MEETING OF JUNE 1972

Note by the Secretariat

1. The meeting was held under the Chairmanship of Mr. G. Stuyck (Belgium) on 12-13 June to begin work on techniques and modalities of future negotiations. The Committee had before it COM.IND/18 containing the mandate which it had adopted for this work, COM.IND/19 containing the summing-up of the Chairman at the Committee's March meeting, and COM.IND/W/76 containing a technical note by the secretariat on possible techniques and modalities. Certain other documents were circulated in the meeting; for details see below.

2. It was suggested that it would be difficult to discuss advantages and disadvantages of different negotiating techniques without establishing some hypothesis as to the final objectives of future negotiations. It was suggested that the objective should be that set out in paragraph 2 of the technical note by the secretariat, i.e. to obtain the maximum possible liberalization of trade. Some delegations suggested the hypothesis that tariffs on industrial products should be abolished over a period of years. Some delegations pointed out that the mandate adopted by the Committee at its March meeting set out the objective.

3. Some delegations, while agreeing to consider each section in the secretariat's technical note separately, stressed the fact that in their view tariffs, non-tariff barriers and safeguards were inter-related. What was agreed on one would be dependent on what was agreed on the others. Some delegations also pointed out that the industrial and agricultural sectors were similarly inter-related.

4. The Committee decided to carry out an objective analysis of the main possible negotiating techniques, using the secretariat note as a basis for its work. The present note, which has been prepared by the secretariat on its own responsibility, outlines the main advantages and disadvantages of each technique which were cited during the meeting. This listing does not imply that individual delegations are necessarily in agreement with each of the points made.

5. Representatives of developing countries said they would look to the prospective negotiations for, inter alia, duty-free entry for their export products, the elimination of tariff escalation with the degree of processing, advance implementation of any phased tariff reductions, special techniques for dealing with non-tariff barriers to their exports - especially those applied discriminatorily - the preservation of benefits
accorded under the generalized system of preferences, compensation for any loss of preferences and the non-reciprocal grant of concessions by developed participants.

6. The Committee recalled the agreement reached at its March meeting that an important objective of the prospective negotiations is that they shall provide effective benefits for the trade of developing countries. It agreed to analyze and evaluate each of the techniques set out in the secretariat's technical note with this objective in mind.

7. It was agreed that the secretariat should prepare a paper on the implications of the different techniques for negotiating on tariffs and non-tariff barriers set out in the secretariat's technical note for the trade interests of developing countries, having particularly in mind the structure of developing countries' trade and the existence of the generalized system of preferences.

8. It was suggested that specific techniques for negotiations with countries with centrally-planned economies should be examined.

Tariffs

9. The Committee then examined the various techniques for negotiating on tariffs, set out in the technical note by the secretariat. It agreed that, without at the present stage discarding any technique, it would concentrate on what appeared to be the more important possible techniques. It was suggested that preparations for new negotiations should not discourage countries from reducing tariffs unilaterally and that such reductions should be taken into account when setting the base rates for reductions in the negotiations.

A. Item-by-item technique

10. This technique had the advantage that it made for a flexible negotiation, since participants could select the products on which they would make reductions and the rate of reduction. This technique would also permit the participation of some countries on a minimal basis, and some delegations emphasized that no technique should be ruled out if its use would permit the participation of some additional contracting parties and the reduction of some more tariffs.

11. However, it was widely felt that the disadvantages which had led to the abandonment of this technique as a basis for recent multilateral negotiations still applied. Its most serious disadvantage was that the overall scope of the negotiations was set by the least enthusiastic participants. It was suggested that this might be overcome by stipulating a minimum level of offers, but it was acknowledged that some disadvantages were nevertheless likely to remain. These would include the risk that tariff escalation and tariff disparities might be increased and that some participants might find their products excluded from the negotiations.
12. Many delegations were of the opinion, however, that there was likely to be some item-by-item element in any future negotiations, as there had been in the Kennedy Round.

B. Continuation of Kennedy Round cuts

13. This technique would have the disadvantage that it froze the situation of several years ago and that, on the one hand, there would be too many exceptions while, on the other, sensitivities had changed since the Kennedy Round. Some delegations said that another disadvantage of this technique was that it would not solve the problem of preferences.

14. It was suggested that one advantage of this technique was that a sixth reduction might be carried out as an interim measure before the conclusion of the forthcoming negotiations. It was also suggested that a continuation of the Kennedy Round cuts, combined with a re-examination of exceptions and disparities, might establish a continuous process of trade liberalization preferable to a discussion of ambitious techniques which might never be put into practice.

C. Duty-free trade in industrial products

15. It was suggested that the advantages of complete tariff elimination would be its simplicity, the fact that it would solve the disparity problem, the problem of tariff escalation, problems connected with specific and mixed duties, and the problem of para-tariff barriers (e.g. tariff nomenclature problems and problems connected with valuation for customs purposes). The elimination of tariffs would also have the advantage that full benefit could be gained from the exploitation of the comparative advantages enjoyed by different countries. Another advantage cited was that this technique would require commitments from all participants and that there would be no free rides.

16. Certain disadvantages of this formula were also cited. Some delegations said that the total abolition of tariffs could only be envisaged if other measures were harmonized, as was being done in the context of some regional groups. These delegations recognized that an ambitious objective could stimulate progress, as the objective of a 50 per cent reduction had done in the Kennedy Round, but said that an objective which was too ambitious might be harmful. The advantages referred to above would only apply if there were no exceptions to the general rule, but there were likely to be a greater number of items on exceptions lists than in the case of a simple reduction of duties. It was pointed out, however, that difficulties in certain sectors might be dealt with in special negotiations. Developing countries said that there should be no exceptions for products on which duty-free treatment was already granted to certain developed countries.
17. Finally, the abolition of all existing tariff preferences which the abolition of duties would entail would be an advantage for countries which do not enjoy preferences and a disadvantage for those countries which benefit from them.

18. Another technique would be the elimination of all rates below (say) 5 per cent ad valorem. The main advantage of this technique was that it should be easy to eliminate low duties, which had little protective effect and which were mainly nuisance tariffs.

19. It was, however, pointed out that the protection afforded by some of these duties was considerable, and that it would not be as easy as appeared at first sight to abolish all low duties. Another disadvantage was that the abolition of low duties on raw materials would increase the protection granted to products further up the chain of production.

D. Techniques for the linear reduction of tariffs

20. It was noted that this heading covered a number of different possibilities and that the effect of these would vary, depending on the depth of the reduction, their phasing, and the number of exceptions. One variation would be to provide for a slower reduction of duties in sensitive sectors.

21. Among the advantages of this technique were absence of complications and the fact that it would not lead to a relative increase in effective protection.

22. Among the disadvantages cited was the fact that it would once again raise the problem of tariff disparities, certain rates rapidly losing their protective effect while others still remained relatively high. It was suggested that this disadvantage might be met by providing that participants with low rates should maintain these at their initial level until higher rates in other participants had been reduced to that level, after which all rates would be reduced by the same percentage. This variation of the linear approach was not without its disadvantages, however, among which was the need for detailed tariff concordances.

E. Harmonization techniques

23. It was noted that there were many different harmonization techniques but that all would require high tariffs to be cut more than low tariffs.

24. Some delegations doubted whether the assumption underlying these techniques, that cuts in low rates would produce a greater increase in trade than the same percentage cuts in high rates, was necessarily true. They also said that these techniques require a greater contribution from some participants than others which would give an unbalanced result which would make it difficult to achieve reciprocity. These techniques might, however, be useful in certain sectors.
Other delegations said that high tariffs normally were more protective than low tariffs, and recalled the provision in Article XXVIII bis that "the binding against increase of low duties or of duty-free treatment shall, in principle, be recognized as a concession equivalent in value to the reduction of high duties".

(i) **Reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in the country concerned**

25. Among the advantages cited were that this method would reduce tariff disparities, that it would require no tariff concordances, and that it would reduce tariff escalation with the degree of processing.

26. A variation of this approach would be to provide that each participant should reduce the average of its duties in a given sector. Among the disadvantages of this technique are the difficulty of choosing the type of average to be used, and the fact that some high rates might not be reduced at all.

(ii) **Reduction of rates by an agreed percentage which would depend on the initial height of the tariff on the product in other participants**

27. Among the disadvantages of this technique are the difficulty of agreeing which participants should be taken for reference purposes and the fact that tariff concordances would be required. This technique had been tried in the Kennedy Round. It had given rise to endless discussion during which it had not been possible to agree on a general rule of this sort.

(iii) **Reduction or elimination of the difference between tariff rates and a "normative" or "target" rate or rates**

28. It was noted that this approach might or might not provide for the raising of rates which were below the target rate. One variation of this approach would be to reduce all rates above the target rate to that rate (écrêtement). It would also be possible to reduce the gap between each tariff rate and a target rate by an agreed percentage. Target rates could vary from sector to sector. Different target rates could also be set for raw materials, semi-finished products and finished products.

29. Among the advantages cited were simplicity (automatic formula, no tariff concordances required).

30. Among the disadvantages was the fact that this technique might lead to an increase in effective protection.

F. **Combination of above techniques**

31. Many possible combinations existed but the Committee did not consider these in detail at the present stage.
Non-tariff measures

32. The Committee agreed that the work of drawing up ad referendum solutions to certain problems, already under way in the various Working Groups, should be carried forward as rapidly as possible and that further topics should be taken up as the work schedule permitted. A specific proposal was made that Working Group 1 should take up the question of countervailing duties as soon as its work on export subsidies covered by Article XVI:4 permitted and that Working Group 4 should take up the question of quantitative restrictions as soon as its work on licensing permitted.

33. One point was raised regarding the work of the Working Groups. In certain of the Working Groups there was an observable tendency to draft provisions which would permit participants to continue their existing practices rather than provisions which would solve the problems identified in the inventory. If satisfactory ad referendum solutions were to be found it was to be expected that in many areas certain participants would be making a larger contribution than others and that in these cases the implementation of solutions would have to wait until packages could be put together which would give individual participants a broad balance of advantage.

34. It was agreed that, in the context of the current exercise on techniques and modalities, the main question before the Committee was whether any other work should be done in preparation for the prospective broad negotiations.

35. It was suggested that negotiations on certain non-tariff measures might be very time-consuming and that at an opportune time the Committee should examine the Illustrative List with a view to seeing which of the categories of measures were susceptible of being treated in the negotiations. Most delegations took the view, however, that at this stage no measure contained in the inventory should be excluded from the negotiations. It was agreed that the Committee would return to this question at its July meeting either to discuss the substance or the procedure to be followed.

36. It was suggested that the Committee might devote time to defining some of the terms which it used. It was agreed that the terms "non-tariff measures" or "non-tariff distortions" were preferable to the term "non-tariff barriers" since export subsidies, for instance, acted to increase rather than restrict trade but created distortions. It was also suggested that the concept of reciprocity might need to be redefined as it applied to the field of non-tariff measures, but some delegations were of the view that the same basic consideration, the need to obtain a balance of advantage, applied in both the tariff and non-tariff fields.

37. It was recalled that the Committee had agreed to examine the legal implications of negotiating techniques. Two problems had arisen in the work on Standards and the Committee might examine whether these were likely to arise in negotiations on other non-tariff measures. The first problem was the imbalance that would be created in legal if not in trade terms, if only a limited number of participants adhered to an international agreement but were obliged to grant the benefits of
the agreement to all contracting parties under the most-favoured-nation clause. The second problem was the adequacy of Article XXIV:12 to deal with measures of regional and local governments, which were not under the direct control of central governments.

38. The Committee briefly discussed the different negotiating techniques set out in the secretariat's technical note.

39. The technique of drawing up general principles to govern the application of non-tariff measures did not generate much enthusiasm in the Committee. It was suggested that if this approach was adopted it would be necessary to examine the principles in terms of two categories of non-tariff measures, those that are designed to restrict trade and those designed for some other purpose but which incidentally have trade restricting effects. It was suggested that general principles might be drawn up if it did not prove possible to resolve all of the individual problems listed in the inventory during the prospective negotiations since it might set the framework for further negotiations on these. The view was widely held that meaningful results could only be obtained via specific commitments on specific measures.

40. It was recalled that the Committee has already carried out an extensive examination of possible multilateral techniques for negotiations on the categories of non-tariff measures identified in the Illustrative List and that this was summarized in a previous report, L/3496.

41. It was suggested that it might also eventually be necessary to conduct plurilateral or bilateral negotiations on some individual non-tariff measures, i.e. to hold negotiations among the countries with a trade interest in a particular measure, rather than dealing with these in the context of a multilateral negotiation on broad categories of non-tariff measures.

Sector approach

42. This technique called for all factors affecting trade in specific sectors, including tariffs and non-tariff barriers, to be dealt with together.

43. One conception of the sector approach was that it would achieve free trade in stages for certain precisely defined products or groups of products thus complementing other techniques. The sectors should be large enough to induce a meaningful expansion of trade under free-trade conditions but small enough to be manageable. Prime candidates were industries which could take account of economies of scale and a range of raw materials, such as chemicals, aluminium, forest products, copper, lead and zinc.

44. Another possibility was that all industrial products would be divided into sector groupings, as had already been done in the tariff study, and techniques for negotiating on all factors affecting trade elaborated sector by sector.
45. Among the advantages of the sector approach were that it would make for a complete and comprehensive liberalization of trade which would permit the full benefits of comparative advantage to be obtained, that it would allow relatively small countries to develop industries which could compete on world markets and that it would enable exporters of raw materials to export these in a more highly processed form.

46. Among the disadvantages were that it would create trade distortions if barriers to trade in raw materials were reduced more than barriers to trade in the related finished products and that there might be a tendency to seek reciprocity within each sector.

47. Representatives of developing countries said that this technique was well suited to their needs since their exports were concentrated in certain sectors and since it could lead to a liberalization of trade in products and sectors at present excluded from the generalized system of preferences. These countries had a particular interest in exporting their raw materials in a more processed form.

48. It was proposed that a Working Group be established to examine the technique of eliminating trade barriers by sectors, that this Group should meet in the autumn and that it should report to the Committee in time for its findings to be included in its report to the CONTRACTING PARTIES. It was agreed that delegations would reflect on this proposal and that a decision would be taken on it at a subsequent meeting.

Safeguards

49. The Committee recalled that, it had agreed to examine the adequacy of existing safeguard provisions, (i) in the light of present conditions and efforts to achieve and preserve a further liberalization and expansion of trade, and (ii) for ensuring the maintenance of access. The member which had reserved its position at the previous meeting of the Committee said that it was prepared to enter into discussion of multilateral and constructive safeguards on the understanding that discussions on the liberalization of trade would include the elimination of bilateral safeguard clauses, quotas and export restraints.

50. A proposal (Spec(72)45) was made that a Working Party should be set up to examine the adequacy of existing safeguard provisions and that the Working Party should explore, without commitment, an integrated approach to adjustment to the effective dismantlement of tariff and non-tariff barriers to industrial trade. This approach might comprise three essential elements:

(i) Rules designed to ensure that the burden of adjustment be borne to the extent possible by the importing country, through concerted and improved programmes of domestic adjustment assistance rather than the restriction of imports.

(ii) Emergency action, including the use of import restrictions, to deal with transitional problems of sensitive industries should be governed by rigorous internationally agreed criteria, including the presence of injury or threat of injury, subject to multilateral surveillance.
(iii) Improved institutional arrangements should be established to ensure against the abuse of safeguard rules and the nullification or impairment of concessions negotiated and to provide for compensation.

The objective of such a system of safeguards should be to enhance the willingness of the industrialized countries to undertake the meaningful exchange of trade concessions and to provide more effective assurances against their impairment.

51. The proposal was supported by some delegations although the point was made that the terms of reference for a Working Party on safeguards should be as broad as possible. Some delegations took the view that it would be preferable to conduct an examination of this question in the Committee. It was agreed to revert to this matter at the next meeting of the Committee.

Working Party on the Tariff Study

52. It was suggested in Spec(72)44 that the trade and tariff data for 1970 be used to determine the absolute size of annual tariff reductions if tariffs were eliminated by equal proportionate reductions over ten and over fifteen years. It was also suggested that products and sectors excluded from the generalized system of preferences should be identified in an annex to the Tariff Study.

53. The Committee agreed that at its June meeting the Working Party on the Tariff Study, in addition to the items already on its agenda, should examine these proposals, together with any others which might be put forward, preferably in writing, concerning ways in which the tariff and trade data might be presented so as to facilitate an assessment of the implications of various possible negotiating techniques and modalities. It was also agreed that the Working Party should report on its findings to the Committee at its July meeting, at which time a decision would be taken as to what work should be undertaken.

Future work

54. The Committee agreed that at its next meeting it would:

(i) continue its work on techniques and modalities with the aid of the present note,

(ii) take up the secretariat paper on the implications of different negotiating techniques for the trade of developing countries, if the note could be prepared in time,

(iii) take up the report of the Working Party on the Tariff Study on the feasibility study and the additional work given to it by the Committee at the present meeting and,
(iv) take note of progress reports from the Committee's Working Groups 1 to 4, set the time-table for the meetings of these Working Groups in the autumn and examine the question of referring other topics to the Working Groups for the elaboration of ad referendum solutions, bearing in mind the specific proposals made at the present meeting (see paragraph 32 above).

55. The Committee agreed to hold its next meeting on 11 and 12 July with the possibility of continuing on 13 July.

Chairmanship of Working Groups

56. The Committee noted that Mr. R.E. Latimer (Canada) and Mr. F.A. van Alphen (Netherlands) were relinquishing the Chairmanship of Working Groups 1 and 2 respectively. The Committee expressed its thanks to them for the contribution which they had made to its work. It agreed on the following Chairmanships for these Groups:

   Working Group 1: Mr. E. Benediktsson (Iceland)
   Working Group 2: Mr. E. Kekomäki (Finland)