by them.

12. Attention was drawn to the suggestions in document MTN/3E/W/24, concerning a possible study of non-tariff barriers and connected aspects. Several members expressed their support for these suggestions. Some members, however, doubted the need for such a study, given the present and forecast supply/demand situation.

13. A member described the types of tobacco exported by his country and the problems which they had to face in various markets. He referred to problems caused by changes in access conditions resulting from the enlargement of the European Communities, and from arrangements between the Communities and other suppliers. He also referred to import practices in another major market where his tobaccos, although in his view comparable in quality in certain grades to those being imported from another supplier, seemed to have less opportunity of access. He expressed the hope that during the Multilateral Trade Negotiations satisfactory solutions to these problems would be found. In order to enable his government to carry out detailed negotiations, he requested the secretariat to provide certain data. The full text of his statement will be issued as document MTN/3E/W/27.

14. A member said that the European Communities were not only the largest importer, but also a producer of tobacco. Although tobacco was not a large item in agricultural production as a whole, it tended to be grown in underprivileged areas where it accounted for a major part of producers' incomes. There were therefore valid social reasons why his agricultural policy aimed at maintaining this production, although at the same time it was employing measures to ensure that production would not grow unduly. This was done, for instance, by acting on

the prices of those varieties for which there was relatively little demand. This action was also taken in the interests of outside suppliers. Measures at the frontiers consisted only in customs duties. The tariff structure places relatively lower duties on high quality tobacco, and relatively higher duties on the less popular lower-priced qualities. It was thus in the interests of producing countries to take steps at the production and processing stage in order to raise the quality of their exports. He further pointed to the reduction in duties resulting from the negotiations under GATT Article XXIV:6; to the reduced or zero rates resulting from a number of trading arrangements with developing countries; and to the extension to tobacco, including some processed tobaccos, of the GSP to be applied by the Communities.

15. Another member commented that the corporation responsible for tobacco imports into his country planned imports on the basis of production and manufacturing plans and actual requirements. Tobaccos from certain countries are imported for their aroma and taste, and from other countries because of their mildness. He felt that price considerations were secondary to considerations of consumer preference. The demand for milder tobaccos was thus reflected in a marked increase over the last few years. Imports from the country of an earlier speaker had risen from 2,520 tons in 1970 to 4,494 tons in 1973.

16. A member recognized the proposed increase in tobacco quotas in the GSP of the Communities as a step in the right direction, but said that the air-cured tobacco exported by his country was not covered. He asked that this problem be taken into account. Furthermore, although the revised GSP provided for reductions in duties, the reduced duties on cigars and pipe tobacco were still very high. He also made reference to the high duties imposed on a specific high-quality type of tobacco produced only by his country, and which had to compete in the European Communities.

17. A member said that as much as 70 per cent of his country's tobacco was grown for export. Tobacco was not only a source of foreign income, but also of employment. However, while demand for Virginia tobaccos was growing, this was at the relative expense of black tobaccos produced by his country. While this phenomenon was obviously linked to consumer preferences, and while production and marketing were being improved, the remaining problem was high duties and other charges and non-tariff barriers such as, in particular, support measures in other countries and certain commercial arrangements.

18. A member whose association agreement with the European Communities had been referred to pointed out that in spite of this agreement, which was in conformity with GATT Article XXIV, his country's foreign trade in tobacco was faced with serious structural difficulties similar to those faced by other tobacco-producing developing countries.

### Preserved meats

19. A member said that there were three main markets for his country's exports of canned hams and other preserved meats. In one of these markets all elements were positive and optimistic with low most-favoured-nation rates of duty and with other barriers being practically non-existent. In another of these markets, where it was the principal third country supplier, the main obstacles were for the time being linked to agricultural policies. Firstly variable charges created a situation in which it was not possible to have a precise idea of export prospects, raising particular difficulties especially for exporters in centrally planned economies. Secondly, minimum prices which had not previously existed and which had to be respected, had created a situation in which trade did not have a stable character. The third market embraced a number of countries and in one of these there were great possibilities for increasing consumption, production and imports of preserved meats except canned meat where the market is almost closed. It was hoped that difficulties in this latter respect would be resolved in the negotiations. Moreover, preserved meats should be included in an eventual international agreement on meat or in a parallel agreement covering such products, including bacon.

20. Another member stated that imports of sausages, hams and bacon into his country had shown an increasing trend. In recent years imports of these commodities had been liberalized and it was presumed that as demand grows so too would imports so long as their competitive position was satisfactory and they met the market's requirements in terms of consumer tastes.

### Grapes

21. A member drew the Group's attention to the problem of very high tariffs applied on imports of grapes in certain markets. He expressed the hope that a situation could be arrived at in the multilateral trade negotiations in which those tariffs would be reduced to more reasonable levels.

### Oils and fats

22. A member suggested that in order to carry out a global review of this sector it would be useful if the Group had at its disposal summary tables showing, for instance, production and trade for each group of oil (e.g., oils from tree crops, oils from annual crops, animal body fats, milk fats and marine oils), and also giving an indication of principal suppliers and the principal uses of various oils. He provided the Group with an illustrative summary table which was circulated as document MTN/3E/W/25/Add.1.

23. The Group felt that this could be a useful way of summarizing the information available on fats and oils, which could be amended or supplemented as appropriate. Some members reserved their position concerning the use to be made of such an illustrative summary in future negotiations. It was suggested that oils could usefully be grouped so that clearly substitutable oils would appear in the same group. As regards the global discussion of the inter-relationship between fats and oils, both tropical and temperate, it was also pointed out that the Tokyo Declaration required special and priority treatment for such oils as are beyond doubt tropical in nature. A member suggested that castor oil should be excluded from any global consideration of the fats and oils complex because of its particular end-uses.

#### Tomatoes

24. Some members pointed to the importance of trade in tomatoes for their countries. They were major suppliers to certain markets, in which, however, they had to face some basic problems deriving especially from marketing regulations and seasonal restrictions. The frequent changes in import prerequisites such as required size and colour presented a very particular problem as they constituted an obstacle to trade.

#### Strawberries

25. A member pointed out that the figures his authorities had supplied referred to fresh strawberries as did the document as a whole. However, exports of fresh strawberries from his country represented only some 2 per cent of domestic production, while exports of strawberries in all forms (e.g., fresh, frozen, pulped, preserved) accounted for about one third of production. Climatic conditions in his country limited the harvesting period to four or five weeks from mid-June to early July, which correspondingly limited the possibilities of exports in the fresh state. In general, exports met with four main types of barriers: quantitative restrictions including discriminatory restrictions; high tariffs in certain countries; tariff escalation (e.g., in certain countries in Western Europe); and administrative procedures in the granting of import licences (e.g., in certain countries in Northern Europe). Pointing to his country's position as the main supplier of several European countries, in particular of frozen strawberries, he suggested that it would be more meaningful if the documents could cover all forms in which strawberries were exported.

26. Another member drew attention to problems which were caused to his country by certain aspects of a triangular trade which existed among his country and its two neighbours to the North. Another problem his exports faced was that of variable levies in other markets canned fruit. The charges on the sugar content posed particular difficulties. He, too, felt that documents on strawberries should cover the product in all its forms.

Work on Task 15

27. Most members speaking on this subject said their views were preliminary.

28. A member said that there was a distinction between regulations designed to protect human health on the one hand and regulations affecting animal and plant life on the other. They may all affect human health but this was not necessarily the case with plant and animal regulations. Secondly there was the possibility that the draft code was fully or only partly applicable to health and sanitary regulations. In the latter case there were two possibilities, either to modify the code to take account of the aspects to which it does not apply or to adopt an entirely different approach. In either case the points outlined in document MTN/3E/W/26 were useful. Thirdly, the draft code only applies to products in terms of quality etc., whereas in the field of health and sanitary regulations conditions of production and processing are relevant. Fourthly, with regard to Article XX one of the major obstacles in this field is that the same conditions do not prevail in every region and in good faith countries do not take account of these differences, a point which is of particular relevance to developing countries. For example, differing climatic conditions may mean that different pesticides may have to be used. Finally, there were the problems created by the incomplete nature of health regulations or of machinery to enable other countries to apply, for example, for approval to use additives other than those which are authorized.

29. Another member expressed the view that rather than draw up a separate code, the draft code on standards could, with appropriate strengthening and supplementation, be applicable in this sector. Some of the areas where the draft code might be supplemented were in specifying means of control, sampling and technical scientific standards as they relate to cycles in animal and plant production. In any event a general rather than a restrictive approach should be adopted as regards the code's coverage. As regards the distinction between human as against animal and plant health regulations it was felt that this should not be made too precise since although it was realized that States have a sovereign interest in this area, all such regulations are capable of distorting trade.

30. Another member stated that a broad and pragmatic approach could be developed. In that and in any other approach it had to be kept in mind firstly, that health and sanitary matters had been dealt with in the context of national legislation on the basis of the principle that the protection of health was an absolute value, as was moreover recognized in GATT Article XX, but that secondly, that fundamental principle should nevertheless be exercised subject to the requirement that such health and sanitary measures were not applied as a means of arbitrary or unjustifiable discrimination or as a disguised restriction on international trade. It would be interesting to see whether existing regulations in that sector were consistent with the GATT principles in order to ascertain whether, in the current situation, there were any measures likely to prevent the normal conduct of trade. Having

regard to the wide body of existing legislation, the best method would then be that where a country considered itself prejudiced it should enter into direct negotiations on a bilateral basis. And to that end, in view of the scant results achieved with existing mechanisms and procedures, it would be appropriate to draw up, in the multilateral trade negotiations, certain guidelines or criteria, or a certain framework, which should be respected in order to ensure that such bilateral consultations proceeded smoothly and, above all, led to results. For that purpose use could be made of the preparatory work carried out in the Agriculture Committee and in the Group, within which certain principles had already been suggested.

31. Another member pointed out that a consideration of what can and should be dealt with in the context of the MTNs would depend on the identification of specific problems in the area of health and sanitary regulations. Without a definition of the problem area and of the extent to which the area is capable of being handled multilaterally, a useful answer could not be expected concerning the approach to be adopted and the distribution of the task between the relevant international organizations. Bearing in mind that there are different types of measures several questions arise: whether some regulations have a more direct effect on trade than others, whether in some areas these regulations are more amenable to harmonization than in other areas, whether there are areas where trade aspects can be divorced from health aspects, and generally whether there are any aspects which lend themselves to treatment in the context of the MTNs. These matters should first be considered before proceeding, inter alia, to an examination of the draft code on standards.

32. Another member pointed out that there was a distinction between negotiations on individual measures and negotiations on generally acceptable procedures for examination and resolution of problems on a bilateral basis. In circumstances where there was no real obligation to consult, where it was possible for countries to hide behind sovereignty and their own assessment of the scientific validity of a measure, what was needed were guidelines or background rules against which at least the initial consultative process should take place. Guidelines might be developed in a number of possible ways such as an interpretative note to existing GATT provisions, the draft standards code or an independent code.

33. Some members stated that an approach should be adopted which commands the support of most countries and that procedures designed to strengthen Articles XX(b) and XXII could be developed along the lines suggested by other members.

34. With regard to the question of harmonization of regulations several members expressed the view that as this was the function of other international bodies it was not a matter to be taken up within the GATT or in the negotiations. In areas where harmonization had not been achieved the object should be to deal with

the existing situation so as to mitigate adverse effects on trade. One of these members stated that having dealt with the problems arising from existing legislation on a bilateral level and on the basis of principles accepted on a multilateral basis, it would then be possible to plead for medium term harmonization through the relevant international bodies. Having worked out an approach to existing problems, principles and a methodology for future progress would have been developed.

35. Another member recalled that the working hypothesis when the code was drafted, had been that the instrument would have general application and that a review of its applicability to agriculture would have to be made. However, its applicability to health and sanitary regulations was not the only matter to be considered and it would be a rational organization of work if all aspects of the draft code's applicability were examined together.

#### Tasks to be carried out in conjunction with other Groups

36. The Group noted that Groups 3(a) and 3(b) had not met since the July meeting of the Trade Negotiations Committee in order to continue work on Tasks 5, 6 and 7 or Tasks 11, 13 and 14, respectively. It therefore agreed to set aside consideration of these Tasks. Several members stressed, however, that this should not be taken to mean that the Group did not wish to address itself to these tasks at the appropriate time.

37. Having been informed of the decision of Group 3(a) to set up a tariff information file, the Group, exercising its responsibility to examine tariffs on Chapters 1-24 of the BTN in conjunction with Group 3(a), agreed that this file should include products falling within Chapters 1-24 of the BTN.

38. The Group recalled that it had been informed of the results of the discussions in Group 3(a) on the tabulations to be established as regards the Generalized System of Preferences and most-favoured-nation reductions, since it had been proposed that these tabulations would cover also products classified in BTN Chapters 1-24 (paragraph 49 of MTN/5 and section A on page 1 of MTN/3E/W/15/Add.1).

39. The Group noted that Group 3(a) had initiated work on these tabulations under Task 1 (including footnote 1: "Including analytical and technical work relating to tariffs under the GSP") of the Programme of Work of MTN/2, and that Task 1 covered BTN Chapters 25-99, in accordance with the previous programme of work adopted by the CONTRACTING PARTIES in 1967. It also noted that Task 3 of the Programme of Work, relating to the 1967 programme of work, covered BTN Chapters 1-24, that the same footnote applied, and that this task had been assigned to Group 3(e).

40. The Group therefore agreed that the tabulations should be extended to BTN Chapters 1-24, but that as regards the presentation and methodology to be employed, consultations should first be held among delegations with the assistance of the secretariat.