

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

COM. IND/W/87

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Special Distribution

Committee on Trade in Industrial Products

MEETING OF JULY 1972

Note by the Secretariat

1. The meeting was held under the Chairmanship of Mr. G. Stuyck (Belgium) on 12-13 July. This note sets out the main points raised under each of the items on the Committee's agenda.

Techniques and modalities

2. The Committee continued its work on techniques and modalities for future GATT negotiations on the basis of the secretariat note on the last meeting (COM.IND/W/83). The parts of that note dealing with tariffs, non-tariff measures and the sector approach have been revised to reflect the additional points made and are contained in Annex I to the present note.

3. The Committee returned to the proposal set out in paragraph 50 of the note on the last meeting that an examination of the adequacy of existing safeguard provisions be initiated.

4. A large number of delegations stressed the importance of the safeguard question and the need to examine it in parallel with the other aspects of the work on techniques and modalities. The Committee decided that the discussion of the adequacy of existing safeguards should be taken up in the full Committee at its next meeting it being understood that it was open to it to establish a Working Party at any time if this appeared desirable. It also agreed that the first step should be the preparation by the secretariat of a factual note on existing safeguard provisions for circulation before the next meeting and that delegations should give the secretariat the assistance required to draw up this note.

Implications for developing countries of various suggested techniques and modalities

5. A note containing a preliminary examination by the secretariat of implications for developing countries of various suggested techniques and modalities (COM.IND/W/85) was circulated during the meeting. The Committee agreed to revert to this question at its next meeting in order to allow delegations more time to consider the secretariat note.

Working Party on the Tariff Study

6. In the absence of the Chairman of the Working Party, Mr. H. Colliander (Sweden), Mr. J. Tumlr (GATT secretariat) introduced the report of the Working Party on the Tariff Study (COM.IND/W/84). The Working Party had two distinct tasks, its continuing work and the work regarding techniques and modalities assigned to it by the Committee (COM.IND/W/83, paragraph 55). The Committee took note of the Working Party's report and agreed that the secretariat should proceed as quickly as possible with the work recommended in the report. It agreed that the tabulations should be made available to the members of the Committee as soon as they were ready, except those referred to in paragraph 4(d), second part of 4(e) and 4(g) of COM.IND/W/84, which would be referred to the Working Party. It was agreed that the Committee would decide when it would discuss the tabulations.

Working Groups 1 to 4

7. The Committee heard oral reports by the Chairmen of the Working Groups, covering the activities of their Groups since the last session of the CONTRACTING PARTIES:

Working Group 1	-	Export Subsidies	
		Mr. E. Benediktsson	(Iceland)
Working Group 2	-	Import Documentation	
		Mr. W. Solberg	(GATT secretariat)
		in the absence of	
		Mr. E. Kekomäki	(Finland)
Working Group 3	-	Standards	
		Mr. P. Eastham	(Canada)
Working Group 4	-	Licensing	
		Mr. L. Stålberg	(Sweden)
		in the absence of	
		Mr. H. Colliander	(Sweden)

These reports are reproduced in Annex 2 to the present note.

8. In connexion with concessional export financing among developed countries which was dealt with by Working Group 1, the Committee agreed to request the OECD to communicate to it the text of relevant agreements which it had recently drawn up. In connexion with the oral report on Working Group 4, some delegations said that automatic licensing became a serious obstacle to trade if it was applied in a discriminatory way.

Several points of detail were raised regarding secretariat notes on meetings of the Working Groups to which the oral reports had referred. The Committee agreed that such points should preferably be dealt with by the Working Groups themselves.

9. The Committee took note of these oral reports and agreed that they should be annexed to the report which it would present to the next session of the CONTRACTING PARTIES.

10. The Committee agreed to refer the two texts drawn up by Working Group 4 on automatic licensing and licensing to administer import restrictions (COM.IND/W/82 and Corr.1) to administrations for careful examination and for consideration of implications arising from their acceptance. It also agreed to propose to the Council that contracting parties should notify changes of licensing systems at the same time as notifications are made on import restrictions, i.e. 30 September of each year. Attention was also drawn to the decision of the Council at its meeting of 21 April 1971 that Group 4, when dealing with licensing, would consider licensing systems as measures of general application subject to the right of the Agriculture Committee to review the applicability to the agricultural sector of any solution evolved.

The reference of other topics to the Working Groups

11. The Committee recalled the proposals made at its last meeting that other topics be referred to the Working Groups with a view to the drawing up of ad referendum solutions (COM.IND/W/85, paragraph 32).

12. One proposal was:

- (a) that Working Group 1 should take up countervailing duties only after work was completed on measures covered by Article XVI:4, on domestic subsidies that stimulate exports, and on agricultural subsidies, and
- (b) that Working Group 4 should first take up quantitative restrictions (including embargoes) and then proceed to other measures.

In the course of discussion it became clear that there was a large measure of support for the following proposal:

- (a) that Working Group 1 should take up countervailing duties as soon as its work on subsidies covered by Article XVI:4 permitted, and
- (b) that Working Group 4 should take up quantitative restrictions (including embargoes) and export restraints simultaneously and report to the Committee on both aspects of the work at the same time.

13. As it was not possible to come to an agreement, the Committee agreed to take up this question again at its next meeting with a view to arriving at a consensus.

Future work

14. The Committee agreed that at its next meeting it would

- (a) examine the note on techniques and modalities contained in Annex 1 to this note,
- (b) examine the implications for developing countries of various suggested techniques and modalities with the aid of the note by the secretariat (COM.IND/W/85),
- (c) examine the adequacy of existing safeguard provisions with the aid of a factual note by the secretariat,
- (d) examine the question of referring further topics to the Working Groups with a view to the establishment of ad referendum solutions, and
- (e) draw up its report to the Council.

15. The Committee agreed to the following programme of meetings for the autumn:

One meeting before the session	Working Party on Tariff Study
26 September-6 October	Drafting Group on Standards
9-13 October	Working Group 1 - Export Subsidies with one day set aside for examination of concessional export financing among developed countries, and Working Group 2 - Import Documentation
Week of 16 October	Committee on Trade in Industrial Products
28 November-8 December	Working Group 3 - Standards

ANNEX 1

Techniques and Modalities

General

1. The Committee recalled its mandate, which was "to examine the various techniques and modalities for effective and comprehensive future negotiations aimed at achieving a further liberalization and expansion of trade in industrial products and, in this examination, pay particular attention to the needs of developing countries" (COM.IND/18), and the summing-up of the Chairman at the Committee's March meeting (COM.IND/19).
2. It was suggested that it would be difficult to discuss advantages and disadvantages of different negotiating techniques without establishing some hypothesis as to the final objectives of future negotiations. It was suggested that the objective should be that set out in paragraph 2 of the technical note by the secretariat, i.e. to obtain the maximum possible liberalization of trade. Some delegations suggested the hypothesis that tariffs on industrial products should be abolished over a period of years. These delegations said that the advantages and disadvantages of the various techniques and modalities should be analyzed with this hypothesis in mind. Some delegations pointed out that the mandate adopted by the Committee at its March meeting set out the objective.
3. Some delegations, while agreeing to consider each section in the secretariat's technical note separately, stressed the fact that in their view tariffs, non-tariff barriers and safeguards were inter-related. What was agreed on one would be dependent on what was agreed on the others. Some delegations also pointed out that the industrial and agricultural sectors were similarly inter-related.
4. The Committee decided to carry out an objective analysis of the main possible negotiating techniques, using the secretariat note (COM.IND/W/76) as a basis for its work. The present note outlines the main advantages and disadvantages of each technique which were cited during the meeting. This listing does not imply that individual delegations are necessarily in agreement with each of the points made.
5. Representatives of developing countries said they would look to the prospective negotiations for, inter alia, duty-free entry for their export products, the elimination of tariff escalation with the degree of processing, advance implementation of any phased tariff reductions, special techniques for dealing with non-tariff barriers to their exports - especially those applied discriminatorily - the preservation of benefits accorded under the generalized system of preferences, compensation for any loss of preferences and the non-reciprocal grant of concessions by developed participants.

6. The Committee recalled the agreement reached at its March meeting that an important objective of the prospective negotiations is that they shall provide effective benefits for the trade of developing countries. It agreed to analyze and evaluate each of the techniques set out in the secretariat's technical note with this objective in mind.

7. At the request of the Committee the secretariat circulated a preliminary examination of the implications of the different techniques for negotiating on tariffs and non-tariff barriers set out in the secretariat's technical note for the trade interests of developing countries, having particularly in mind the structure of developing countries' trade and the existence of the generalized system of preferences (COM.IND/W/85).

8. It was suggested that specific techniques for negotiations with countries with centrally-planned economies should be examined.

Tariffs

9. The Committee then examined the various techniques for negotiating on tariffs, set out in the technical note by the secretariat. It agreed that, without at the present stage discarding any technique, it would concentrate on what appeared to be the more important possible techniques. It was suggested that preparations for new negotiations should not discourage countries from reducing tariffs unilaterally and that such reductions should be taken into account when setting the base rates for reductions in the negotiations.

A. Item-by-item technique

10. This technique had the advantage that it made for a flexible negotiation, since participants could select the products on which they would make reductions and the rate of reduction. This technique would also permit the participation of some countries on a minimal basis, and some delegations emphasized that no technique should be ruled out if its use would permit the participation of some additional contracting parties and the reduction of some more tariffs. It could also meet some of the concerns of the developing countries since products of particular export interest to them could be chosen or products covered by the generalized system of preferences could be excluded.

11. However, it was widely felt that the disadvantages which had led to the abandonment of this technique as a basis for recent multilateral negotiations still applied. Its most serious disadvantage was that the overall scope of the negotiations was set by the least enthusiastic participants. It was suggested that this might be overcome by stipulating a minimum level of offers, but it was acknowledged that some disadvantages were nevertheless likely to remain. These would include the risk that tariff escalation and tariff disparities might be increased, that some participants might find their products excluded from the negotiations, that sensitive items would be excluded and that products of little importance in world trade would be selected for reduction.

12. Many delegations were of the opinion, however, that there was likely to be some item-by-item element in any future negotiations, as there had been in the Kennedy Round.

B. Continuation of Kennedy Round cuts

13. This technique would have the disadvantage that it froze the situation of several years ago and that, on the one hand, there would be too many exceptions while, on the other, sensitivities had changed since the Kennedy Round. Some delegations said that another disadvantage of this technique was that it would not solve the problem of preferences.

14. It was suggested that a continuation of the Kennedy Round cuts, combined with a re-examination of exceptions and disparities, might establish a continuous process of trade liberalization preferable to a discussion of ambitious techniques which might never be put into practice. Some delegations suggested that the value of this technique lay rather in the fact that a number of further reductions might be carried out as an interim measure before the conclusion of the forthcoming negotiations.

C. Duty-free trade in industrial products

15. It was pointed out that duty-free trade in industrial products was an objective rather than a technique and that some techniques referred to in other sections of this note could be used in the phasing of the reductions to achieve this objective.

16. Some delegations said that the main advantages of complete tariff elimination were its unique appeal as an easily understandable objective and as a counter-balance to rising world-wide protectionism. It was suggested that the technical advantages of complete tariff elimination would be its simplicity, the fact that it would solve the disparity problem, the problem of tariff escalation, problems connected with specific and mixed duties, and the problem of para-tariff barriers (e.g. tariff nomenclature problems and problems connected with valuation for customs purposes). The elimination of tariffs would also have the advantage that full benefit could be gained from the exploitation of the comparative advantages enjoyed by different countries. Another advantage cited was that this technique would require commitments from all participants and that there would be no free rides. Finally, the abolition of all existing tariff preferences which the abolition of duties would entail would be an advantage for countries which do not enjoy preferences.

17. Certain disadvantages of this formula were also cited. Some delegations said that the total abolition of tariffs could only be envisaged if parallel action were taken to bring about a certain harmonization or co-ordination of the economic and social policies of different participants, as experience in some regional groups had demonstrated. These delegations recognized that

an ambitious objective could stimulate progress, as the objective of a 50 per cent reduction had done in the Kennedy Round, but said that an objective which was too ambitious might be harmful. The advantages referred to above would only apply if there were no exceptions to the general rule, but there were likely to be a greater number of items on exceptions lists than in the case of a simple reduction of duties. The abolition of tariffs would also create considerable problems for certain sectors, regions and professions and even for national budgets to the extent that the abolition of tariffs is accompanied by adjustment assistance provided by governments. It could also constitute an incentive to the introduction of non-tariff measures which were more difficult to deal with than tariffs, or to the frequent recourse to safeguard measures. In addition, even if tariff free trade led to the full exploitation of relative advantage, it would not ensure that all participants benefited equally; imports of individual participants might increase more than exports, creating problems for exchange rates. The abolition of all existing tariff preferences which the abolition of duties would entail would be a disadvantage for those countries which benefited from them. Developing countries said that there should be no exceptions for products on which duty-free treatment was already granted to certain developed countries. It was pointed out, however, that difficulties in certain sectors might be dealt with in special negotiations, that experience of regional groups had shown that tariffs and non-tariff measures could be eliminated without the extensive harmonization of policies and that the point made about the harmonization of policies would apply to the substantial reduction of tariffs and not only to their elimination.

D. Elimination of low duties

18. Another technique would be the elimination of all rates below (say) 5 per cent ad valorem. This could be used simultaneously with other techniques. The main advantage of this technique was that it should be easy to eliminate low duties, which had little protective effect and which were mainly nuisance tariffs.

19. It was, however, pointed out that the protection afforded by some of these duties was significant, and that it would not be as easy as it appeared at first sight to abolish all low duties. Another disadvantage was that the abolition of low duties on raw materials would increase the protection granted to products further up the chain of production.

E. Techniques for the linear reduction of tariffs

20. It was noted that the linear technique could be used to achieve different objectives and that its effects would vary depending on the depth of the reductions, their phasing and the number of exceptions. Variations in both the rate of reductions, e.g. the provision of a smaller reduction of duties in sensitive sectors, and the time-table for the reductions, e.g. the provision of a different time-table for high and low duties, could be introduced.

21. Among the advantages of this technique were the ample experience of its value, the absence of complications, its simplicity and clarity and the fact that it made it relatively easy to obtain domestic support for tariff cutting. Another advantage was that it would not lead to a relative increase in effective protection.

22. Among the disadvantages cited was the fact that it would once again raise the problem of tariff disparities, certain rates rapidly losing their protective effect while others still remained relatively high. It was suggested that this disadvantage might be met by combining a linear with a harmonization technique (see paragraph 52).

F. Harmonization techniques

23. It was noted that there were many different harmonization techniques but that all would require high tariffs to be cut more than low tariffs.

24. Some delegations doubted whether the assumption underlying these techniques, that cuts in low rates would produce a greater increase in trade than the same percentage cuts in high rates, was necessarily true - for instance a country might have the same rate of duty on two different products but different supply and demand conditions for the products might mean that the two rates had widely different protective effects and the same would apply in the case of two countries which had the same rates on the same product. They also said that these techniques require a greater contribution from some participants than others which would give an unbalanced result which would make it difficult to achieve reciprocity. These techniques might, however, be useful in certain sectors. Some delegations said that harmonization techniques would be useful in reducing tariff disparities but would not necessarily produce a reduction in tariffs; they therefore considered these as supplementary to other techniques.

25. Other delegations said that high tariffs normally were more protective than low tariffs, and recalled the provision in Article XXVIII bis that "binding against increase of low duties or of duty-free treatment shall, in principle, be recognized as a concession equivalent in value to the reduction of high duties". They added that a further argument in favour of harmonization techniques was that a linear reduction of any magnitude would leave low tariff countries with tariffs which had no significant protective effect and thus no bargaining power in future negotiations while other countries which had a tariff made up of both high and low rates would be left with many tariffs which still retained a significant protective effect.

- (i) Reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in the country concerned

26. It was noted that several possibilities existed under this heading and in particular that the progressivity of the reduction could be more or less steep. Among the advantages cited were that this method would reduce tariff disparities, that it would require no tariff concordances, and that it would reduce tariff escalation with the degree of processing.

- (ii) Reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in other participants

27. Possibilities included the reduction of rates which are higher than those in the tariff of another participant, or in the lowest tariff in a number of other participants, or in the average tariff in a number of other participants. Among the disadvantages of this technique are the difficulty of agreeing which participants should be taken for reference purposes and the fact that tariff concordances would be required. A similar technique had been tried in the Kennedy Round but had given rise to endless discussion during which it had not been possible to agree on a general rule of this sort.

- (iii) Reduction or elimination of the difference between tariff rates and a "normative" or "target" rate or rates

28. It was noted that this approach might or might not provide for the raising of rates which were below the target rate. One variation of this approach would be to reduce all rates above the target rate to that rate (*écrêtement*). It would also be possible to reduce the gap between each tariff rate and a target rate by an agreed percentage. Target rates could vary from sector to sector. Different target rates could also be set for raw materials, semi-finished products and finished products.

29. Among the advantages cited were simplicity (automatic formula, no tariff concordances required).

30. Among the disadvantages was the fact that this technique might lead to an increase in effective protection and the difficulty of agreeing on the "normative" or "target" rate or rates.

- (iv) Harmonization rules which provide for the reduction of the average of duties in a given sector

31. Among the disadvantages of this technique are the difficulty of choosing the type of average to be used, and the fact that some high rates might not be reduced at all. This disadvantage might be met by stipulating a ceiling rate to which all duties would have to be reduced.

G. Combination of above techniques

32. Many possible combinations existed. It was, for instance, suggested that the problem of tariff disparities raised by a linear reduction of duties might be met by providing that participants with low rates should maintain these at their initial level until higher rates in other participants had been reduced to that level, after which all rates would be reduced by the same percentage. This solution was not without its own disadvantages, however, among which was the need for detailed tariff concordances. To avoid this disadvantage, one other solution would be to provide for a slower reduction of the low duties in the first steps of reduction.

Non-tariff measures

33. The Committee agreed that the work of drawing up ad referendum solutions to certain problems, already under way in the various Working Groups, should be carried forward as rapidly as possible.

34. One point was raised regarding the work of the Working Groups. In certain of these Groups there was an observable tendency to draft provisions which would permit participants to continue their existing practices rather than provisions which would solve the problems identified in the Inventory. If satisfactory ad referendum solutions were to be found it was to be expected that in many areas certain participants would be making a larger contribution than others and that in these cases the implementation of solutions would have to wait until packages could be put together which would give individual participants a broad balance of advantage. These packages would not necessarily be restricted to non-tariff measures but might also include action on tariffs and other trade measures in both the industrial and agricultural fields.

35. It was agreed that, in the context of the current exercise on techniques and modalities, the main question before the Committee was whether any other work should be done in preparation for the prospective broad negotiations.

36. It was suggested that negotiations on certain non-tariff measures might be very time-consuming and that at an opportune time the Committee should examine the Illustrative List with a view to seeing which of the categories of measures were susceptible of being treated in the negotiations. Most delegations took the view, however, that at this stage no measure should be excluded from the negotiations.

37. It was suggested that the Committee might devote time to defining some of the terms which it used. It was agreed that the terms "non-tariff measures" or "non-tariff distortions" were preferable to the term "non-tariff barriers" since export subsidies, for instance, acted to increase rather than restrict trade but created distortions. It was also suggested that the concept of reciprocity might need to be redefined as it applied to the field of non-tariff measures, but some delegations were of the view that the same basic consideration, the need to obtain a balance of advantage, applied in both the tariff and non-tariff fields.

38. It was recalled that the Committee had agreed to examine the legal implications of negotiating techniques. Two problems had arisen in the work on Standards and the Committee might examine whether these were likely to arise in negotiations on other non-tariff measures. The first problem was the imbalance that would be created in legal if not in trade terms, if only a limited number of participants adhered to an international agreement but were obliged to grant the benefits of the agreement to all contracting parties under the most-favoured-nation clause. The second problem was the adequacy of Article XXIV:12 to deal with measures of regional and local governments, which were not under the direct control of central governments.

39. The Committee briefly discussed the different negotiating techniques set out in the secretariat's technical note.

40. The view was widely held that meaningful results could only be obtained via specific commitments on specific measures and thus the technique of drawing up general principles to govern the application of non-tariff measures did not generate much enthusiasm in the Committee. It was suggested that general principles might be drawn up if it did not prove possible to resolve all of the individual problems listed in the Inventory during the prospective negotiations since it might set the framework for further negotiations on these. It was also suggested that if this approach was adopted it would be necessary to examine the principles in terms of two categories of non-tariff measures, those that are designed to restrict or distort trade and those designed for some other purpose but which incidentally have trade restricting effects.

41. It was recalled that the Committee has already carried out an extensive examination of possible multilateral techniques for negotiations on the categories of non-tariff measures identified in the Illustrative List and that this was summarized in a previous report, L/5496.

42. It was suggested that it might also eventually be necessary to conduct plurilateral or bilateral negotiations on some individual non-tariff measures where multilateral techniques were not appropriate, i.e. to hold negotiations among the countries with a trade interest in a particular measure, rather than dealing with these in the context of a multilateral negotiation on broad categories of non-tariff measures.

43. It was suggested that consideration should also be given as to how solutions on non-tariff measures related to each other and to all other elements of the overall negotiations.

Sector approach

44. This technique called for all factors affecting trade in specific sectors, including tariffs and non-tariff barriers, to be dealt with together.

45. One conception of the sector approach was that it would achieve free trade in stages for certain precisely defined products or groups of products thus complementing other techniques. The sectors should be large enough to induce a meaningful expansion of trade under free-trade conditions but small enough to be manageable. Prime candidates were industries which could take account of economies of scale and a range of products derived from raw materials, such as chemicals, aluminium, forest products, copper, lead and zinc.
46. Another possibility was that all industrial products would be divided into sector groupings, as had already been done in the tariff study, and techniques for negotiating on all factors affecting trade elaborated sector by sector.
47. Among the advantages of the sector approach were that it would make for a complete and comprehensive liberalization of trade which would permit the full benefits of comparative advantage to be obtained, that it would allow relatively small countries to develop industries which could compete on world markets, and that it would enable exporters of raw materials to export these in a more highly processed form.
48. Among the disadvantages were that it would create trade distortions if barriers to trade in raw materials were reduced more than barriers to trade in the related finished products and that there might be a tendency to seek reciprocity within each sector.
49. Representatives of developing countries said that this technique was well suited to their needs since their exports were concentrated in certain sectors and since it could lead to a liberalization of trade in products and sectors at present excluded from the generalized system of preferences. These countries had a particular interest in exporting their raw materials in a more processed form.
50. Some delegations said that they would be willing to participate in a working party to examine the technique of eliminating trade barriers by sectors if the Committee considered it opportune to establish one.

ANNEX 2

Reports by Chairmen of Working Groups 1 to 4

Working Group 1 - Export Subsidies
covered by Article XVI:4

1. As you will recall, at the twenty seventh session the CONTRACTING PARTIES agreed that Working Group 1 should undertake work on export subsidies covered by Article XVI:4 of the General Agreement on a priority basis, and with a view to elaborating an ad referendum text. I would now like to make a brief statement to the Committee on the progress we have made to date in this regard.
2. Working Group 1 met on 24 May to organize its work, and on 19 and 20 June. The secretariat note on the last meeting is contained in document Spec(72)61. Following up the proposed solutions that had been put forward in the 1970 report of Working Group 1, the Group first addressed itself to a possible refinement of the list of export subsidies that had been drawn up by a Working Party in 1960. A number of suggestions were made as to ways in which the list might be elaborated and refined so as to clarify the obligations under Article XVI:4.
3. In this context there was also discussion of a notification in regard to concessional export financing recently notified to GATT. It was decided that, at its next meeting, the Group should consider the usefulness of holding an additional special meeting of experts in the field of export financing to discuss this problem.
4. The Group also examined the advantages and disadvantages of retaining the two-price criterion in Article XVI:4 in the light of practices and precedents established in connexion with other Articles of the General Agreement. There was also a first discussion of the usefulness of drawing up a definition of the term "export subsidy", and of proposals for improved notification procedures which will be examined in more detail at a later meeting.
5. In response to the proposals that there should be a wider acceptance of the obligations on export subsidies two members of the Group explained why their governments had not yet accepted the 1960 Declaration, but also pointed out that they would be willing to give consideration to any solution that might emerge as a result of the Group's work.
6. The Group also had a brief discussion in regard to suggestions for an improved definition of a primary product, particularly in relation to industrial raw materials and regarding action that might be permitted in cases of an infraction of obligations under Article XVI:4.

7. It was proposed that the Working Group should meet again, preferably in September, to continue its work towards an ad referendum solution on export subsidies, and that time might be put aside in the autumn, on a tentative basis, for a possible meeting of experts on export financing.

8. The Working Group was of the opinion that the date of its next meeting should be set by the Committee on Trade in Industrial Products as part of the programme of non-tariff barrier meetings between this meeting and the twenty-eighth session of the CONTRACTING PARTIES.

Working Group 2 - Import Documentation
including Consular Formalities

1. At the twenty-seventh session the CONTRACTING PARTIES decided that Working Group 2, after having finished its work on valuation, should undertake work on import documentation, including consular formalities.
2. The Working Group met on 22 June 1972 to organize its work. The secretariat had prepared a background note, contained in document COM.IND/W/79, setting out the main lines of action in GATT and elsewhere on both import documentation and consular formalities and has also drafted a note on this meeting contained in document Spec(72)73. At the meeting representatives from the Customs Co-operation Council, the Economic Commission for Europe and UNCTAD made a survey of the activities of their organizations in this field.
3. Concerning GATT action on import documentation, the Working Group instructed the secretariat to prepare a paper containing a short compilation of what had been and would be done by GATT and by other organizations, in particular the Customs Co-operation Council and the Economic Commission for Europe, in order to avoid duplication of the work of these organizations. The Group also decided that customs experts should attend its next meeting so that the rôle of GATT in the field of import documentation could be extensively discussed.
4. With regard to consular formalities, the Working Group instructed the secretariat to prepare an up-to-date report on the situation in those contracting parties still maintaining such formalities. One of the members of the Group offered to prepare an interpretative note to Article VIII of the General Agreement, and pointed out that the acceptance of any agreed text by those countries maintaining consular formalities would be considered as a positive contribution in the next multilateral trade negotiations.

5. The Working Group decided to recommend to the Committee on Trade in Industrial Products that the Group meets sometime before the twenty-eight session of the CONTRACTING PARTIES, subject to the necessary documentation being made available well in advance of such a meeting.

Working Group 3 - Standards

1. This is the first report on the activities of Working Group 3 on Standards since the last session of the CONTRACTING PARTIES. At that time I, as Chairman of the Group, had been asked to pursue actively informal consultations on the outstanding issues. Sufficient progress was made during these informal consultations to allow further discussions and drafting to proceed and four meetings have been held so far this year, two of Working Group 3 and two of its Drafting Group.
2. The Group is working on a text of a proposed GATT Code of Conduct for Preventing Technical Barriers to Trade - it is not called a Standards Code since it also deals with problems relating to quality assurance systems. While no decision has been taken as to the nature of the instrument delegations have agreed to work on a text in contractual form for reasons of convenience and because it could serve as a basis for other types of approach, such as a voluntary code or a set of principles, if one of these solutions were to be preferred.
3. The latest version of this text is contained in Spec(72)18 and a note on the last meeting of the Working Group, which sets out discussion on the main problems facing the Group, has been circulated in Spec(72)77. Inter alia, these problems relate to:
 - (a) the relationship between the provisions of the proposed instrument and the provisions of the GATT;
 - (b) the obligations relating to the protective effect of standards and quality assurance systems;
 - (c) the provisions regarding the participation in quality assurance systems both of individual adherents and regional organizations;
 - (d) the level of obligation in relation to national standard bodies and quality assurance bodies which are central government bodies as defined in the instrument;

- (e) the timing of the entry into force of the various provisions of the instrument and whether and in what manner the instrument should apply to existing standards and quality assurance systems;
- (f) the treatment of so-called quasi-mandatory standards;
- (g) the functions of the Committee to be set up under the instrument and the enforcement provisions.

4. At its last meeting the Working Party agreed that the objective was to complete the work in Working Group 3 by the end of 1972 so as to present a final report to the Committee. It was recognized, however, that a limited number of problems might remain for which the Group would not be able to find a common presentation. It was also agreed that the present draft text should be simplified without affecting matters of real substance. Among the more important points which will be taken into account in the new draft are some relating to special requirements of developing countries. The Drafting Group is to meet to examine this draft from 26 September for a maximum of two weeks and Working Group 3 is to hold what is hopefully its final meeting on this subject from 20 November to 3 December.

5. As you will see, the work in this Group has not been brought to a conclusion as rapidly as the work on some other non-tariff measures. The task before the Group is, however, complex, time-consuming and difficult. It will, I believe, represent a major achievement, and be welcome evidence of a spirit of co-operation among delegations, if the work on standards and quality assurance systems can be concluded in the Group by the end of the year.

Working Group 4 - Licensing

1. At its meeting on 3-4 February 1971, the Committee decided that further work should be done within the area of problems explored by Working Group 4, and that initially this work should focus on the operation of licensing systems. The Working Group has held six meetings between March 1971 and June 1972 and has prepared texts of ad referendum solutions - one on automatic licensing and one on licences to administer import restrictions. These texts are annexed to my report, which is contained in document COM.IND/W/82 and Corr.1.

2. As part of its preparation of appropriate ad referendum texts, the Group devoted considerable time to the collation and analysis of information regarding licensing systems applied by contracting parties, and received detailed information from more than fifty contracting parties.

This information was of considerable value to the Group in preparing its proposed solutions, and has been circulated in documents in the COM.IND/W/55 series and also in tabular form, in document COM.IND/W/74. On the basis of the replies to its questionnaire, the Group conducted a country-by-country review with a number of contracting parties regarding their licensing systems.

3. Having assembled its background documentation regarding individual countries' licensing systems, the Group concluded that licensing procedures could be divided into two categories - automatic licensing and licensing to administer import restrictions.

4. As regards automatic licensing, the Group has reached a fair measure of agreement on a series of rules. As you will see from my report, the Group has not, however, been able to reach agreement on paragraph 2 of this text. The major reason for this divergency of views is that some delegations consider that automatic licensing should be eliminated by a target date, while others consider that automatic licensing systems would not be restrictive of trade if administered according to the rules of the proposed instrument. The Working Group recommends that administrations should examine these two alternatives with the aim of finding, in due course, a mutually acceptable solution.

5. The other main problem which the Group has been unable to resolve, in the case of both types of licensing, relates to the question of discrimination in the operation of licensing. The brackets around paragraph 4 of Annex I and paragraph 1 of Annex II arise from the fact that some delegations consider that this problem should be examined in a wider context and that, therefore, the inclusion of these paragraphs is not appropriate. Other delegations consider that such an examination does not preclude the insertion in the texts of these paragraphs.

6. Although the Group held a discussion on the legal status of the texts, it did not attempt to reach any conclusion on this subject in view of its far-reaching implications. This question would appear to be a matter for the Committee, or some higher body of the CONTRACTING PARTIES.

7. I should draw the attention of the Committee to the fact that the Group took due note of the Council's Decision of 21 April 1971 that the Group should consider licensing systems as measures of general application subject to the right of the Agriculture Committee to review the applicability to the agricultural sector of any solutions evolved.

8. I should also point out that in our discussions of licensing procedures a certain number of proposals emerged affecting the related problem of quantitative restrictions, especially in so far as these restrictions affect the exports of developing countries. Paragraph 8 of my report

summarizes these proposals, which it has been agreed should receive special attention when the Group takes up the problem of quantitative restrictions.

9. Finally, I should inform the Committee that the Group has discussed the question of keeping up to date the very useful information assembled with regard to licensing procedures. The view of the Group is that this information should be kept up to date and it is hoped that some procedure can be devised by the Committee to this end. In my personal view the best procedure would probably be to notify changes of licensing systems at the same time as notifications are made on import restrictions, which is 30 September of each year.

10. I suggest that the Committee take note of the report, and the two draft texts, which should now go to administrations for consideration.