

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/TAR/W/46

10 January 1977

Special Distribution

Multilateral Trade Negotiations  
Group "Tariffs"

Original: English

## SPECIAL AND MORE FAVOURABLE TREATMENT FOR DEVELOPING COUNTRIES

Statement Made by the Canadian Delegation at the  
Group "Tariffs" Meeting, December 1976

My delegation welcomes this opportunity to comment in some detail on the proposals put forward in earlier meetings of this Group for various special procedures and measures concerning tariffs to be applied to products of less-developed countries.

I would like to emphasize, first of all, that it is our view that the only practical way to proceed is by having product-lists put before the delegations of countries expected to make concessions. Our experience in previous negotiations and indeed, in the tropical products negotiations, indicates that only by focussing on particular product-lists is it possible to grapple with the issue. My delegation urges delegations of developing countries to come forward as quickly as possible with lists of products to which some of these special or differentiated procedures or measures may be applied.

Now, as to the question of agreement or disagreement with some of the proposed special measures, it has been the position of my delegation that it would not be particularly useful to have prolonged discussion of this matter in the abstract. On the other hand, we are conscious of the fact that delegations of developing countries would like rather more indication of how the proposals they have put forward appear to our authorities; I would therefore like to comment in some detail on these proposals. My list is based on a summary of previous discussions and is thus rather longer than that just provided by the delegation of Brazil.

I would like to preface my detailed comments by indicating briefly what is the present tariff system which Canada applies to imports from developing countries. To begin with, we still have an extensive system of preferences instituted in the main

in the 1920's and made more complicated and given treaty form in the 1930's. That system applies to a wide range of products from a wide range of developing countries. That system of preferences, which grew out of our association with the United Kingdom and with other members of the Commonwealth, involves, as does any system of preferences, special rules about origin and rules about direct shipment.

I might emphasize that as far as developing countries benefiting from this system are concerned, the only entities which offered Canada reciprocal tariff preferences were the British territories and former British colonies in the Caribbean. As regards all other beneficiaries such as India, Pakistan, Bangladesh, Sri Lanka and the various African countries which still enjoy the benefit of this preference system, Canada never sought, and was never offered, any form of reciprocal tariff preferences. Indeed, for some of these to have offered a tariff preference would have conflicted with certain international treaties.

This system, although modified by successive GATT negotiations, is still in effect, and covers a substantial volume of trade. Cutting across it, and in a sense replacing it for certain products, is the General Preferential System established by Canada in 1974. Its rules of origin are not identical with, and the product coverage is not as extensive as, the older Preferential Tariff; however, our Generalized System of Preferences is integrated with the British Preferential Tariff in the sense that the tariff rate it provides for is either the existing British preferential rate or one third off the m.f.n. rate, whichever is the lower. It has been our hope that over a period of time we will be able to narrow the differences between the Generalized System of Preferences, as now applied by Canada, and the old preferential tariff system.

It should be clear that we have a lot of experience as to the impact on commercial policy of the operation of preferential tariff systems applying to goods from developing countries. For instance, we know a good deal about how rules of origin operate in practice, and we are aware of the difficulties and distortions that can be introduced into commercial policies by preferential systems.

I have divided my comments on the various proposals put forward in this Group regarding special and differential measures into four groups: the first group covers those proposals which we would find very difficult, if not impossible, to accept; the second, measures which, at this juncture at least, do not seem relevant in the context of Canada's commercial policy system, but which may be relevant to other countries; the third: measures about which we would like further clarification (in bilateral discussions); and in the fourth group, I would like to comment on what I can assure you is the largest group, those measures to which we have no objection, in principle.

To begin with, the measures that would present some problems for us. First, there is the proposal for a built-in differentiator with respect to tariff cuts on items of interest to developing countries. We really find it very difficult to deal with such a general proposal. Given that we have in place two existing systems of tariff preferences, both of very considerable complexity, we prefer dealing with matters on a product basis; we could not regard a built-in differentiator as practicable.

Second, there are the proposals for the binding of preferential rates or margins. One could write a doctoral thesis on the difficulties created by binding preferential rates and margins, and the dangers and limitations that it imposes on the operation of a liberal commercial policy. My Government would like me to make it quite clear that this is a measure that we would approach very, very reluctantly and we are not aware of any particular products where the interests of developing countries would be really served by our being pressed to adopt such a difficult measure.

Third, there is the proposal that somehow we should adopt as a principle the obligation to pay for the erosion of the Generalized System of Preferences. This is clearly in contradiction with the understandings reached in other fora when the Generalized System of Preferences was agreed; this is a proposal which would not be welcomed by Canadian Ministers. It would seem quite contrary to the notion of a non-contractual Generalized System of Preferences. I am reluctant to put this proposal before my Government and I would hope that it is not seriously pursued by the representatives of developing countries.

Those are the measures which we would find difficult to consider.

My second category are those measures which do not seem to be very relevant, at least for Canada. The first is the proposal for the non-discriminatory application of preferences to developing countries. Canada now extends the Generalized System of Preferences on a non-discriminatory basis. We have refrained from introducing non-commercial policy criteria into our Generalized System of Preferences, and as I have already said, it has been our objective to narrow down the difference between what remains of our pre-war system of preferences and the Generalized System of Preferences.

The second proposal is the removal of limitations on imports under the Generalized System of Preferences. We don't have quota limitations or ceiling levels, nor do we allocate licences to imports under our Generalized System of Preferences. From the very beginning, we urged in international fora that the Generalized System of Preferences be administered in such a fashion as to ensure that the balance-of-payments benefits of the Generalized System of Preferences should accrue to exporters. We are aware that some of the preferential systems

are administered in such a way that the balance-of-payments benefits accrue to traders in importing countries. We think that this is regrettable. We would wish, however, to keep the right to take safeguard action under the Generalized System of Preferences when difficulties created by imports under the Generalized System of Preferences become intolerable for our producers.

The general proposal that quota limitations and ceiling levels be removed from the Generalized System of Preferences is more or less irrelevant as far as Canada is concerned: moreover, we have rejected proposals for the introduction of such provisions into our own system.

I would like to go on to the third category of measures: those where we see some difficulties but about which we would like to have further clarification in bilateral discussions. First, there have been proposals that the Generalized System of Preferences rules be simplified. If there are delegations that have difficulties with the application and practice of some of our Generalized System of Preferences rules, such as the rules of origin, we would be glad to discuss them bilaterally, even though it is not a stated objective of the MTN to address itself to the ramifications of the Generalized System of Preferences. Indeed, it is not entirely clear to us that this is the appropriate forum; none the less, we are open to receive views on these issues on a bilateral basis.

The second item on which we would like clarification concerns the various links between non-tariff measures and tariff reductions. We too have our links and connexions as a negotiating country, and we presume that developing countries do as well. If, however, there are very precise links that are of importance to developing countries, it would seem that they could only be expressed in product terms. We would therefore like to know more about them, on that basis.

The third item in which we need clarification is the proposal for increased security or prolongation of the Generalized System of Preferences. Again, I am not sure that this is the right time or place to talk about the prolongation of the Generalized System of Preferences. As for proposals for increased security of the Generalized System of Preferences, we would like to have a little more precision, keeping in mind that the Generalized System of Preferences is a non-contractual arrangement. There have been proposals for increased consultation between developed countries and developing countries before any action is taken to reduce or eliminate Generalized System of Preferences concessions. I do not know what formal apparatus of consultation is envisaged, but certainly my delegation is prepared to examine this in greater detail, product by product and country by country.

I turn now to the rather longer list of measures where we would have no objection, in principle, but where we would obviously not be able to carry the discussion much further until we come to look at these questions in product terms (although I do expect us eventually to come up with a summary by the Chairman or some piece of paper listing the measures to which there is no objection in principle).

First of all, the proposal that there be deeper cuts than those called for in the general hypothesis. To implement this will involve detailed consultations on a bilateral, product-by-product basis, but in principle we have no difficulty with this. In fact, such a proposal is entirely consistent with our approach to the tariff reduction exercise: we envisage that the document embodying the agreement on the tariff hypothesis should mention explicitly, in the rules regarding exceptions, that account is to be taken of tariff reductions greater than the general target level, just as account must be taken of tariff reductions that are less than the general target level.

As second item, a proposal with which we do not have any difficulty in principle, is the concept of excluding these items of particular interest to developing countries from the exceptions list. We have endorsed the notion that exceptions should be kept to a minimum and this proposal is obviously related to this objective. We have also proposed that, with regard to exceptions, there should be agreed criteria set out in the document embodying the tariff-cutting hypothesis; if this proposal could be formulated more precisely, my delegation would be prepared to consider including it as one of the criteria. None the less, it would be rather unrealistic to try to obtain agreement for a proposal that none of the products of export interest to developing countries should be excluded from the tariff cuts, if only for the reason that it will take longer than the time available to us to reach agreement on precisely what are the products of export interest to developing countries.

A third proposal with which we would have no difficulty, in principle, is the notion of creating new tariff items, or as we call them in our jargon, "ex-items" (extracts of existing items), referred to by some delegations as "reclassification", designed to provide for special rates or special concessions for products of interest to developing countries. I can assure you that officials in Ottawa have great skill in devising such ex-items, and we will deploy this skill to the maximum for the benefit of developing countries.

A fourth proposal, or group of proposals with which we have no difficulty in principle is that there should be a concerted attack on tariff escalation. Here our export interests are often identical to those of developing countries. We are as aware as they are that tariff escalation, in practice, can mean high

effective rates of protection on imports into developed countries and can have a decisive effect on the location of new investment, particularly in capital-intensive industries. Accordingly, we would join with the developing countries in making this an important proposal for consideration to be set out in the piece of paper embodying agreement on the approach to tariff reductions.

A further item on which we would have no difficulty, in principle, is the notion of advanced implementation of m.f.n. concessions. However, I am not sure that this will prove to be very important at the end of the day. It may be that we will be able to make more concessions of interest to developing countries if we can agree that, with relation to particular items, a longer phasing-in period of tariff reductions is appropriate rather than a shorter phasing-in period. But having said that, it is clear that advanced implementation on a preferential basis or otherwise is not something we would oppose in principle.

The foregoing overlaps with the next proposal: priority for products from least-developed countries. We would be prepared to look at this on a product-by-product basis. We do not have any difficulties, in principle, the problem is to identify to what products one can apply such a measure.

Another category - again, where we have no difficulty, in principle - is the notion of improving the product scope of the Generalized System of Preferences. We have been working intensively on this in Ottawa, and we will do what we can, in the light of the Tokyo Declaration. However, I am bound to say that we could not agree to such a sweeping proposal as advanced by the distinguished representative of India, that the Generalized System of Preferences rate be brought down to zero where it is not already zero. Our Generalized System of Preferences rate is zero in a great number of cases, but where it is not zero it is so for a good reason. We may have judged that the additional competition in our market would not be tolerable and would swiftly give rise to safeguard action. My comments will, of course, have to be taken in the context of the Canadian Generalized System of Preferences, i.e. absence of ceiling levels, quota limitations or licensing.

Another proposal which poses no difficulty for us, in principle, is the notion of improving the tropical products offer. We have realized that many products, which we did not find appropriate to place under the tropical products label, are of export interest to some developing countries. We propose, as our first step in coming to grips with the tariffs of interest to developing countries, to examine the items identified in the requests list of the tropical products exercise that we could not move on, and see what can be done in the general tariff-cutting exercise. As for improving our list of concessions on tropical products, as such, I am bound to say that this will be a rather limited exercise, given the fact that most genuinely tropical products already enter Canada duty-free.

Finally, there is a sub-group of proposals, designed to provide a shelter for exports from developing countries, with which we do not have difficulty, in principle, but which are not really very attractive: additions to our exceptions lists, shallower cuts than that provided for by the tariff-cutting hypothesis, and delayed implementation of m.f.n. concessions. There may be some scope for helping developing countries by adopting these rather negative suggestions, but I would prefer to concentrate on the more positive measures I have already listed. It is important to bear in mind that these negative proposals, which are designed to maintain margins of preference on imports from developing countries and to divert trade from developed countries to developing countries, or from some developing countries to other less-developed countries, are costly and inefficient ways of transferring resources to those countries. If one examines how a preference system actually operates and how these negative proposals would operate in practice, one could identify a number of costs which could arise. Foremost is the share which exporters sheltered by the preference take of the preferential margin. In our experience that can be as high as two thirds of the margin. This cost, which can be quantified, must be borne by consumers in the developed country. Second, the m.f.n. tariff thus maintained is paid by consumers on imports from sources other than developing countries. Third, in some products, efficient domestic producers may be able to charge up to at least the price level created by preferential exporters taking a portion of the margin. That imposes a cost on consumers. Finally, the resultant misallocation of productive resources, and the risk that none of the foregoing is really visible, should also be underlined. I have a decided preference for bringing about the transfer of resources from the developed countries to the developing countries by a more visible method, some method in which the cost is borne by the community as a whole and not by consumers of particular products; to that end, my delegation is inclined to favour rules which will allow developing countries to subsidize their exports, subject to off-setting action being taken only if they threaten injury to the producers of the importing country concerned. Our working paper on subsidies and countervailing duties, soon to be available, will propose some precise rules regarding subsidization, including export subsidization by developing countries, and I would suggest that those rules might be preferable in practice to these rather negative tariff proposals.

I have tried to review what seemed to us to be the difficulties and the promises of the proposals put forward by the developing countries. I hope that it will be noted that the promising ones make up a rather long list, and that those that we are inclined to reject are not many. Nor would I suggest that those we could not accept are very important in actual trade terms to the developing countries.

From what was put before us by the distinguished representative of Brazil, I do not judge that our approach to this matter is very different from his; I would envisage that in due course, we could reach broad agreement that certain measures could be applied in principle but only when we have come to grips with particular product-lists.