

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## SUMMARY RECORD OF THE THIRD MEETING

Held at the Palais des Nations, Geneva,  
on Wednesday 25 November 1964, at 2.30 p.m.

Chairman: Mr. J.H. WARREN (Canada)

<u>Subjects discussed:</u>		<u>Page</u>
1. Preferences		16/17
2. Action Committee - Report by Chairman (cont'd)		21

### 1. Preferences (L/2282 and C/48)

The CHAIRMAN recalled that, at the twenty-first session of the CONTRACTING PARTIES, the Chairman of the Working Party on Preferences, which had been appointed to study certain proposals relating to the establishment of new preferential arrangements, had submitted an interim report. The CONTRACTING PARTIES had agreed that the Working Party should continue its work and should make a more detailed study of the terms and conditions on which preferences might be envisaged. The Working Party had submitted a report (L/2282) to the Council of Representatives in October. The Council had proposed that further discussions should be held to enable it to make a submission to the CONTRACTING PARTIES at a later date and had recommended:

- (a) That the CONTRACTING PARTIES invite contracting parties, wishing to do so, to submit proposals concerning the granting of preferences on selected products by industrialized countries to less-developed countries as a whole, and the granting of preferences on selected products by less-developed countries to all other less-developed countries.
- (b) That the proposals made under paragraph (a) be referred to the envisaged Committee on Trade and Development for examination, through such procedures as it considers suitable for the purpose, with a view to making up appropriate submission to the CONTRACTING PARTIES at their annual session. This Committee would take over the work of the Working Party on Preferences.

Mr. HAMZA (United Arab Republic) stated that the present session was one of vital importance to all contracting parties. It was clear that a point had been reached where joint action was necessary to provide solutions for the problems for the economically weaker nations. The importance and seriousness of the problems confronting less-developed countries had been recognized for many years. During the past decade the terms of trade of these countries had declined by 17 per cent; the volume of exports of manufactures had been increasing at double the rate of that for primary products; and the developing countries were beset by the problem of inadequate and unstable foreign exchange reserves. They were, therefore, seeking means of expanding exports particularly by diversifying them so as to include manufactures and semi-manufactures. It was against this background that the proposal for preferential arrangements had to be viewed.

In the period 1950/54 the average annual adverse trade balance of the United Arab Republic was £E53 million, but by 1962 the trade deficit had risen to £E143 million. Demographically the United Arab Republic was characterized by one of the highest ratios of population to arable land and by one of the highest population growth rates. It had thus been found necessary to expand the area of arable land and to foster industrialization through the provision of electric power. The construction of the Assuan High Dam had been made with both these objectives in mind. During the last eleven years 727 new industrial plants had been established in the United Arab Republic and the percentage of semi-manufactures and manufactures in total exports had risen from 7.2 per cent in 1952 to 18.3 per cent in 1961. It was the policy of his Government to continue to expand production of these goods. However, should it prove impossible to find export markets for them, the United Arab Republic would be faced with a disastrous unemployment situation.

Mr. Hamza recalled the factors which militated against the developing countries in their efforts to expand exports of semi-manufactures and manufactures including: costly labour intensive methods of production; the need to compete with well-entrenched exporters from developed countries both in the markets of the latter as well as in other developing countries; under-utilization of capacity; lack of experience; and the limited size of the domestic market which prevented utilization of cheaper large-scale production techniques.

Mr. Hamza observed that, although contracting parties had generally agreed on the principle of exchange of preferences between developing countries, this concept had not been included in the new Chapter, because of opposition from developed countries. Developing countries had accepted this situation in order not to jeopardize the Chapter. It was the hope of his Government that the appropriate institution delegated to deal with the subject of preferences could continue the work on this most important matter which, if brought to fruition, would contribute greatly to the development of less-developed countries.

Mr. AOKI (Japan) referring to the reservation of Japan in paragraph 16 of L/2282, stated that he wished to have it recorded that the reservation did not mean that his Government was opposed to the study by contracting parties of preferential arrangements between developing countries.

Mr. SAKELLAROPOULO (Canada), in supporting the Council's recommendation, suggested that contracting parties should not discuss abstract principles but should examine real issues based on concrete proposals. Canada felt some concern over schemes leading to deviations from the most-favoured-nation rule which might serve to benefit the economically strong. However, his Government was fully prepared to give consideration to such deviations if they could be shown to have beneficial effects within the context of the General Agreement as a whole.

Mr. RISTIC (Yugoslavia) recalled that the position of his Government on preferences had been made known on a number of occasions both within the GATT and in other fora. Yugoslavia regarded preferences as a form of aid to developing countries and felt that they should be extended by industrialized countries to all developing countries. Less-developed countries should also be entitled to exchange preferences amongst themselves. It was a matter of regret that the work on this matter had not, thus far, achieved practical results. It had, however, been useful and it was desirable for contracting parties to continue to strive to reach satisfactory solutions.

Mr. IALL (India) pointed out that the statements made by representatives of other developing countries had high-lighted the importance attached by these countries to the question of preferences. The contracting parties had devoted considerable efforts to seeking ways in which developing countries could make an appropriate contribution to the expansion of world trade. His Government had come to the conclusion that preferences represented one of the principal means whereby less-developed countries could achieve this objective. India had not proposed preferences with a view to favouring the economically strong and his Government would immediately withdraw his proposal for preferential arrangements if it felt that this were to be the likely result. It was the concern of his Government to strengthen the economic position of developing countries and it was fully prepared to consider any proposals to this end. He suggested that proposals made had not been vague but unfortunately progress in gaining acceptance of the principle of preferences had not been achieved. It was also unfortunate that no alternative proposals had been made by those opposed to the principle of preference. It was necessary to bring a sense of urgency to work in this field with a view to achieving practical results.

Commenting on the conclusion of the Council<sup>1</sup>, Mr. Iall drew attention to the fact that it had been unable to resolve differences over the question of preferences, but had suggested that work should continue so that it might prove possible for it to make a submission to the CONTRACTING PARTIES at a later date and accordingly had suggested that contracting parties be invited to submit proposals. In his view a number of such proposals had in fact been submitted already. He invited attention to the resolution of the seventy-seven developing countries contained in the report of the Second Committee of the United Nations Conference on Trade and Development<sup>2</sup>,

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<sup>1</sup>C/M/23, p.7.

<sup>2</sup>E/CONF.46/L.28/Add.1.

and of the Decision of the Conference on this matter.<sup>1</sup> These documents contained sufficiently concrete proposals which, if examined constructively, would make it possible for further progress to be made without loss of time. Mr. Lall proceeded to urge that the proposal by the United Arab Republic for the insertion of an enabling clause in the GATT to cover preferences between developing countries be considered urgently. It had to be recognized that for developing countries to remove or reduce duties on products of interest to developing countries on a most-favoured-nation basis would be insufficient since, in many cases, this could only serve to benefit developed countries which were major suppliers. It was, therefore, necessary for developing countries to be empowered to enter into negotiation with one another to exchange tariff preferences. It would be difficult enough for those countries to negotiate such a scheme, and legal provision for such negotiations to be undertaken should not be delayed. He would, therefore, propose that consideration should be given at the Annual Session to the inclusion of an appropriate enabling clause in the new Chapter.

Mr. Lall stated that he was not over sanguine about the prospects of reaching any agreement within the next few months on the granting of preferences by developed to developing countries. If others shared his pessimism, it was important to ensure that both within the context of the new Chapter and outside it, immediate consideration be given to alternative methods or techniques whereby developed countries could facilitate the export trade of developing countries in manufactures and semi-manufactures. In conclusion, he proposed that the institution charged with work in this field should report to the CONTRACTING PARTIES at their 1965 session on these and any other proposals. He noted, in this connexion, that 1965 had been designated the year of international co-operation and he suggested that this was a field in which the GATT could make a meaningful contribution to this aim.

Mr. GARCIA OLDINI (Chili) suggested that the proposals of Mr. Lall, should be taken into consideration by the appropriate GATT institution.

The CHAIRMAN stated that the draft terms of reference for the Committee on Trade and Development would seem sufficiently wide to cover consideration by the Committee, were it to be established, of the proposals made by the representative of India including that relating to a possible amendment of the new Chapter. He confirmed that the Committee, if established, would, while acting on the recommendation of the Council, specifically consider and make submissions to the Annual Session on the proposals made by the representative of India including the proceedings, in this field, of the United Nations Conference on Trade and Development.

The recommendation of the Council was approved.

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<sup>1</sup>E/CONF.46/L.28 Annex A.III.5.

2. Report by Chairman of Action Committee (L/2307 and Add.1)

The CHAIRMAN recalled that, at the last meeting, the Chairman of the Action Committee had presented his Report and had made concrete proposals concerning further work by CONTRACTING PARTIES in connexion with the Action Programme.

Miss LACKEY (United Kingdom) noted that the Report before the CONTRACTING PARTIES was that of the Chairman of the Action Committee, to whose efforts the Committee owed much. Commenting on paragraph 9 of the report she suggested that it was the desire of all contracting parties to extend the commodity scope of the Action Programme. The original list of products to which the Programme applied could, in fact, be regarded as a "core" and other commodities should be examined with a view to their inclusion within the Programme. Negotiation on a further list of products was now necessary and this could best be conducted within the Trade and Development Committee which, she hoped, would be established. The suggestions contained in paragraphs 7 and 8 could be appropriately taken together for consideration by the Sub-Committee of the Trade Negotiations Committee on the Participation of the Less-Developed Countries. As regards paragraph 6, it should be borne in mind that contracting parties were already embarked on practical work in connexion with providing freer access for tropical products, and it was to be hoped that this work would lead to the recommendation for practical courses of action to be followed. She cited, in this connexion, the banana study. It would be useful for each contracting party to contribute towards a satisfactory conclusion of these exercises both in and outside the GATT and render all possible assistance to the secretariats involved.

Commenting on paragraph 5, which dealt with the removal of quantitative restrictions maintained contrary to the GATT, Miss Lackey recalled that the discussions in Sub-Committee 1 of the Action Committee had been instructive in revealing the problems confronting those countries which maintained barriers and those whose trade was affected. Important relaxations of restrictions had been recorded following the meetings of the Sub-Committee late in 1963 and early in 1964, but it was generally recognized that progress had not been fast enough. Commenting on the suggestion that a panel should be established to consider the question of compensation to developing countries arising from losses brought about by the maintenance of quantitative restrictions contrary to the GATT, Miss Lackey expressed the view that this proposal lacked precision and had not been discussed in any detail within the Action Committee or its Sub-Committees. It would not be profitable for the CONTRACTING PARTIES to act precipitously on this proposal, which introduced a completely new concept, that of "compensation", whereas previously the GATT had dealt with "retaliation" or "withdrawal of concessions". It would be necessary to create a climate of understanding before acting upon such a far-reaching suggestion. It would be necessary to have an explanation of the position of the proponents of such a scheme and detailed concrete proposals from them. The new Trade and Development Committee, if established, would be the appropriate body to look at the problem of residual restrictions, particularly as it would be unfettered by any previous consideration

of the problem. She therefore proposed that the CONTRACTING PARTIES refer the suggestion of the Chairman of the Action Committee to the Trade and Development Committee.

Turning, finally, to paragraph 4, in which was discussed the United Kingdom temporary charge on imports, Miss Lackey recalled that the United Kingdom Government spokesmen had frequently emphasized that the charge was an emergency measure of short duration. The recent steps taken by the United Kingdom Government in the monetary field underlined the urgency which it attached to finding a solution to the present difficulties.

Mr. EVANS (United States) welcomed the statement by the representative of the United Kingdom concerning the temporary import charges. He expressed his agreement with her comments on the recommendations contained in the report by the Chairman of the Action Committee. In particular, he underlined the radical nature of the concept of "compensation". It was possible that a panel was the best instrument for dealing with the matter but so as to avoid precipitate action it would be desirable that this question be referred to the proposed Trade and Development Committee.

Mr. CAMEJO ARGUDIN (Cuba) reserved the position of his Government concerning paragraph 8 of L/2307 on the ground that it did not consider that developing countries would derive benefits from the Kennedy Round.

Mr. LALL (India) thanked the representatives, who had spoken, for their constructive contribution to the debate on the work of the Action Committee and for the appreciation expressed for his own efforts. He extended his thanks to contracting parties, which had participated in the work of the Action Committee, for the responsible and constructive manner in which they had entered into its deliberations.

Replying to points raised concerning the creation of a panel to consider "compensation" in connexion with the maintenance of residual restrictions, he pointed out that he was merely suggesting that consideration be given to an examination of the idea of "compensation". The concept of "compensation" was perhaps preferable to that of "retaliation" or "withdrawal of concessions". He observed that nobody denied that the maintenance of restrictions, contrary to the provisions of the General Agreement, resulted in trade losses to the countries against which they were applied. It might be that the suggestion for the establishment of a panel caused some disquiet because, in the past, panels had been established to exact "penalties" from "offending" countries. The body he proposed would, taking into account the difficulties confronting both the countries maintaining restrictions and those whose trade suffered from them, restrict itself to making constructive proposals towards a solution of the problem in the interest of all parties concerned, and in accordance with the provisions of the General Agreement. On the suggestion that the matter be

referred to the Trade and Development Committee he pointed out that the Committee's terms of reference already covered a wide range of topics and, for this reason, it might not be desirable to provide it with another task so soon after its creation. He would, therefore, propose that a Group of Experts, to be appointed by the Executive Secretary, in consultation with the Chairman of the CONTRACTING PARTIES, examine the case for compensation, devise means for the enforcement of obligations and the expansion of trade opportunities and make a recommendation to the CONTRACTING PARTIES. If necessary the Group could work within the framework of Article XXII.

On the question of the United Kingdom temporary import charges, Mr. Lall suggested that the United Kingdom Government might, in the special circumstances prevailing, and with due regard to her obligations in the GATT, give consideration to exempting from this charge products of developing countries, particularly as such products, subject to charges, largely comprised semi-manufactures which could be regarded as materials for the United Kingdom industry. He agreed with the suggestion that the question of ensuring progress in the achievement of freer access for tropical products should be referred to the Trade and Development Committee. He also agreed that the two proposals contained in paragraphs 7 and 8 of L/2307 could be taken together within the framework of the Sub-Committee on the Participation of Less-Developed Countries. In this latter connexion, Mr. Lall pointed out that the proposal that developed countries should reduce tariffs on items of interest to developing countries in advance of the Kennedy Round had been made before the negotiating stage of the Kennedy Round had commenced. Such reductions could however now be effected in advance of the conclusions of the negotiations. He recognized that a selection of items where this procedure would be appropriate would be difficult as developed countries themselves were often major suppliers of items of interest to developing countries. Tariff cuts on items of interest to developing countries, where appropriate, might be achieved by the introduction of suspended duties.

Mr. AWUY (Indonesia) and Mr. DE SILVA (Ceylon) expressed their support for the suggestions of Mr. Lall.

Mr. STEDTFELD (Federal Republic of Germany), speaking on behalf of the member States of the European Economic Community, expressed his thanks to Mr. Lall for his objective report on the activities of the Action Committee. He noted that, despite some encouraging progress, a number of problems remained to be solved and suggested that the establishment of the proposed Trade and Development Committee would represent a constructive means of giving effect to the aims of the CONTRACTING PARTIES in the field of economic development.

Mr. RYDFORS (Sweden) sought clarification as to whether further work in connexion with tropical products would be undertaken within the context of the Kennedy Round or would be considered by the proposed Committee on Trade and Development.

The EXECUTIVE SECRETARY replying, at the invitation of the Chairman, stated that the trade negotiations under the Kennedy Round were all-inclusive, but it had to be recognized that tropical products presented special problems which complicated the process of trade liberalization and that, for this reason, it had been decided that the Special Group on Tropical Products should henceforth operate as a negotiating body under the aegis of the Trade Negotiations Committee. If, however, residual problems remained after the completion of negotiations under the Kennedy Round, they would be referred to the Trade and Development Committee.

The CHAIRMAN stated that, at the next meeting, he would submit a suggestion to the CONTRACTING PARTIES on the method of dealing with the proposals contained in L/2307, which would take into account the discussion on them in the CONTRACTING PARTIES.

The meeting adjourned at 4.30 p.m.