GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED
COM.IND/W/109
26 June 1973
Special Distribution

Committee on Trade in Industrial Products

Original: English

THE SECTOR APPROACH AS A TECHNIQUE FOR MULTILATERAL TRADE LIBERALIZATION

Note Submitted by Canada

Canada has suggested that the sector approach be one of the techniques for the reduction of barriers to trade in the forthcoming round of multilateral trade negotiations. This paper outlines some of the main considerations regarding the sector approach.

Concept

As envisaged, the sector approach

- would be used to liberalize trade to the greatest extent possible in precisely defined and closely related groups of products which are significant in world trade;
- would encompass all barriers to trade, non-tariff as well as tariff barriers within particular product groups;
- would complement other negotiating techniques for reducing or eliminating either tariffs or non-tariff barriers.

Historical development

The evolution of the sector technique for movement towards freer trade is outlined in an annex to this paper.

In the Kennedy Round, negotiations had reached an impasse in certain sectors because of exceptions to the linear cut and because, in some cases, contracting parties linked their tariff offers to reductions in non-tariff barriers in the same product groupings. In an attempt to find solutions to these and other problems, separate negotiating groups were established for aluminum, steel, chemicals, textiles and pulp and paper.

In an address given at Bad Godesberg on 27 October 1966, the former Director-General of the GATT noted that it had become apparent in the course of the Kennedy Round that "there are certain sectors of industrial production - characterized by modern equipment, high technology and large scale production, and by the international character of their operations and markets - where there are evident gains to all in arriving within a defined period at free trade". The Director-General's plan for further trade liberalization included achieving freer trade on a most-favoured-nations basis by sectors of trade and by progressively adding new sectors as conditions appeared propitious.

Negotiating considerations

1. Selection and definition of sectors

In broad terms, any commodities or product groups traded by a number of countries could be candidates for sector negotiations. In defining a sector it would be important to make the sector broad enough to be meaningful but not so broad that it would be unmanageable.

For example, if a meaningful and manageable sector negotiation were conducted for copper, the sector could include all stages of copper production from ores and concentrates up to and including semi-fabricated and fabricated copper products. In terms of the Brussels Tariff Nomenclature, this would cover items 74.01-02 (unwrought, waste, scrap and master alloys) and 74.03-08 (wrought bars, rods, angles, shapes, wire, plates, sheets and strips, tubes, pipes, and fittings).

The greater the number of products covered, the better the chance of obtaining a meaningful sector negotiation.

2. Reciprocity

It is highly unlikely that there will be any sector in which all participants could expect to derive equality of benefits from trade liberalization. Even if there were a number of separate sector negotiations aimed at the optimum reduction of trade barriers within each sector, it is perhaps unlikely that reciprocity would be arrived at in the area of sector negotiations themselves. However, it should prove possible to obtain a balanced package involving a number of sectoral trade arrangements in the context of the overall negotiations which could include general tariff cuts, trade liberalization in the agricultural sector and significant progress on non-tariff barriers.

3. Other

In addition to the technical difficulties which would be involved in selecting and defining the scope of the sectors to be negotiated, there are a number of other considerations which should be taken into account in utilizing the sector approach. In particular:

(a) freer trade in raw materials and components or semi-fabricated material without commensurate reductions in protection on finished products could result in increased effective protection of the finished product industries,

(b) products included in a sector negotiation, gaining freer access to major markets, may be directly substitutable for those excluded from trade liberalization or liberalized at a slower rate.

Some of these potential anomalies are not, of course, peculiar to the sector approach as they may already exist in the trading régimes of a number of contracting parties or would arise with most other negotiating techniques. The sector approach could provide the means to identify these anomalies at an early stage and facilitate the development of techniques to cope with them.

As tariff and specific non-tariff measures within individual sectors are reduced or removed or brought under effective international discipline, non-tariff barriers with general application such as anti-dumping and countervail, trade distorting subsidies and the provisions covering recourse to safeguard actions, as well as institutional factors (e.g. corporate structures and relationships) will take on greater importance. In these circumstances, in order to ensure that benefits of sector negotiations are not impaired or nullified, it will be necessary at some stage of the negotiations, to bring these general measures under effective international discipline.

Advantages

The sector approach would enhance the degree of trade liberalization by improving the prospects of:

(a) coming to grips with all major trade barriers, non-tariff barriers as well as tariffs, within a sector;

(b) achieving a more efficient international allocation of resources. To the extent that it is applied to the resource sector, it would allow the geographical allocation of processing and fabricating facilities and value added on the basis of international comparative advantage;

(c) permitting greater progress towards freeing trade than would otherwise be possible. Within each sector, the speed of trade liberalization could be tailored to the needs and peculiarities of individual sectors. The reduction in impact of tariffs and non-tariff barriers could in individual sectors be either faster or slower than provided under general liberalization formulae;

(d) dealing with the problems of tariff escalation, effective protection, tariff disparities, by including all stages of production;

(e) achieving liberalization of trade in product groupings of particular export interest to developing countries.

Conclusions

The sector approach could be a valuable complementary negotiating technique from the point of view of reducing the impact of both non-tariff and tariff barriers to trade to the greatest extent possible.

The sector approach should be included among the negotiating techniques to be used in the negotiations, although it is not viewed as the sole or even the most important technique.

Countries should be in a position to eliminate tariffs and in respect of non-tariff barriers, to enter into agreements which would remove or reduce their trade distortionary effects and bring them under effective international discipline.

ANNEX

Historical Development of the Sector Approach to Trade Negotiations

The historical development of the sector approach and some recent assessments of its potential rôle in a major new multilateral round are outlined in the paragraphs which follow.

The Pflimlin Plan

The so-called Pflimlin Plan put forward by France in 1951 (BISD, First Supplement page 67, Second Supplement page 67) called for a general across-the-board lowering of tariffs by 30 per cent, 10 per cent each year, in each of the ten main sectors of imports. These sectors were: (1) primary products for food excluding fish; (2) manufactured products for food excluding fish; (3) fish and fish products; (4) raw materials, including petroleum products; (5) products of chemical and allied industries; (6) leather and products of leather, fur skins, rubber, wood, cork, paper and printed matter; (7) textile products and clothing; (8) base metals and manufactures thereof; (9) machinery, electric and transport equipment; (10) miscellaneous manufactures.

The European Coal and Steel Community

The ECSC, formed in 1952, created a single market for coal and steel among European countries which subsequently became members of the EEC. This involved the abolition of customs duties, import quotas and other artificial restraints on coal and steel within the ECSC.

The United States Trade Expansion Act, 1962

The Trade Expansion Act of 1962 provided for the elimination of duties on commodities in which the United States and EEC accounted for more than 80 per cent of world exports. The provision was adopted on the assumption that the EEC would be enlarged to include at least the United Kingdom. If the United Kingdom had joined the EEC, some twenty-five sectors or groups of products would have been eligible for free trade. These sectors would have included organic chemicals; pigments and paints; perfumery and cosmetics; miscellaneous chemicals; articles of rubber; glass; power generating machinery; agricultural machinery and tractors; office machinery; metal-working machinery; industrial machinery; electrical machinery; railway vehicles; road motor vehicles; other road vehicles; aircraft; photographic supplies; musical instruments and phonographs.

The Kennedy Round

Negotiating groups were established in the Kennedy Round to deal with special problems for aluminum, steel, chemicals, textiles, and pulp and paper.

United States Commission on International Trade and Investment Policy

In its report to the President of July 1971, (the Williams Report) the Commission on International Trade and Investment Policy suggested the sector approach could be an appropriate supplementary technique in the context of longer-term negotiations that looked toward the progressive reduction and eventual elimination of barriers to trade and investment. The relevant section of the Report is quoted below:

> "In some cases, it may be appropriate to negotiate simultaneously on all measures and policies, including domestic policies, affecting the conditions of international trade in a particular industry. This 'sector approach' has been suggested for agriculture and for industries such as textiles and steel which have become of major concern to governments. The sector approach may also be appropriate for industries in which most trade is conducted by multinational companies. Efforts should be made to arrive at mutually advantageous solutions within specific industrial sectors. The sector approach is not incompatible with the functional approach; nor does it require a self-balancing package; a country which gives more than it gets in one sector may recoup by obtaining an equivalent net advantage in another."

The OECD High Level Group on Trade and Related Problems

The Report by the High Level Group on Trade and Related Problems of August 1972 (the Rey Report) sets out some of the advantages and disadvantages of the sector approach as follows:

> "The main arguments for a sectoral approach to tariff negotiation are that under this system difficulties in certain sectors would not obstruct faster progress in some other sectors and that it might even lead to a greater overall reduction of duties; and furthermore, that the importance of trade barriers other than tariffs has, if not in absolute terms at least in relative terms, grown considerably. In this view separate negotiations on tariffs and other trade barriers might involve the risk of creating more distortions than they would remove. Only a sectoral approach would make possible simultaneous examination of all major barriers to trade and, if need be, all the different factors that determine production and investment in the sector in question. Conversely, any attempt at such a simultaneous examination would necessarily introduce a sectoral element into the negotiations.
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> "A comprehensive approach of this kind would not only aim at establishing more equitable trading conditions in the sectors concerned, but might also make it possible to formulate guidelines for future behaviour in the field of government intervention, investment and possible adjustment programmes.

"It is to be feared, however, that the usual insistence on reciprocity, which might be difficult to achieve in each particular sector, would have the effect of slowing down negotiations until some package deal could be made balancing the concessions made in one sector with those obtained in another. A direct negotiating link between tariffs and other less tangible and measurable trade barriers could implicate matters and cause great delays, especially in the case of trade barriers which concern more than one sector. In this more pessimistic view the sectoral and comprehensive method would endlessly prolong negotiations, and during such a long drawn-out period no progress would be made towards further overall trade liberalization because Governments would be too concerned to preserve their bargaining power. It must, however, be underlined that the same risk is likely to occur if tariffs and non-tariff barriers (and agriculture for that matter) are negotiated separately, unless there is a readiness to implement the results of tariff negotiations before agreed solutions have been reached in the field on non-tariff barriers. However, it is clear that the choice for or against using the sectoral method does not have to be of an all-or-nothing character. This approach could be limited to certain sectors only. It is also possible to envisage a general tariff-reduction programme which could be slowed down in sectors where disparities and non-tariff barriers are of particular importance."