

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## Multilateral Trade Negotiations

### GROUP 3(c) - THE SECTOR APPROACH

#### Background Note by the Secretariat

1. In paragraph 3(c) of the Tokyo Declaration, Ministers agreed that "the negotiations should aim to include an examination of the possibilities for the co-ordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique".
2. Group 3(c) agreed (MTN/10, paragraph 19) that the secretariat should prepare a background note covering the following elements:

	<u>Paragraphs</u>
(a) the use of the sector approach in previous negotiations;	4 to 18
(b) the main features of a sector approach as suggested by delegations in Group 3(c) and in earlier discussions on the subject;	19 to 35
(c) objectives, principles and procedures for the sector approach drawing on the Tokyo Declaration, including differentiated treatment and additional benefits for developing countries as set out in this Declaration, as well as the criteria suggested and questions raised in the meeting of Group 3(c);	36 to 50
(d) a technical examination of the possibilities of identifying products subject to different stages of processing within a sector for negotiating purposes using tariff study and other relevant data;	51 to 55
(e) identification of the main sectors of interest to developing countries;	56 to 68
(f) the availability of basic data suggested by delegations at the present meeting as being necessary for the purposes of a sector negotiation.	69 to 79

This paper deals with these points in the order set out above.

3. Delegations may also find useful the following check list of the main documents dealing with the sector approach:

Report of Group 3(c)	MTN/10
Questions relating to the examination of the sector technique - Statement by the delegation of the United States	MTN/3C/W/2
Possible basic criteria for selecting potential candidates for sector negotiations - Statement by Canada	MTN/3C/W/1
Special procedures for developing countries - Working paper presented by the Brazilian delegation	MTN/W/2, page 4
Report of Preparatory Committee	MIN(73)W/2, paragraph 50
Report of the Committee on Trade in Industrial Products on the status of its work	L/3886, paragraphs 63 to 69
The sector approach as a technique for multilateral trade liberalization - Note submitted by Canada	COM.IND/W/109

A. The use of the sector approach in previous negotiations

4. The following paragraphs describe the use of the sector technique in previous GATT negotiations. They do not attempt to give a detailed history of the use of this technique but attempt to pay particular regard to some specific questions which have been raised in Group 3(c), e.g. the definition of sectors, participation in the sector negotiations and how reciprocity has been dealt with in these negotiations.

5. The sector approach has in fact been relatively little used in the GATT in the past since, from the outset, tariffs and non-tariff measures have normally been treated in different ways. Since the GATT was established a number of negotiating conferences have been held directed in the main towards the reduction and binding of tariffs on specific products through their incorporation in the schedules annexed to the General Agreement. When people speak of GATT negotiations, these are the conferences that they usually have in mind. GATT has, however, also held negotiations on non-tariff measures. These have been directed towards the establishment of general rules governing the application of different measures. The main negotiation of this sort took place of course during the drafting of the Havana Charter and the GATT itself, and the results of these negotiations are mainly in the technical articles which form Part II of

the GATT. Other negotiations of this sort have been held subsequently. Article XVI:4 banning the use of export subsidies on non-primary products was, for instance, introduced into the GATT along with a number of other provisions during the Review Session held in 1955 after it had become clear that the International Trade Organization, foreseen in the Havana Charter, would not be set up. GATT rules were also modified by the addition of a Part IV to the GATT in 1965.

#### Agricultural products

6. However, a sector approach which aims to deal with all barriers to trade in selected sectors, has been used on certain occasions in the GATT. The main sector in which such an approach has been adopted is that of agricultural products. It was argued that the problems to be dealt with were to a great extent peculiar to the agricultural sector and importing countries took the view that frontier measures were an integral part of their total agricultural policies and that they could not be treated separately from these policies. It gradually became accepted that negotiations on tariffs on these products would have to be supplemented by negotiations on related non-tariff measures if they were to produce meaningful results. This was particularly clear after the main developed countries outside the dollar area stopped invoking Article XII of the GATT as a justification for their quantitative restrictions on imports of the main temperate agricultural products and after the publication of the Haberler report<sup>1</sup> which had drawn attention to the agricultural problem. It also became apparent that, in the case of certain agricultural product sectors, it would be necessary to use a truly multilateral negotiating technique rather than a series of traditional bilateral negotiations if significant results were to be achieved. The Ministerial Resolution launching the Kennedy Round, therefore laid down specific objectives ("acceptable conditions of access to world markets") for the negotiations on agricultural products and instructed the Trade Negotiations Committee to work out rules and methods for the achievement of this aim.<sup>2</sup>

7. A Committee on Agriculture was given this task. Negotiations on cereals, on meat and on dairy products were directed towards the negotiation of general arrangements and a special group on tropical products was also set up. These negotiations proceeded in special groups on the basis of concrete proposals and offers with respect to all relevant elements of agricultural support or

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<sup>1</sup>Trends in International Trade: A Report by a Panel of Experts, Sales Number GATT/58-3

<sup>2</sup>BISD, 12th Supplement, pp. 48 and 49

protection tabled by participating governments. Negotiations on other agricultural products, including tropical products, were conducted item by item. In the case of cereals, agreement was in the end reached relating to prices and food aid. Some bilateral agreements were concluded on meat. Little was achieved multilaterally in the case of dairy products. A number of reductions were negotiated in tariffs on other agricultural products and on tropical products.

8. In practice, participants with a trade interest in the products in question took part in the work of the groups. The groups did not specifically set out to draw up self-balancing arrangements. It was clear that, in a period of surplus supplies, the importing participants would have to be compensated in other areas of the negotiations for concessions made in the agricultural sector. No agreement was reached on the precise definition of the agricultural sector, each participant tabling his own definition. A common definition was necessary for the purposes of the agreement on grains: the price provisions related to wheat (excluding durum wheat and certified seed wheat) and the food aid provisions related to wheat and coarse grains suitable for human consumption of an acceptable type and quality.

9. Since the conclusion of the Kennedy Round a number of contracting parties including both exporting and importing countries concluded an Arrangement Concerning Certain Dairy Products which fixed minimum export prices first for skimmed milk powder and later also for milk fat in order to restore stability in the world market for this product.

#### Textiles

10. Problems relating to textiles have also been dealt with on a sectoral basis, although no attempt was made to deal with all factors affecting trade in the sector but rather with one particular problem, that of "market disruption". Discussions held under the auspices of the GATT led to the introduction of the Short- and Long-Term Arrangements Regarding Trade in Cotton Textiles, in force from 1961-1973. The Arrangement Regarding International Trade in Textiles which entered into force on 1 January 1974 for a period of four years was also negotiated under the aegis of the GATT. Any country, whether or not a contracting party to the GATT, could adhere to each of these Arrangements.

11. One element common to each of these Arrangements is that they are essentially sectoral safeguard clauses designed to achieve an orderly expansion of world trade in which a balance is struck between the interests of importing countries and exporting countries. Importers are given rights which they do not have under GATT Article XIX, (notably the right to impose restrictions on imports from particular countries) and give exporters an assurance that they would receive a quota related to their past trade performance and that the quota, if maintained,

would be progressively enlarged. The new Arrangement covers wool and man-made textiles as well as cotton textiles and, importantly, introduces a system of multilateral surveillance of the restrictions introduced under it.

12. The definition of the product coverage has given rise to problems in two ways. Firstly, the fact that the items covered have not been precisely defined (the definition used not being in terms of a detailed nomenclature such as the Brussels Nomenclature) has led to some disputes about marginal products.<sup>1</sup> Secondly, at the time that the Long-Term Arrangement Regarding International Trade in Cotton Textiles was drafted, it was foreseen that problems might be caused by the substitution of directly competitive textiles (see Article 6(b) of the Arrangement). The Arrangement which entered into force in January 1974 covered textiles made of cotton, wool and man-made fibres.

#### Other sectors

13. A sectoral element was introduced into the negotiations on industrial products in both the Dillon and Kennedy Rounds of GATT negotiations, even though this was not foreseen in the decisions which launched these negotiations. There was a possibility that tariffs would be eliminated in certain sectors in the Kennedy Round as Section 211(a) of the United States' Trade Expansion Act gave the President authority to negotiate towards this aim in sectors in which the United States and the European Economic Community accounted for 80 per cent of world trade. However, this possibility was not realized as the United Kingdom had not become a member of the European Economic Community by the time of the negotiation, and the six and the United States accounted for 80 per cent of world trade in very few sectors.

14. One sector affected has been that of chemicals. In the Dillon Round, European countries made any reductions in the tariffs on organic chemicals conditional on the abolition of the American Selling Price system of valuation for customs purposes by the United States. No agreement was reached, with the result that organic chemicals were excluded from the negotiations. In the Kennedy Round, European countries consequently made their offers on the entire chemical sector (which they defined as embracing Chapters 28 to 39 of the

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<sup>1</sup> For definition, see Article 9 of the Long-Term Arrangement Regarding International Trade in Cotton Textiles and Article 12 of the Arrangement Regarding International Trade in Textiles.

Brussels Tariff Nomenclature) conditional on the abolition of ASP. Another sector affected was that of steel. The EEC, whose tariffs were already the lowest of any major steel producer, made their offers in the sector (defined as Chapter 73 of the Brussels Tariff Nomenclature) conditional on the harmonization of the steel tariffs of the major producers. Some importing countries also made reductions in their textile tariffs dependent on the continued existence of the Long-Term Arrangement discussed above. Other conditional offers were also made, for instance in the paper and automobile sectors.

15. It became clear that a determined effort must be made to deal with the problems in the main sectors affected since the withdrawal of conditional offers could have triggered off a chain reaction which would have undermined the whole negotiation and that the problems could not be dealt with in the course of normal bilateral negotiations. Informal groups were therefore established in five sectors: chemicals, cotton textiles, pulp and paper, iron and steel and non-ferrous metals. Participants with a major interest in the problems took part in the Groups. In other sectors, e.g. watches, sector negotiations were conducted at the bilateral level.

16. At the time, it was feared that the establishment of sector groups would encourage participants to demand reciprocity within each sector. This would inevitably have reduced the degree of liberalization that could be obtained, since in nearly all sectors the import and export interests of the participants would not be evenly balanced. It was understood that the aim of the sector negotiations should be to achieve the maximum degree of trade liberalization and not a reciprocally balanced agreement in each sector.

17. Results achieved by the sector groups were more modest than in the rest of the industrial sector. In the chemical sector the implementation of the second package contained in the Agreement relating principally to chemicals would have brought the degree of liberalization well above that obtained for other industrial products. As it was, the first package which was implemented as an integral part of the Kennedy Round results contained significant concessions in the tariffs of both the United States and other countries. In the steel sector, while the percentage cuts were smaller than those obtained on average, the Kennedy Round saw the tariffs of the EEC and the United Kingdom bound in the GATT for the first time. These and other results should not be underestimated, given the intractable nature of the problems which had given rise to the establishment of the sector groups.

### Conclusions

18. The following are the main conclusions that can be drawn from past experience in GATT negotiations:

- (a) A sectoral element has been introduced into previous negotiations on certain products, and, in particular, agricultural products, textiles, chemicals and steel.
- (b) However, it is only in the case of certain agricultural products that these sectoral negotiations have made an attempt to deal in a concerted way with "all barriers to trade" in the products concerned. In other cases, a sectoral approach was adopted in order to deal with individual problems which were specific to the area concerned.
- (c) These sectoral negotiations have led to a lesser degree of liberalization than has been obtained under general rules. However, given the difficulties which existed in these areas, the results obtained represent significant achievement.
- (d) Some problems of defining sectors have arisen, the main example perhaps being in the cotton textile sector where the problem of substitutes has been an important factor.
- (e) Countries with a significant trade interest in the problem under negotiation have participated in the sector negotiations. There has been little discussion of problems created because countries with an important trade interest have not participated in these negotiations.
- (f) Little is on record regarding the way in which reciprocity was handled in previous sectoral negotiations. Sectoral agreements have sometimes been implemented in isolation and sometimes as part of a package. They may, therefore, be self-balancing or not. It was the general understanding in the Kennedy Round that participants should not attempt to obtain reciprocity sector by sector since this would reduce very considerably the results which might be achieved in the negotiations.

B. Main features of a sector approach as suggested by delegations in Group 3(c) and at earlier discussion on the subject

19. The basic proposal is that the sector approach would encompass all barriers to trade, tariffs and non-tariff barriers, within particular product groups. It would complement other negotiating techniques and would be used to liberalize trade to the greatest extent possible in precisely and closely related groups of products which are significant in world trade.

20. It has been suggested that, in general, any group of related products traded by a number of countries could be candidates for sector negotiations but the main proposal has been that sectors would be defined to cover all stages of processing.

21. Among the potential candidates for a sector approach mentioned by delegations are industries which could take account of economies of scale and a range of industrial materials, e.g. copper, pulp and paper and zinc.

22. Developing countries have said that there should be a selection of sectors of interest to them, particularly those which they considered essential, to be dealt with on a priority basis. More specifically, sectors which lend themselves to the sector approach, or which are at present excluded from the Generalized System of Preferences should be duly considered. They also agreed that within given sectors, the whole range of products or all stages of processing should be included. However, it has also been suggested that, within a broad sector, a limited number of products or product groups might be identified as of more specific interest to developing countries and taken up as a group for the negotiations.

23. It has been generally agreed that the sector of tropical products fell outside the purview of the examination of the sector approach, in line with paragraph 3(f) of the Tokyo Declaration.

24. The sector coverage would depend on the characteristics of each sector but it has been suggested that the greater the number of products covered, the better the chance of obtaining a meaningful sector negotiation and that if, for example, a meaningful and manageable sector negotiation were conducted on copper, the sector might 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 74.03-03 (wrought bars, rods, angles, shapes, wire, plates, sheets and strips, tubes, pipes and fittings).

25. It has been pointed out that, in order to avoid trade distortions and substitution problems, substitute and related products might have to be taken into account in defining the product coverage of a given sector.

26. It has been mentioned that it might be difficult to draw the limits as to what products to include.

27. It has been suggested that, with regard to tariffs, the aim of the sector negotiations would be to deal with the problems of tariff escalation, effective protection and tariff disparities. This would be accomplished by including all stages of production.



28. With regard to non-tariff measures, it has been said that the aim would be to enter into agreements which would remove or reduce their trade distorting effects and bring them under international discipline.

29. It has been proposed that, in addition to the specific non-tariff measures to be dealt with in a sector negotiation, there would be a need to bring under effective international discipline the non-tariff barriers of 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).

30. The sector approach could involve some, or all, of the general techniques for the elimination or the reduction of tariffs or non-tariff measures.

31. Developing countries considered that differentiated treatment in favour of developing countries, as referred to in paragraph 5 of the Tokyo Declaration, should be applied to the sector approach in order to comply with paragraph 2 of that Declaration. For example, in order to implement differentiated treatment, sectors of special importance to developing countries should be negotiated on a priority basis and products of interest to them should be subject to maximum liberalization. Furthermore, the special procedures for developing countries bearing on the general areas of the negotiations should also be followed in the sectoral negotiations. It was suggested, for example, that in the tariff field any methodology for the sector approach should be sufficiently flexible to take into account the need for establishing, improving and preserving preferential margins to developing countries in the framework of the GSP.

32. The original proposal calls for using the sector approach as a complementary technique for the negotiations. This view is generally shared by the participating countries and has been reflected in the Tokyo Declaration.

33. There is at present, however, no agreement on when this technique could be brought into play. Some delegations hold the view that the sector approach should be used in parallel with the general formulae while others would prefer that the sector technique be tried only after all possibilities for trade liberalization have been exhausted under these general formulae, or alternatively it should be resorted to only in the later stages of the negotiations.

34. With regard to reciprocity, it is generally thought that 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.

35. However, some delegations have pointed out that 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.

C. Objectives, principles, procedures and related issues

Objectives

36. Any sector negotiations will be governed by the general objectives of the negotiations laid down in paragraph 2 of the Tokyo Declaration. Clearly, the main general aim of the sector approach should be to go beyond the standards of liberalization prescribed in the agreed general liberalization formulae.

37. There is a danger that the sector approach might also be used to justify a level of liberalization below the norm set by the general formulae.

38. One additional aim could be the provision of additional benefits for developing countries over and above those which might be obtained in the general negotiations, such as the reduction of tariff escalation and the lowering of the level of effective protection of the finished product industries. The aims of the developing countries are dealt with in more detail in Section (e) below.

39. A further objective could be to seek solutions to special problems peculiar to a certain sector which escape liberalization under the general rules.

40. Another point which could be discussed in this context is whether the eventual aim of the negotiation is to obtain a situation where each participating country has liberalized access to its market to the maximum possible degree or alternatively whether the negotiation should aim at establishing equivalent competitive opportunities in the markets of all developed participating countries.

Criteria

41. The criteria for the selection of suitable sectors depend largely on the objectives which participants have in mind. Bearing this in mind, examples of some possible criteria are listed below, some of which may be considered to be complementary and some of which may be incompatible with each other. Criteria for selecting sectors of interest to developing countries are discussed in Section E below.

- (a) The sector should lend itself to substantial reduction or elimination of all barriers to trade.

- (b) The sector should be one which might prove difficult to liberalize in the course of general negotiations.
- (c) The sector should be one in which tariff reductions alone would not lead to a significant liberalization of trade because of the existence of other factors such as fiscal policy, subsidies, activities of multinational enterprises, etc. Situations of oligopoly control which arise and lead to distortions of international trade should be borne in mind.
- (d) The sector should be significant in terms of international trade.
- (e) The sector should be actually or potentially significant for the trade of developing countries.
- (f) The sector should be one where tariff-escalation and non-tariff measures affecting particularly semi-finished and finished products are a major constraint to the realization of internationally competitive industries.
- (g) The sector should be one in which economies of scale and intensive capital investment are important factors in the development of internationally competitive industries.
- (h) The sector should be one where industries are labour intensive and depend on locally produced raw material.

#### Principles

42. The principles laid down in the Tokyo Declaration would govern any possible sector negotiations. There are as follows:

- (a) The sector approach would deal in a co-ordinated fashion with the reduction or elimination of all barriers to trade in the sectors concerned.
- (b) The sector approach would be used as a complementary technique to the general formulae for trade liberalization in selected sectors.
- (c) Any sector negotiations would be carried out within the general context of the principles relating to reciprocity laid down in the Tokyo Declaration in regard to developed and developing countries respectively.

- (d) Similarly any sector negotiations would be subject to the principles in the Tokyo Declaration regarding most-favoured-nation treatment as these relate to both developed and developing countries.

Substance.

43. With regard to participation, either the sector negotiation could be open to all countries expressing an interest in participation, or right of participation could be determined on the basis of a country's economic interest in the sector (judged on the basis, of e.g. trade, production or consumption data). A certain minimum participation may need to be determined in order for a sector negotiation to take place. With respect to developing countries, the importance of products falling within a sector in the exports of the country concerned could also be a relevant factor.

44. With regard to product coverage, a sector could be defined --

- (a) to include all stages of production of a given material from basic raw material up to and including finished products (bearing in mind that the sector should be broad enough to be meaningful and not so broad to be unmanageable), or
- (b) horizontally, as for example, all industries supplying a given assembly-type industry, or all unworked non-ferrous metals.

In the case of either of the above alternatives, the problem may arise of how to deal with direct substitutes.

45. A list of barriers to be negotiated on may need to be established, sector by sector, at the outset.

46. Various negotiating techniques might be used in sector negotiations. These might complement the general rules, i.e. the general rules might apply to the sector, the sector group examining the possibility of adopting additional rules; or the rules might replace the general rules in the sector concerned. Special negotiating techniques may be devised which will apply to all sector negotiations (these could include, for example, the item-by-item technique). Again, negotiating techniques could vary from sector to sector or within the same sector according to the type of barrier to be dealt with.

47. A number of possibilities exist regarding the implementation of results. The staging of the concessions could be the same as those decided upon under the general formulae. Alternatively, there could be different arrangements for staging under the sector approach to those determined under the general negotiations. There could be advanced implementation of concessions affecting sectors of special interest to the developing countries.

Procedures

48. There could be one overall committee to deal with all sector negotiations. Alternatively, a special committee could be set up for each separate sector negotiation which would report directly to the Trade Negotiations Committee.

49. With regard to timing, sector negotiations might either begin after the general negotiations had reached a certain stage or, alternatively, proceed from the outset in parallel with the general negotiations.

50. It will be recalled that the terms of reference of the Trade Negotiations Committee call for special procedures to be worked out for the negotiations between developed and developing countries.

D. Examination of the possibilities of identifying products subject to different stages of processing within a sector using the tariff study and other relevant data

51. All countries participating in the negotiations do not have a single nomenclature which can be used to identify products subject to different stages of processing within a sector. However, concordances between the Brussels Tariff Nomenclature at the four-figure level and the nomenclatures of the main developed participants not using this Nomenclature have been made for the purposes of the tariff study which is based on this Nomenclature. In the Brussels Tariff Nomenclature, crude materials, semi-manufactures at different processing stages and finished products are in general classified in different headings; products at different stages of processing can thus be distinguished.

52. However, certain limitations of the BTN system, in general of minor importance, should be mentioned. With regard to primary commodities, crude materials are often classified together with products which underwent such primary processing as may be required in order to facilitate their marketing or transportation (e.g. hides and skins, fresh, salted, dried, pickled or limed; foodstuffs, fresh, frozen, salted or provisionally preserved; minerals, crude, crushed, ground or powdered, etc.). With respect to semi-manufactures, two or more processing steps are in some cases lumped together in one heading (e.g. grey, bleached and dyed cotton fabrics; unrefined and refined non-ferrous metals and scrap etc.). Finally, for composite manufactured goods, unassembled and assembled articles and certain of their parts are usually classified together (e.g. razor blade blanks, razor blades and razors; passenger cars for assembling and assembled etc.).

53. Such limitations of the BTN may in certain cases be an obstacle to a proper identification of different processing stages within one sector but do not raise insuperable problems for the sector approach since the documentation for the tariff study is based on national tariff and trade classifications in which most of the problems mentioned above do not occur. On the other hand, national subdivisions beyond the four-digit of the BTN are usually based on domestic requirements and the detailed data cannot always be directly compared among countries. A reconciliation of the detailed national statistics may, however, not be required.

54. The categories of industrial products distinguished in the tariff study itself have been subdivided according to the processing stages wherever possible or relevant. The definitions of the sub-categories are based on the Brussels Nomenclature. In general, three or four processing stages are distinguished. Such breakdown is, in most cases, satisfactory for the overall identification of different processing stages in the tariff study analysis but may not be sufficient for the sector approach since, in certain cases, one sub-category covers products subject to several subsequent manufacturing processes (e.g. sub-category 09.04 includes partly refined petroleum, its end-products as well as composite preparations such as lubricating oils; similarly 06.06.01 includes unworked and worked glass as well as mirrors). While such cases are of secondary importance for the overall tariff analysis, adjustments of the statistical data may be required for the sectoral negotiations and could easily be carried out.

55. On the other hand, in the BTN classifications system as well as in any national classification, individual materials can only be followed up to a certain processing stage beyond which the material from which the product is made is no longer of interest for the identification of the product or, in the case of composite products, could no longer be determined. Thus hides and skins, leather, articles of leather such as leather belts, harness, mats and apparel of leather can be distinguished, whereas leather shoes, travel goods and their parts are classified with similar articles made of plastics or other materials. Similarly, unwrought copper, copper bars, rods, plates and sheets; and tubes, wire, household utensils and apparatus of copper can be identified in the BTN but insulated copper wire and copper parts incorporated in electrical apparatus can no longer be distinguished.

#### E. Identification of sectors of interest to developing countries

56. In the following paragraphs, an attempt has been made to examine the possibilities of the sector approach, more particularly in relation to the interests of developing countries. Since specific provision is made in the Declaration for the treatment of tropical products as a special and priority sector, these products

have been excluded from the scope of this examination. It may be noted that, from the points of view of the developing countries, the main aim of the sector approach would be to provide for a rational diversification and development of production and exports of products falling within the sector under consideration and to allow account to be taken of relevant factors affecting competition in export markets with a view to seeking solutions to problems which have been identified.

57. Section C above sets out a broad range of possible criteria for the selection of groups of products which might be taken up for consideration in connexion with the sectoral approach. The following points might be taken into account in the identification of products to which this approach could be applied in the light of the interests of developing countries.

- (i) The products in the sector, whether raw materials or manufactures, are of importance in the trade of developing countries. In addition, exports may be significant in terms of performance and export potential of developing countries concerned.
- (ii) Developing countries are producers of the raw materials which are used by them in the manufacture and export of the semi-processed and finished products included in the sector.
- (iii) By taking into account the vertical linkages involved in the processing of raw materials within a sector from the primary to the finished stage, there would be the possibility of seeking reductions in the degree of effective protection afforded to products within a sector.
- (iv) There are important tariff and non-tariff barriers to the exports of developing countries (e.g. existing GSP schemes do not provide for the full elimination of duties on products at different stages of processing falling within the sector) and a co-ordinated approach is needed to deal at the same time with tariffs and non-tariff barriers to trade in products of interest to developing countries.

58. For the purposes of examining the application of some or all of the above points in the identification of possible sectors of interest to developing countries, the secretariat has utilized the information contained in the GATT publication "The Generalized System of Preferences and Most-Favoured-Nation Tariffs" which it may be noted is limited at the present time to Chapters 25-99 of the BTN and also does not incorporate data on trade that might eventually be covered by the United States GSP scheme.

59. The points suggested earlier in this section would appear to indicate the hides and skins, leather, and leather products sector as being of particular interest to developing countries. In 1971, developing countries accounted for 21 per cent of imports by developed countries of raw hides, skins, and furskins (BTN positions 41.01, 41.09 and 43.01) and for 51 per cent of total imports by developed countries of leather (BTN positions 41.02-06). The developing country share of total imports by developed countries of leather manufactures (including leather clothing) and travel goods (BTN positions 41.10 and 42.01-05), but excluding footwear, was 26 per cent. For many developing countries which are exporters of these products such exports are important earners of foreign exchange as well as important in terms of domestic employment. Supplies of the raw materials are often locally produced and much of the processing is labour intensive, whether in the tanning of the hides and skins into leather or in the manufacture of the articles of leather.

60. The information provided in the second part of the publication dealing with GSP and MFN duty rates also indicates a significant degree of tariff escalation in a number of importing countries according to the level of processing of the products within the sector. With regard to leather, the 1973 GSP schemes (using 1971 trade statistics) excluded between 29.7 and 69.6 per cent of imports falling under MFN dutiable lines; in the case of leather manufactures, the figure was 12.5 per cent. Certain non-tariff measures such as quota restrictions and sanitary regulations, have also been notified in respect of this group of products.

61. Other examples of possible sectors of interest to developing countries are to be found in the area of metals and manufactures of metals. Developing countries are important sources of metallic ores and concentrates and their exports of some unwrought metals already account for an important share of total imports by developed countries of these items.



62. In this respect, one such possible sector is that of iron and steel. Developing countries are major producers and exporters of iron ore; in addition, the establishment of domestic iron and steel industries has resulted in significant exports of iron and steel products by a number of developing countries. This industry contrasts with the previous example of a sector, namely hides and skins, leather and leather products, inasmuch as it is basically capital intensive. The ability of developing countries to participate in export markets is evident at the level of pig and cast iron and ferro-alloys (BTN positions 73.01-02). In 1971, out of total imports of these items by developed countries (including the United States) of \$604 million, imports from developing countries totalled \$141 million, or 23.4 per cent.<sup>1</sup>

63. Within this sector, there is evidence of tariff escalation at the level of semi-fabricated and fabricated iron and steel products: ores are generally duty-free while in some developed countries, imports of pig and cast iron are subject to MFN duties; MFN duties are levied on most items in the range of BTN positions 73.04 to 73.40. Although the GSP is generally applicable in this area, there are significant exceptions to it. Some non-tariff measures are also applied by certain countries.

64. Another possible sector is that of copper and copper manufactures. In 1971, exports by developing countries of unwrought copper (BTN position 74.01) accounted for 62.4 per cent of total imports by developed countries (including the United States). While there appears to be substantive escalation of MFN tariffs in this area, the GSP schemes have, however, broader coverage and the non-tariff barriers appear to be fewer in number.

65. Other items in the area of metals which appear to be of significant interest to developing countries and which could lend themselves to further exploration for possible grouping into sectors are lead, zinc, and aluminium in their raw, semi-processed and processed forms.

66. The secretariat has also looked at certain product groups falling under BTN Chapters 1-24. This is without prejudice as to whether or not the sector approach, as mentioned in paragraph 3(c) of the Tokyo Declaration, may be applied to agricultural products. It would appear that developing countries have a significant share of world trade in the product groups fish and fishery products. In 1971, the

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<sup>1</sup>These figures and those that follow were extracted from the GATT Tariff Study.

value of imports by developed countries from developing countries of fish, fresh, chilled, or frozen (BTN position 03.01) was \$159 million, or almost 21 per cent of total imports by developed countries. Imports of crustaceans and molluscs (BTN position 03.03) by developed countries from developing countries were \$419 million, or 60 per cent of the total. The values of imports of prepared or preserved fish and of prepared or preserved crustaceans and molluscs were \$52 million (14 per cent of the total) and \$67 million (39 per cent) respectively.

67. This group of products differs from those examined above in that many developed countries apply various measures of protection, both in the tariff and non-tariff field, also to the unprocessed product, i.e. fresh and frozen fish, as well as to the processed varieties. A limited number of products benefit from the GSP.

68. While the above examples have been identified by way of illustration only, the secretariat could, if required, pursue this examination in greater detail in the light of comments and suggestions by delegations in connexion with the identification of sectors of particular interest to developing countries as well as additional comments and suggestions which might be made concerning the sector approach as a whole. No special difficulties in collecting the necessary data are anticipated in this connexion. More exhaustive examination of certain sectors might indicate whether separate negotiations on the sector as a whole could be considered appropriate, having regard to such factors as the specific interests of developing countries in a limited number of items within a sector and the way in which these are covered in the more general approaches to the negotiations.

F. The availability of basic data

69. The basic data necessary for the conduct of a sector negotiation would include information on the barriers and other measures affecting trade in the given sector as well as the relevant statistics.

Tariff and trade statistics

70. In regard to industrial tariffs and foreign trade statistics, the available information concerning the main developed countries has been summarized in the various white books which have been produced in connexion with the Tariff Study:

- (a) Summary by Brussels Tariff Nomenclature Headings
- (b) Summary by Industrial Product Categories
- (c) Tariffs and Trade Profiles by Industrial Product Categories
- (d) Imports by Industrial Product Categories - Principal Suppliers and Level of Duty
- (e) The Generalized System of Preferences and Most-Favoured-Nation Tariffs.

The above publications are based on the Brussels Tariff Nomenclature classifications at a four-figure level. Information on tariffs at a tariff line level is stored on computer tapes in the secretariat.

Non-tariff measures

71. Comprehensive information regarding non-tariff measures is available in the Inventory of Non-Tariff Measures (MTN/3B/1 and Addenda) and, in so far as quantitative restrictions and export restraints are concerned, in the documentation of the Joint Working Group (COM.IND/W/116, COM.AG/W/93). The annexes of the report of the Joint Working Group are arranged by Brussels Tariff Nomenclature classification. The Inventory does not always specify the products affected by specific measures. In previous discussions (e.g. L/3496, paragraph 12) it has been pointed out, however, that a large percentage of the barriers are general in application and cannot be related to particular products or sectors.

Production statistics

72. At the Group 3(c) meeting, it was also suggested by some delegations that, in addition to foreign trade statistics and information on barriers to trade, that data also be collected in regard to production and consumption (MTN/10, paragraph 4). In regard to the latter two areas, a number of problems arise.

73. Since all data will be examined in conjunction, it would be useful if the statistics were available in the detail as applicable to the commercial policy measures, i.e. generally by customs tariff items. For most primary commodities of agricultural origin or mining products, the necessary data are generally available or could be estimated with reasonable precision in the detail required.

74. With respect to industrial products, the availability of this information was surveyed in 1972 with respect to countries participating in the tariff study and the results were collated in document Spec(72)32 and Add.1. It appears from that survey<sup>1</sup> that in a number of countries production statistics are not systematically collected in the same detail as the customs and foreign trade data and a correspondence between the two classifications cannot be always established at tariff item level. In other countries, output is reported for major commodities only. Considering the product categories distinguished in the tariff study, it appears from the survey that comprehensive and detailed production trade and consumption data could not be obtained for all the countries covered in the tariff study.

75. Under such circumstances, internationally comparable production, trade and consumption data could only be collected for selected products or product groups.

#### Input-output tables

76. Another source of production, trade and consumption data which might be considered for the purpose of sector negotiations are input/output tables. These are, however, compiled at highly aggregated level, and therefore cannot be immediately related to tariff and non-tariff measures. These tables are usually compiled by industry branches whose definitions are not strictly comparable among countries. Moreover, each industry branch usually covers a fairly large range of manufacturing activity; as a result, processing stages subject to a different level of protection cannot always be distinguished in such tables. I/O tables are, therefore, likely to be useful in the negotiations as background information and then only after certain adjustments or additions have been made to them.

#### Other statistics

77. Industrial statistics such as value of shipments (or turnover) and value added by manufacturing are in most countries available by relatively small industry groups. Such statistics might usefully supplement other available data in countries which do not collect comprehensive production statistics.

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<sup>1</sup> While some additional statistics became available in certain countries after the survey had been made, the general conclusions are still valid.

Summary

78. This section reviews the availability of information on tariff and non-tariff measures and the corresponding trade production and consumption statistics in the main developed countries participating in the negotiations. Comprehensive data on production and consumption of industrial products is not, in general, available in the same detail as the trade, tariff and non-tariff measures.

79. However, in some countries fairly complete data could be collected for certain sectors. Certain input/output tables and general industrial statistics appear to provide useful additional information.