

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## REPORT OF THE WORKING PARTY ON PREFERENCES

1. The terms of reference of the Working Party are to study the following proposals:

- (a) The granting of preferences on selected products by industrialized countries to less-developed countries as a whole.
- (b) The granting of preferences on selected products by less-developed countries to all other less-developed countries.

2. At their twenty-first session the CONTRACTING PARTIES agreed that further discussions in the Working Party on Preferences should be arranged with a view to enabling the Working Party to submit a report to the Council in time for the latter to make a submission to the CONTRACTING PARTIES at their special session in mid-November 1964. The Working Party met from 22 to 24 October 1964. In the absence of Mr. Miyazaki, Ambassador Letts was elected Chairman of the Working Party for the present meeting. The representative of Switzerland, having requested membership of the Working Party, was invited to participate in the meeting.

3. At this meeting a number of contracting parties put forward texts of a proposed provision to be inserted in the new Chapter on Trade and Development which would enable preferences to be established in favour of less-developed countries by other contracting parties and between less-developed contracting parties.

4. The representative of India and the United Arab Republic proposed that the following text should be inserted in the Chapter on Trade and Development:

"Notwithstanding anything contained in this Agreement, and without prejudice to the rights of the contracting parties in paragraphs 2, 3 and 4 of Article I, contracting parties may, in accordance with such procedures as may be prescribed in this behalf, accord, with respect to all matters in this Agreement, preferential treatment to products originating in less-developed countries, with a view to promoting the economic development and international trade of less-developed contracting parties through the expansion of their exports of manufactures and semi-manufactures. Such preferential treatment granted to any contracting party shall be applied automatically and unconditionally to like products originating in all other less-developed contracting parties.

A Standing Committee shall be set up:

- (i) to arrange negotiations for the exchange of preferential tariff concessions amongst developing countries;
- (ii) to hold consultations on the accordence of preferences by individual countries to products originating in developing countries, including their depth and range and the requisite safeguards necessary for the interests of countries not benefiting from such preferences;
- (iii) to keep under constant review the working of preferential régimes for the benefit of developing countries."

The representatives of Argentina, Brazil, Jamaica, Southern Rhodesia and Uruguay supported the inclusion in the Chapter of the first paragraph of the text proposed by India. The representative of Southern Rhodesia recalled that some preferences were granted under waiver; the text should not prejudice the position of contracting parties in this respect. The representative of Indonesia supported the inclusion of paragraph 1 of the Indian text in the new Chapter on condition that the words "manufactured and semi-manufactured goods" were replaced by the words "processed and semi-processed goods".

5. The representative of Chile also supported the inclusion of paragraph 1 of the Indian proposal, but said that it should be clearly established that preferences should be granted unconditionally.

6. The representative of Uganda supported paragraph 1 of the proposal put forward by India with the exception of the last sentence. In the opinion of his delegation, preferences between less-developed countries should be negotiable.

7. The representative of Nigeria proposed that paragraph 1 of the Indian text should be amended by the addition of the words "unless under special circumstances the CONTRACTING PARTIES give, with a two-thirds majority, to the contracting party granting the preference, the right to deviate from the provision in this paragraph". He pointed out that this would enable account to be taken of the differing stages of development of individual less-developed countries and the existing benefits so enjoyed.

8. The representative of Cameroon associated himself with paragraph 1 of the Indian proposal, but proposed the addition of the words "primary products" before the word "manufactures" in line 8. The representative of Chile pointed out that if primary products were not mentioned in the proposed text it was because it had been proposed that these products should be free from all types of restriction.

9. Turning to paragraph 2, the representative of Cameroon said that an examination should be made to see to which less-developed countries the new preferences should be granted in full, taking due account of the differing stages of development of the contracting parties. On the other hand it should be understood that the new preferences would not supercede preferences already

in existence. A means of reconciling these two points would have to be found. The representative of the United Arab Republic pointed out that the United Nations Conference on Trade and Development had established the treatment to be accorded to existing preferences and that many less-developed countries did not at present enjoy preferences. The representative of the European Economic Community pointed out that the General Principle Eight, to which the representative of the United Arab Republic referred, had not been adopted unanimously. The representative of India stated that in Committee 2 of the United Nations Conference on Trade and Development all the less-developed countries had agreed on a recommendation for the establishment of preferences in favour of less-developed countries on a non-discriminatory basis.

10. The representative of Jamaica supported in principle the establishment of a Standing Committee as proposed in the second paragraph of the Indian text, because he felt that such an important task as the examination of preferences should not be assigned to the proposed Committee on Trade and Development as one of its many functions. The representative of Argentina felt that the second paragraph of the Indian proposal should be included in the terms of reference which would be given to the Committee on Trade and Development, the establishment of which has been recommended by the Committee on the Legal and Institutional Framework. The representative of Chile felt that the second paragraph should be retained but should be drafted in general terms without entering into the details of the functions of the Committee.

11. Members of the Working Party who had proposed the insertion of a provision relating to the granting of new preferences in the Chapter on Trade and Development emphasized the importance which they attached to this question. Some other members of the Working Party, however, who were in favour of the general objective of providing greater opportunities for the less-developed countries to increase their export earnings and standards of living, felt that they could not agree to the inclusion of such a provision in the new Chapter. These members felt that the CONTRACTING PARTIES should concentrate their efforts on non-discriminatory measures to afford increased export opportunities to less-developed countries rather than on the consideration of provisions for preferences. Still other members of the Working Party, while sympathetic to the general objective referred to above, indicated that they were not in a position to make a material decision on the question of including provision for preferences in the Chapter at the present time. Certain members were of the opinion that, if the Working Party could not agree to the desirability of inserting in the new Chapter a provision enabling the granting of preferences to less-developed countries, it should recommend that the proposed Committee on Trade and Development should further study this question and the criteria to govern the granting of preferences. The Working Party noted the various proposals which had been put forward and the views which had been expressed on this subject.

12. It was suggested that with a view to facilitating further progress, the Working Party might agree to adopt the following propositions as working hypotheses:

- (i) that a clause should be inserted in Article I of the General Agreement which would provide that nothing in the Agreement should prevent preferences being granted by industrialized countries to products originating from less-developed countries without discrimination between these countries;
- (ii) that a clause should also be inserted in Article I which would provide that nothing in the Agreement should prevent less-developed countries from granting preferences to other less-developed countries.

13. It was further suggested that contracting parties should be invited to submit detailed proposals on the basis of these hypotheses, it being understood that it would be open to any contracting party to submit proposals which might involve modification of either of these hypotheses. The proposals should cover the essential points and problems which would need to be considered in their practical implementation. The proposals might take account, inter alia, of:

- (i) The circumstances, if any, in which the grant of preferences for exports of less-developed countries should be permitted. It would be necessary to consider, in particular, criteria relating to the products which might be covered, and the countries to which preferences should be given.
- (ii) The legal provisions on this question which it would in the light of (i) be necessary to include in the Agreement; how far such provisions should specify criteria on such points as the period and depth of preference, and how far should these points be left for the negotiating procedures referred to in (iii).
- (iii) The negotiating procedures which should be established for making use of new provisions and to ensure that the interests of all substantially interested parties are taken into account.
- (iv) The safeguards which are required if tariff preferences for less-developed countries are to serve as an effective instrument for promoting the expansion and diversification of their export capacity and export earnings without creating the problems and difficulties which have been pointed out.

14. It was also suggested that proposals for preferences between less-developed contracting parties might deal with the following points:

- (i) the conditions under which the establishment of such preferences can be accepted and the basis on which negotiations to this end can take place between less-developed countries;
- (ii) the legal provision which needs to be made in the GATT.

15. Some delegations considered that it was not necessary to adopt the proposed working hypotheses as any further examination of the problem that was considered desirable could be carried forward without assuming such hypotheses. Delegations which opposed the adoption of hypotheses suggested that what was required was a thorough study of specific proposals which would enable an assessment to be made on, inter alia, the likely benefits which would result from the implementation of these proposals and the possible injury that might be caused. Some delegations considered that further progress could be made only if proposals submitted by contracting parties were related to some working hypothesis. In this connexion certain specific suggestions in regard to the points which could be covered by the hypothesis were made. The representative of Brazil stressed the importance of his country attached to the work of the Committee set up by the United Nations Conference on Trade and Development to work out methods for implementation of preferences. Brazil would be making formal proposals to that body. In the view of the Brazilian representative any further proposals submitted to the Working Party on rules for implementation should take the form of working hypotheses, without involving commitments. The representative of the United States indicated that his delegation was opposed to the adoption of "working hypotheses" but felt that various plans and programmes, with their merits and demerits, could be studied.

16. There was general recognition that there was no disagreement on the principle involved in the granting of preferences between less-developed countries, at least in so far as this was on a regional basis.<sup>1</sup> It was the view of the Indian delegation that the agreement referred to in this paragraph referred to General Principle Ten adopted by the United Nations Conference on Trade and Development. The United States delegation disagreed with this interpretation.

17. After discussion, the Working Party agreed that those countries wishing to do so could submit, if possible by 30 December 1964, detailed proposals on the two points in the terms of reference of the Working Party, bearing in mind the points raised in paragraphs 13 and 14 of this report. The Working Party wishes to recommend that the examination of these proposals, including inter alia an assessment of their probable effects, should be entrusted to an appropriate organ of the CONTRACTING PARTIES and that a start should be made with this examination at a meeting to be held in January 1965.

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<sup>1</sup>The delegation of Japan reserved its position on this sentence.