The special problems experienced by the less-developed countries in giving reciprocal tariff concessions on their trade have been mentioned in paragraph 4 of GATT document W.14/15 dated 20 May 1959. In paragraphs 6-7 certain suggestions were made for correcting the basic imbalance which arises in the negotiating position of the less-developed countries from the nature of their economies and the peculiar features of their import and export trade. These were as follows:

(i) The CONTRACTING PARTIES should consider that where a binding of import duty has been negotiated, its effect should not be nullified by an increase in the internal revenue charges.

(ii) The less-developed countries might be allowed to negotiate concessions jointly on items of common concern to them.

(iii) In some cases, the industrialized countries may agree to give tariff concessions unilaterally on products in which less-developed countries have a special interest.

The present note tries to spell out these ideas in a little more detail and also endeavours to supplement them with certain related suggestions for improving the capacity of the less-developed countries to participate in the next round of tariff negotiations in a significant way.

2. Insofar as the suggestion in paragraph 1 (i) is concerned, it has been argued by representatives of some of the industrialized countries that the revenue charges on any commodity should be treated as a matter purely of internal fiscal policy and that no government could be expected to give up its right to raise revenues required for balancing its budget in the manner considered most appropriate. It is nevertheless evident that insofar as fiscal levies have the effect of restraining consumption and inhibiting imports they constitute a barrier to trade which in certain circumstances may be no less effective than a protective import duty. In those cases where a revenue tax is imposed or enhanced on an item of which there is no domestic production, its effect could be to render a reduction of the import duty wholly meaningless. Moreover, it is not to be expected that a binding or reduction of the internal taxes on items like tobacco, tea or coffee would in most cases involve any intolerable financial sacrifice for the industrialized countries both because such levies can contribute only a relatively small portion of the revenues of a modern state and because any loss in revenue
arising from a lowering of the tax rate would be compensated substantially by an increase in turnover from larger imports. The less-developed countries, therefore, earnestly trust that the industrialized countries will give serious consideration to the proposal made in this regard.

3. In regard to the suggestion in paragraph 1 (ii) above it needs to be considered that most less-developed countries are dependent on the export of a small group of primary commodities and in many cases two or more countries may be almost equally dependent on exports of the same commodity as in the case of tea, coffee, tobacco or copper. Since they are also at more or less the same stage of development, the pattern of their industrial growth, their import requirements and therefore their ability to afford concessions also tend to be similar. It would therefore add considerably to the capacity of less-developed countries to exchange concessions with the industrialized countries if they are allowed to negotiate jointly on items of common concern to them so that the "cost" of the concession can be shared between the countries benefitting from it in relation to the advantage enjoyed by each. That a concession obtained by a negotiating country can benefit also a number of other countries who may be expected to pay for them in their own negotiation with third countries is already recognized in the GATT. Under the present procedures however because each country is required to negotiate individually, many less-developed countries find that they have no capacity to pay for the concessions in which they are interested and are compelled to stay completely out of the negotiation. This adds to the burden on those who do manage to participate in the negotiations. A procedure for joint negotiations on items of common interest to more than one less-developed country would add considerably to flexibility and make it easier for these countries to share the burden of tariff concessions.

4. There are a few other suggestions which could be considered in this context. Firstly, it seems necessary that in evaluating the importance of a concession on a commodity exported by a less-developed country, regard should be had more to the place which this commodity occupies in the import trade of the industrialized country from whom the concessions are requested rather than to that which it occupies in the export trade of the country requesting the concession. A commodity may account for as much as 30 to 40 per cent of the total export of a less-developed country but may form only a small fraction of the value of the imports of an industrialized country. In these circumstances, the value of a tariff concession should appropriately be judged primarily in terms of the burden which the financial sacrifice or potential loss of domestic production involves for the importing country rather than in terms of the importance of the commodity to the export trade of the country receiving the concession. Any other approach inevitably means that to reciprocate a concession on even one or two items in its exports, a less-developed country has to reduce duties on almost the entire range of its imports, a procedure which is neither equitable nor within the capacity of most less-developed countries to sustain.

5. Another change in negotiating procedures with the object of adapting them to the needs of the less-developed countries would be to allow such countries to bind duties in appropriate cases at certain ceilings rather than at current or reduced levels. The binding of a ceiling rather than an existing rate may give less-developed countries just the margin of flexibility
they need for meeting essential developmental needs while giving exporting countries the assurance that duties will not be pitched at levels which prevent them from acquiring a fair share of the market in the less-developed countries or which needlessly restrict the flow of trade.

6. In the so-called French plan for automatic tariff reductions, a proposal was made for replacing negotiation of concessions on specific items by commitments to effect an overall percentage reduction in the incidence of the tariff. Any such general scheme for reduction of tariffs is clearly unrelated to the situation and needs of the less-developed countries. But a fruitful and practical application of the idea may be to allow less-developed countries in lieu of bindings on specific items to undertake commitment for keeping the total incidence of duties under a tariff head or commodity group at a certain level while retaining the liberty to make suitable adjustment of duties on individual items or sub-items within the commodity group. It is to be recognized that the suggestion is open to objection on more than one ground but it may be possible to give a practical shape to it by drawing up schedules of the items within the commodity group on which duties are to be reduced and prescribing a minimum period for which the duties on each group of items would remain bound.

7. The less-developed countries consider that basically what is needed is an approach by the industrialized countries which takes full account of the economic structure and special fiscal and developmental problems of the less-developed countries and allows tariff negotiations to be used as an effective instrument for expanding the latter's trade. If the approach is there, it is not to be expected that Committee I will have any insuperable difficulty in evolving necessary adjustments of negotiating procedures.

8. It is also in this context of a change in approach that it has been suggested in document W.14/15 that there may be some commodities in respect of which unilateral concessions by the industrialized countries may provide the only solution for the problems of the less-developed countries. In this connexion the less-developed countries look to Committee III to supplement the work of Committee I by evolving practical recommendations aimed at reducing and eliminating on a unilateral basis, at least the more oppressive tariff and non-tariff barriers to their trade.