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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Trade and Development
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BACKGROUND NOTE FOR REVIEW OF IMPLEMENTATION OF PART IV

Prepared by the Secretariat

1. In accordance with its terms of reference the Committee on Trade and Development is expected, every year, to review recent commercial policy action by governments relevant to the provisions of Part IV. The following summary of liberalization measures under Section I of this paper is based on information provided to the Group of Three by governments or otherwise notified to the secretariat since the last review in October 1972. Delegations may wish to inform the Committee of any further action taken by their governments to implement Part IV. To facilitate this, reference may be made to the reporting procedures outlined in GATT/AIR/803.

2. Following earlier practice, brief notes on some commercial policy developments of interest are provided under Section II. A note on broad developments in the international trade of developing countries during 1972 and the first half of 1973 is to be found under Section III.

SECTION I - ACTION BY GOVERNMENTS

Tariffs

3. In July, Australia announced a reduction of 25 per cent in tariff rates, the only exceptions being a small number of revenue items. This action is viewed by Australia as an integral part of its contribution to the multilateral trade negotiations. Primage duties on certain items, including chocolate, ground pepper and mustard oil, have also been abolished. The announcement by Canada on 19 February 1973, of temporary duty reductions, effective immediately, covering $1.3 billion of Canadian imports in 1972, included a number of items of interest to developing countries, such as meat and meat products, cocoa and chocolate paste, coffee and coffee extracts and substitutes, rice, sago and tapioca, certain fruit and vegetables, bananas, desiccated coconut, sugar, pineapple and grapefruit juices, jams, plywood, toys etc. The duty on crêpe rubber for soles was removed in 1972. The suspension of the duty on tea has been extended by the United Kingdom from 1 July 1972 for an indefinite period. Japan reduced tariff rates by 20 per cent on a number of items in November 1972, including instant coffee, instant tea, groundnut oil, wine, crude alcohols and soap. In addition, the higher of the two temporary seasonal duty rates on bananas was reduced from 60 per cent to 55 per cent and is scheduled to be further reduced to 50 per cent in 1974. In April 1970, Switzerland had introduced a measure, for an initial period

of two years, for duty-free import of certain silk and cotton fabrics made on hand-looms. The validity of this measure has been extended until February 1982. Suspension of import duties, as reported by the United States in October 1972 (COM.TD/W/170), remain in force on a number of products of special interest to developing countries: manganese ore, certain yarns of non-continuous silk fibres, alumina and bauxite. Moreover, the Congress has been asked to restore retroactively duty suspensions, which lapsed in 1972, on processed istle, certain tanning materials, certain copper products including copper-waste and scrap, copper-bearing ores and materials, and various types of unwrought copper.

Generalized System of Preferences (GSP)

4. The product coverage of the Australian tariff preference scheme was enlarged during the year and the preferential quota ceilings increased. In a communication circulated on 5 October 1973 (L/3884/Add.1), the Australian authorities have indicated that they propose to grant duty-free admission, without quota limitations to sandals and hats, hand-made from woven, braided or knitted fabrics made from plaiting materials. The Australian Government has also announced its intention of introducing a new system of tariff preferences for developing countries whereby imports from these countries of all manufactured and semi-manufactured items, including processed primary products (with certain exceptions) will be subject initially to a margin of preference of 10 per cent. Further increases in the margin at the end of each two-year period are envisaged. Austria and Denmark have expanded the list of beneficiaries of their preference schemes. Canada has obtained the approval of Parliament for its Generalized System of Preferences. The date for the implementation of the preference scheme is being considered by the Canadian Government. The European Economic Community has improved its GSP scheme by providing percentage increases in quotas and ceilings - 7 to 8 per cent for industrial goods; 15 per cent for iron and steel products; and 4 per cent for textiles. There has also been an enlargement in the product coverage. It has been stated in the consultation with the Group of Three that preparations are under way for effecting further improvements in connection with the expansion of the GSP to cover member States of the enlarged Community from 1 January 1974. Improvements have been introduced by Japan to its GSP scheme by the addition of certain agricultural and marine products and by deeper tariff cuts. In addition, industrial products to which 50 per cent tariff reductions had applied, now enjoy duty-free imports. Furthermore, Japan is administering quotas on a more flexible basis and has also enlarged the list of beneficiaries. Norway indicated that it was reviewing its GSP scheme with a view to enlarging product coverage in the agricultural sector and the list of beneficiary countries. The Swedish preference scheme has been further extended to include grapes, wine, cigars and cigarettes as from 1 January 1973 and certain vegetable and animal oils and fats as from 1 July 1973. Switzerland is preparing for the implementation of the second phase of its preference scheme. The United States submitted a proposal for the introduction of its Generalized System of Preferences to Congress earlier this year as part of the proposed Trade Reform Act, 1973.

Quantitative restrictions

5. The quantitative restrictions imposed by Australia under Article XIX on imports of knitted shirts and knitted apparel have been eliminated. Effective 19 February 1973, Denmark, as a part of its programme towards alignment of its commercial policy with the EEC, eliminated quantitative restrictions on more than fifty (four-digit) BTN positions including a number of products of export interest to developing countries: for example, meat and processed meats, honey, various vegetables and fruits, various cereals including maize, sugar, molasses, fruit juices and cutlery. The United Kingdom has liberalized hop cones and lupulin and sugar. France has taken certain liberalization measures in the agricultural sector, notably with respect to provisionally-preserved fruit. Following elimination of the remaining quantitative restrictions on certain products and the liberalization of imports of seeds and lucerne flour, the Federal Republic of Germany has eliminated discriminatory country listings with respect to agricultural products. Italy has increased the global quota for banana imports from 315,000 tons in 1972 to 350,000 tons in 1973. It was stated in the consultation with the Group of Three that approximately 30 per cent of the global quota is allocated to traditional suppliers. The selective tax on bananas at the rate of Lit 110 per kg. continues to be in force. Some progress has also been made in import liberalization of certain agricultural products and motor vehicles and parts thereof. Japan has removed quantitative restrictions in respect of nine BTN headings. Apart from certain industrial products, such as digital calculating machines and transistors, the liberalization measures include also specified fish products, ham and bacon, sugar, tomato purée and paste. For the items remaining subject to restrictions - twenty-four in the agricultural sector and eight in the industrial sector - quotas have been increased. The suspension of meat quotas has been extended by the United States through 1973, the cheese quota has been increased by 50 per cent and volumetric quotas on oil imports have been eliminated.

Other non-tariff measures

6. Austria has further extended the temporary suspension of the import equalization tax on tea and coffee. Canada has abolished the federal sales tax on foodstuffs, not already exempted, including chocolate bars and confectioneries. The system of discretionary licensing on imports of motor gasoline and surtax on fresh sweet cherries, both introduced under Article XIX, have been withdrawn. In France, suspension of the selective tax on coffee, roasted or unroasted and coffee substitutes continues to be in force. In the United Kingdom, chocolate and confectionery have been exempted from value-added tax as a result of changes effected in the tax system. In the United States, export subsidies have been either terminated or suspended on wheat and wheat flour, lard, whole chicken, rice, tobacco, oilseeds and related products, dairy products (non-fat dry milk) and feed grains.

Any departure from standstill provision of Part IV

7. No action by way of increasing duties or other taxes or the introduction of new quantitative restrictions or embargoes involving departure from the standstill provisions of Part IV has been notified to the Group of Three or the secretariat.

SECTION II - OTHER COMMERCIAL POLICY DEVELOPMENTS

8. In addition to developments connected with the initiation of multilateral negotiations in the trade field, the period under review saw a number of important developments in commercial policy. On 1 January 1973, Denmark, Ireland and the United Kingdom acceded to the European Communities. Agreements between the Community and a number of other countries providing for the progressive elimination of customs duties covering trade in industrial products between the EEC on the one hand and Austria, Portugal, Sweden and Switzerland on the other, entered into effect on 1 January 1973. Agreements between the EEC and Iceland became effective on 1 April 1973 and between the EEC and Norway on 1 July 1973. The second Yaoundé Convention, due to expire on 31 January 1975, provides for commencement of the renegotiation of the Convention eighteen months before its expiry date. Discussions concerning future relations between the EEC, the Associated States members of the Yaoundé Convention and a number of "associable" countries commenced recently in Brussels. The Protocol relating to tariff preferences among developing countries negotiated in the GATT, came into force on 11 February 1973, following its acceptance by the required number of participating countries.

9. At its meeting on 30 July 1973, the Council decided that the Working Party on Textiles be reconstituted into a negotiating group with the objective of reaching a mutually satisfactory arrangement relating to trade in textiles by the end of 1973.

10. The International Cocoa Agreement negotiated under the auspices of UNCTAD entered provisionally into force on 30 June 1973.

11. The International Coffee Council has decided to extend the International Coffee Agreement for a period of two years from 1 October 1973, but without provisions for export quotas and price stabilization machinery, which were considered by the majority of the members to be no longer relevant to the present supply and demand situation in coffee. The Council has further instructed the sixteen-nation Executive Board to establish a suitable programme for the negotiation of a new agreement that may cover a period beyond 30 September 1975.

SECTION III - TRENDS IN TRADE OF DEVELOPING COUNTRIES

12. Recent developments in the international trade of developing countries including trends in commodity trade and trade in manufactures are dealt with in Chapter IV of International Trade 1972. A summary of the main points is given below.

13. In 1972, agricultural output as well as, in some countries, mining and fishing production, turned out to be disappointing in the developing areas and provoked serious shortages in some regions. As regards international trade, the deficiencies of supply were, however, more than offset by the strong increase in prices of primary products as well as the continued rapid rise in exports of manufactures from a relatively limited number of developing countries. Altogether, the dollar value of exports of developing areas increased by more than 18 per cent in 1972, corresponding to a volume rise by about 6 to 7 per cent, a satisfactory but by no means exceptional result.

14. As a consequence of rapidly rising prices, the dollar value of imports increased by some 14 per cent, corresponding to a volume increase of not more than 5 per cent; this is a percentage well below the 1962-71 average and it probably had a serious impact on investment programmes in a number of developing countries.

15. Given the large variations in supply conditions together with the unequal rise in prices, the development in both the value and the volume of exports varied considerably from one country to another, and indeed in some countries which did not benefit from the improvement in export prices, there has been a significant deterioration in the terms of trade.

16. Nevertheless, in global terms, the apparent f.o.b./c.i.f. trade balance of the developing areas seems to have shown a small surplus, the first since the Korean War. This overall surplus is of course the consequence of the relatively slow rise of import expenditures which can be explained partly by the fact that the rise in exports benefited mainly a relatively small group of countries which had already comfortable reserves and did not increase their imports accordingly. In a number of countries there has also been a time-lag between the sudden rise in export earnings and the moment when imports started to rise. Finally, in a number of countries, the balance-of-payments position remained so vulnerable that in spite of the higher export earnings, stringent import controls were maintained.

17. According to preliminary estimates for the first half of 1973, the dollar value of exports of developing areas increased by about one third as compared with the first half of 1972, whereas the rate of growth of their imports lagged by a few percentage points behind that of exports. However, given the improvement in the terms of trade of the developing countries as a group during this period, the volume of their imports increased probably more rapidly than that of their exports.

18. The sharp rise in price quotations for primary commodities appears to have reached a peak towards July 1973. However, in terms of export earnings, the statistics are likely to record in the second half of 1973 the lagged effect of the earlier upsurge in market quotations and will probably increase more rapidly

than imports at least until the close of the year. It is therefore probable that for some time the foreign exchange reserves of developing countries will continue to increase, though less rapidly than in the first seven months of 1973, when they exceeded $1.1 billion.

19. Looking further ahead, it can be expected that, with the gradual cooling-off of the boom in the industrial countries and the speeding-up of the deliveries under orders placed since the beginning of 1973, the export surplus of the developing areas will start to decrease towards the beginning of 1974.