

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED
MTN.GNG/NG8/W/24
18 February 1988
Special Distribution

Group of Negotiations on Goods (GATT)
Negotiating Group on MTN
Agreements and Arrangements

Original: English

COMMUNICATION FROM THE UNITED STATES

The following communication was received by the secretariat on 11 February 1988, with the request that it be circulated to the Negotiating Group on MTN Agreements and Arrangements.

U.S. DRAFT PROPOSAL

PROCESSES AND PRODUCTION METHODS

The United States proposes that the definition of a technical specification (Annex 1, No. 1) be amended to read as follows:

"1. Technical specification

A specification contained in a document which lays down characteristics of a product such as levels of performance, quality, safety or dimensions. It may include, or deal exclusively with terminology, symbols, testing and test methods, packaging, marking or labelling requirements, processes, conditions of growth and production methods."

As part of this amendment, the "Explanatory Note" applicable to technical specifications shall be deleted.

The United States further proposes that Article 14.25 of the Agreement be amended to read as follows:

The dispute procedures set out above can be invoked in cases where a Party considers that benefits under this Agreement are being nullified or impaired by the drafting of requirements in terms of processes and production methods rather than in terms of characteristics of products.

BACKGROUND

The Agreement on Technical Barriers to Trade (Standards Code), should be extended to include application of all Code disciplines to

processes and production methods (PPMs), since an agreement with broad coverage would be most useful in reducing technical trade barriers. Broader Code coverage for PPMs, would make the Code more responsive to commercial and regulatory realities.

PPMs currently fall under Code coverage in certain strictly limited circumstances, (Article 14.25) but are not subject to Code disciplines on transparency, notification and other important provisions. Some delegations suggested during the Tokyo Round that Standards Code signatories return to the issue of including PPMs after the implementation of the Code. (The GATT has issued a negotiating history of this issue in TBT/W/15). Eight years after entry into force of the Standards Code, we believe it is time to expand full Code coverage to include PPMs.

Recent experience in the Code has shown that standards expressed as PPMs can pose major trade barriers in agricultural as well as industrial trade. Signatories should have recourse to the Code when these trade barriers appear unnecessary or unjustified.

While PPMs are traditionally considered to be primarily an agricultural issue, they are widely used in industry. To an increasing extent, PPMs are being added to product specifications in quality assurance programs in both the private and public sector. By specifying the precise method to be used in producing a good, a government or industry can improve quality control to stay in the global race for more competitive products.

Traditional manufacturing standards have emphasized post-production inspection and testing of products. If the product did not fit or work right, it was rejected or reworked. This clearly uneconomical approach has been replaced in many industries by a process control approach which directly monitors and adjusts the production process to make sure the product is right the first time. This usually results in better quality as well as improved productivity. An increasing number of standards are including quality assurance provisions which are clearly PPMs.

PPMs also apply to most basic industrial processes and products such as certain types of steel (e.g., galvanized steel bolts) or a grade of glass (e.g., heat-treated flat glass). They potentially affect many advanced state-of-the-art products and emerging technologies, where performance or precise composition cannot be determined merely by examining the finished good. Some examples of such process-based products include:

- o advanced composite materials (fiber reinforced, ceramics, and polymer composites) which are increasingly replacing metals in many automotive, aerospace and chemical applications;
- o optoelectronics employing optical fibers and light wave processing for communication and computer equipment;

- o thin layer technology utilizing chemical catalysis and membrane separation for applications in the chemical manufacturing and food processing industries.

Traditionally, industries using continuous manufacturing techniques are considered "process" industries which use PPMs intensively. Examples include production of liquid, powdered or granulated materials, such as petroleum products, paint, chemicals, dyes, carbon black, flour, and cement. Many early stages of production in other industries also rely heavily on PPMs for standardization and quality control. Plastics, glass, paper, steel and baked goods are process industries which use PPMs in the initial stage.

Even in industries which manufacture finished goods out of already processed components, technical specifications may include PPMs for such processes as welding, bonding, cleaning, plating, or heat treatment. These PPMs, if made mandatory, may effectively exclude goods made by an equivalent, but different, process. On a more mundane level, "cookbook" regulations such as building codes are classic examples of PPMs which may substantially restrict the methods used to arrive at a certain result.

Increasing emphasis on PPMs as a method of quality assurance clearly can make industrial production more efficient. However, where PPMs become an element of government regulation or a concerted industrial policy, their trade effects are potentially substantial. Lack of information about increasingly sophisticated technical regulations and codes of practice will make it more difficult to trade goods affected by those regulations. Developing countries in particular may find it impossible to conform to rigidly specified and possibly arbitrary PPM-based technical regulations, which may not take into account variations resulting from differences in labor and capital costs, as well as climate and availability of resources, which make different technologies more appropriate.