GENERAL AGREEMENT ON TARIFFS AND TRADE

EXPANSION OF TRADE OF THE DEVELOPING COUNTRIES

Selected Documents Relating to Part IV of the General Agreement and the Committee on Trade and Development

THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE GENEVA, DECEMBER 1966
Forward

In February 1965 the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade amended the text of the Agreement by adopting a new Part IV containing provisions relating to trade and development. The provisions thus incorporated in GATT were primarily intended to provide an adequate legal and institutional framework for the efforts which had already been initiated and actively pursued by the CONTRACTING PARTIES to facilitate the trade and development of the developing countries. With the entry into force of these provisions and the establishment of the Committee on Trade and Development, however, these activities have been given a new impetus and have been extended in several new directions.

The Committee on Trade and Development has held seven sessions since its establishment in March 1965. The Committee has also appointed a number of sub-groups which have met from time to time to examine in detail and report on specific problems.

For convenience of reference it has been thought useful to put together a collection of the more important documents relating to activities of the Committee and its various subsidiary bodies. By way of introduction the secretariat has prepared a note on "GATT and the Expansion of Trade of Developing Countries", which summarizes these activities.

November 1966
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Note: The reports of the Expert Group on Trade and Aid Studies are circulated separately in the volumes on the development plans of Nigeria and Uganda.
GATT AND THE EXPANSION OF TRADE OF DEVELOPING COUNTRIES

Introductory Note by the Secretariat

The General Agreement on Tariffs and Trade is an inter-governmental instrument providing for rights and obligations in the field of commercial policy. It has as its principal objective the raising of standards of living and the progressive development of the economies of the contracting parties through arrangements directed towards the reduction of customs tariffs and other barriers to trade, and the elimination of discriminatory trade practices.

In the work of the CONTRACTING PARTIES over the last decade particular attention has been paid to the trade and economic development problems of the developing countries. This has manifested itself in the Decision of November 1958 inaugurating the Programme for Trade Expansion, the Resolution of May 1965 launching the Action Programme and the recent incorporation in the Agreement of a new Part IV stressing the need for a rapid attainment of the aforementioned objectives for developing contracting parties, and setting forth certain supplementary provisions to this end. The increasing preoccupation of the CONTRACTING PARTIES with the problems of developing countries has been reflected in a corresponding increase in the number of developing countries participating in the Agreement which has grown from ten in 1947 to fifty-six out of a total GATT membership of eighty-two in 1966. With the inauguration of the Programme of Trade Expansion in 1958 a committee, known as Committee III, was established to find ways and means to facilitate the expansion of the trade of developing countries. The approach of Committee III to the work assigned to it was systematic. Its activities continued to expand until 1965 when the Committee was superseded by the Committee on Trade and Development. During that period the Committee pursued the objectives set for it along the following lines: identification of barriers to trade on a commodity-by-commodity basis; continuing efforts to achieve the removal of these barriers; parallel extension of the commodity-by-commodity approach through the broad study of development plans and export potential; and consideration of other measures to expand exports (e.g. preferences, trade information and trade promotion services, production and marketing techniques and relationships between trade flows and financial assistance). After another Ministerial Meeting, in 1963, Committee III was supplemented by the Action Committee which was given the task of supervising the implementation of an Action Programme drawn up by the Committee and adopted by the Ministers. The Action Programme provided in seven points for (i) a standstill on the erection of new tariff and non-tariff barriers affecting the exports of developing countries; (ii) the elimination of quantitative restrictions inconsistent with GATT and affecting the exports of developing countries; (iii) duty-free entry for tropical products; (iv) the elimination of tariffs on primary products; (v) the reduction and elimination of tariff barriers to exports of semi-processed and processed products from developing countries; (vi) the progressive reduction of internal fiscal charges and revenue duties on products mainly originating in developing countries and (vii) regular reporting of measures taken by contracting parties.
with respect to these barriers to trade. An eighth point in the Programme urged the contracting parties to give consideration to the adoption of other appropriate measures which would facilitate the efforts of developing countries to diversify their economies, strengthen their export capacity and increase their export earnings.

Part IV of GATT

The addition to the GATT of the new Part IV in 1965 has given a legal and contractual basis to these activities. Part IV is composed of three Articles. The first of the Articles spells out the general principles and objectives relating to trade and development which should govern the commercial policies of the contracting parties. These principles and objectives relate to the access to world markets for primary products and manufactured and semi-manufactured goods exported by developing countries and the stabilization of primary commodity markets. The developed countries agree not to expect reciprocity in return for concessions they extend to the developing countries in trade negotiations; developing countries are not to make contributions which are inconsistent with their individual development, financial and trade needs. The second Article sets out certain undertakings by the developed and developing countries in furtherance of the objectives. Except where compelling reasons make it impossible, developed countries agree to refrain from increasing barriers to exports of products of special interest to the developing countries, and to give high priority to the reduction of existing barriers on such products. High priority is also to be given in any adjustments of fiscal policies to the reduction and elimination of fiscal taxes on such products. A procedure for consultation is provided to deal with difficulties arising in the implementation of these commitments. The developing countries undertake to implement the provisions contained in the new Article for the benefit of the mutual trade between developing countries in so far as this is consistent with their individual needs. The third of the new Articles lists various forms of joint action to promote the trade and development of less-developed contracting parties and covers studies and consultations in respect of trade and development needs of developing countries over a wide field.

The Committee on Trade and Development

In February 1965 a Committee on Trade and Development was established to supervise the implementation of the new Part IV and to take over the functions performed until then by Committee III and the Action Committee. The Committee has adopted certain procedures for carrying out its task, including procedures for reporting by governments on their action in relation to the provisions of Part IV and for the periodic review of the implementation of those provisions. The Committee has established a number of subsidiary bodies to assist it in various fields. The work which is being carried out in this manner may be briefly described.
Removal of quantitative import restrictions

As a result of efforts made by Committee III and the Action Committee, substantial progress had been achieved by 1965 in the elimination of barriers affecting the trade of less-developed countries, particularly in the field of quantitative restrictions. The Committee on Trade and Development has vigorously continued this work and is in this regard assisted by a Group on Residual Restrictions. The Group has carried out country-by-country discussions with developed countries maintaining restrictions affecting products of interest to developing countries and has presented various proposals and recommendations aimed at accelerating the process of liberalization.

Since the adoption of Part IV, which requires that developed countries accord high priority to the removal of restrictions on products of interest to developing countries, a number of the remaining restrictions have been removed and in certain cases the countries applying restrictions have indicated target dates for their removal.

Although the progress has been welcome and contributed substantially to opening up the access to the markets of developed countries for products of developing countries, the fact remains that a significant number of import restrictions continue to be applied by developed countries. In most of these cases no target dates for their removal have been indicated. The developing countries affected by these remaining restrictions have repeatedly expressed dissatisfaction over the situation. Recently, the Committee on Trade and Development once again urged that the governments concerned give further consideration to the possibility of removing the restrictions and report on any action taken or target dates adopted by the end of 1966. The Committee is also giving consideration to various methods whereby governments still maintaining residual restrictions may be induced to abolish them. The Group on Legal Amendments, which is charged with studying proposals to amend the General Agreement, has, for example, been asked to deal with certain suggestions relating to the safeguard of the interests of developing countries when these are affected by the residual restrictions. The Group on Residual Restrictions is considering the question of the adequacy of, and appropriate improvements in, existing procedures to deal with remaining restrictions.

Reduction of import duties and taxes

Part IV also requires developed countries, to the fullest extent possible, to accord high priority to the reduction of customs duties on products of export interest to developing countries. Since the adoption of Part IV, developed countries have eliminated duties on over thirty items of this nature, reduced duties by 50 per cent on several other items, and temporarily suspended duties on over twenty products of interest to developing countries. With regard to tropical products, most industrialized countries have taken action to eliminate or suspend duties on tea and tropical timber. Some progress has also been made in the removal or reduction of internal charges on coffee and
cocoa. In this field, namely the reduction of customs duties and other charges, a number of developed countries have declared that they intend to make use of the opportunity provided by the Kennedy Round to take action expected of them by virtue of commitments they have undertaken under Part IV of this Agreement.

**Participation of developing countries in the Kennedy Round**

One of the major objectives agreed upon by the contracting parties when the Kennedy Round was launched was to seek solutions through these negotiations to at least some of the major problems of the developing countries in the trade field, and, as noted above, a number of important industrialized countries have indicated that they intended to make use of the mechanism provided by the negotiations to give effect to the commitments they have undertaken under Part IV of the Agreement. The Committee on Trade and Development has consequently concentrated its attention in the last few months on matters directly related to the negotiations and has kept close watch on the way in which the opportunity presented by the Kennedy Round to give effect to the provisions and objectives of Part IV is being used.

When the procedures for the negotiations were drawn up, it was formally recognized that, while every effort should be made in the negotiations to reduce barriers to exports of the developing countries, the developed countries could not expect to receive reciprocity from the latter. Subsequently, it was further agreed that the objective of reducing barriers to the exports of the developing countries should be borne particularly in mind in the approach to the question of exceptions to the rule of the across-the-board reduction in the tariffs of the industrialized participating countries. Further these exceptions must be kept to the bare minimum necessitated by reasons of overriding national interest and they should be subject to justification and confrontation.

The special position of the developing countries in the negotiations has thus been given special attention. A sub-committee of the Trade Negotiations Committee has been set up to deal with problems arising in the negotiations which are of special interest to the developing countries. Individual less-developed countries have indicated products whose exclusion from the exceptions lists presented by the developed countries they regard as being of special importance.

In the course of the negotiations, developing countries have also presented certain specific proposals for maximizing the benefits from the Kennedy Round for their trade. These envisage exclusion of products of interest to developing countries from the exceptions lists, advance implementation of agreed reductions for products exported by developing countries, deeper reductions for products of interest to developing countries than the 50 per cent across-the-board reduction proposed for industrial products, etc.

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1This principle of non-reciprocity has since been incorporated in the text of the General Agreement. Under paragraph 8 of Article XXXVI, developing countries are not expected in trade negotiations to make contributions which are inconsistent with their individual development, financial and trade needs, taking into account past trade development.
Many developing countries are actively participating in the Kennedy Round of negotiations. Among these, most countries have made specific or general statements of the contribution they are willing to make to the objectives of the Kennedy Round. At present bilateral consultations are proceeding between the participating developing countries and the developed countries with a view to ensuring that developing countries can obtain real and substantial benefits from these negotiations.

**Expansion of trade among developing countries**

The Committee on Trade and Development has been examining the problems involved in the expansion of trade among less-developed countries, with particular reference to the rôle of preferences between less-developed countries in promoting such trade. In its second report to the CONTRACTING PARTIES on this subject, the Committee concluded that the establishment of preferences among developing countries, appropriately administered and subject to the necessary safeguards, could make an important contribution to the expansion of trade among these countries and to the attainment of the objectives of the General Agreement. The Committee noted in particular the rôle that these preferences could play in helping developing countries to find larger markets and achieve economies of scale. The Committee considered that the establishment of such preferences should most appropriately be the subject of negotiations between developing countries, in which due account should be taken of the different stages of economic development of the negotiating partners. The Committee agreed that before an attempt was made to draw up specific legal provisions or formulae for the exchange of preferences, it would be helpful to see what concrete proposals or arrangements might in practice be made or negotiated by developing countries acting within the spirit of Part IV of the General Agreement. Since then an informal group of less-developed countries has been engaged in the task of discussing and formulating procedures providing for the exchange of concessions on a most-favoured-nation basis or on a preferential basis between developing countries. These informal discussions and negotiations are still continuing. The Group on Expansion of Trade Among Developing Countries set up by the Committee on Trade and Development has also been discussing questions relating to non-tariff measures for the expansion of trade among less-developed countries. And these discussions have also been assisted by informal exchanges of views on the issues involved among the developing countries themselves.

**Legal amendments to the General Agreement**

One of the tasks specifically assigned to the Committee in 1965 was to examine certain outstanding proposals for amending the GATT. One of these related to the provisions of Article XXIII of the Agreement, on procedures for
the redress of damages caused by action involving nullification or impairment of benefits which a contracting party expects to derive from the GATT provisions. The proposal was aimed at making the provisions of that Article more effective from the point of view of developing countries. For the present the CONTRACTING PARTIES have, instead of amending the Article, adopted a Decision providing for procedures which can be used by a developing country when it invokes Article XXIII. Work will be continued by the Committee on Trade and Development on certain other outstanding and related proposals submitted by developing countries for the modification of this Article or the procedures. The Committee has also examined a proposal for inclusion in the General Agreement of provisions to enable developing countries to apply surcharges on imports for balance-of-payments reasons without the necessity of having to apply for waivers in each case. The Committee has identified the main problems involved and will continue to work on this matter. The CONTRACTING PARTIES have also authorized the Committee on Trade and Development to receive and consider any new proposals that might be put forward by less-developed countries for improving the provisions of the General Agreement as relevant to the work of the Committee.

Adjustment assistance measures

The Committee has considered the use made by developed countries of governmental measures to assist industrial adjustment with a view to facilitating the expansion of developed countries' imports from developing countries. The Committee has studied a substantial amount of material submitted by governments of industrialized countries on measures applied, or proposed to be applied, by them in the field of adjustment assistance which have a bearing on possibilities for creating better trading opportunities for developing countries. In its report on this subject, which was endorsed by the CONTRACTING PARTIES at their twenty-third session, the Committee recorded its agreement that adjustment assistance could make some contribution to the solution of the problem of creating greater access for the exports of developing countries. The Committee noted that adjustment assistance could be used in particular to ease the problems of individual firms and groups of workers faced with difficulties through increases in the flow of exports from developing countries. Some members of the Committee thought, however, that the question of long-term structural adjustment posed difficulties which might make it inadvisable to place too great an emphasis on the use of adjustment assistance as a means of bringing about long-term structural changes. The Committee felt, nevertheless, that adjustment assistance could play a useful part inasmuch as it would help developed countries to lower barriers to the exports of developing countries and to deal with social and economic problems which might otherwise make it difficult for them to follow liberal commercial policies. Since countries varied greatly as to their economic, political and social conditions, the appropriate form and scale of adjustment assistance could appropriately be considered by the developed countries themselves.
The Committee also agreed that the attention of contracting parties should be drawn for appropriate action to its conclusion that, although adjustment assistance as a tool in commercial policy designed to improve the trading opportunities of less-developed countries had its limitations, it nevertheless had a valuable rôle to play. It was agreed that contracting parties participating in various activities in GATT should be invited to consider to what extent adjustment assistance could be employed in dealing with the issues with which the various GATT bodies were concerned. Further, where it was thought that more detailed examination of the contribution which adjustment assistance could make to the solution of particular problems not taken up elsewhere could be helpful, the necessary arrangements for further work would be made. Provision has also been made for a review of detailed information on the application of adjustment assistance measures to be submitted on a periodic basis by governments.

International commodity problems

The CONTRACTING PARTIES to the GATT have been concerned for many years with the problem of instability in the field of commodity trade. Since 1957 the CONTRACTING PARTIES have undertaken periodic reviews of trends and developments in the field of commodity policy. The CONTRACTING PARTIES have also on more than one occasion reaffirmed their readiness to deal, upon request from one or more contracting parties, with any special difficulties arising in connexion with international trade in primary commodities. A growing international recognition of the need for stabilizing the export earnings of less-developed countries from primary products, which also found expression in the UNCTAD and elsewhere, has reflected itself in the agreement that the Kennedy Round of trade negotiations should not only deal with the problem of trade barriers in tropical products but also of prices. One of the major objectives of the Kennedy Round is to seek acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products. While action by GATT in this area is thus largely taking place in the framework of the Kennedy Round negotiations, certain aspects of international commodity problems have been dealt with by the Committee on Trade and Development. A working group established to discuss such problems has addressed itself to problems affecting international trade in cocoa, cotton and tropical timber, on the basis of proposals put forward by certain less-developed countries. A number of specific suggestions and recommendations regarding further work to be undertaken by the group have been put forward. With respect to cocoa, the Committee has brought to the urgent attention of one of the bodies concerned in the Kennedy Round negotiations - the Trade Negotiations Committee's Sub-Group on Trade and Tropical Products - the need to explore the possibilities of speedy progress in the removal of barriers affecting trade and consumption in that commodity. In the case of cotton, the Committee has drawn the attention of the International Cotton Advisory Committee to the discussions in the working group relating to developments affecting international trade in cotton and has agreed to keep further developments under review.
Preferences

The Committee has been considering the question of preferences in favour of less-developed countries since March 1965. The basic issues involved have been identified and the various positions of governments on these issues have been stated in the Committee. Further work awaits decisions by governments on the policy aspect of the matter. In March 1966, the CONTRACTING PARTIES granted a request from the Australian Government for a waiver under Article XXV to permit it to establish preferences for developing countries on a list of products.

GATT studies of development plans

The decision that GATT should embark upon a programme of development studies has opened up a new field of work. It constitutes a significant part of the work of Committee III, and has been continued under the aegis of the Committee on Trade and Development. The studies are aimed at obtaining a clear analysis of export potential, market prospect and any further action that may be required to overcome any difficulties that may be revealed. This should be of value to individual developing countries to assess more closely the likely trade implications of their developmental efforts as regards both exports and imports. The studies also endeavour to bring out the potential role of the export sector as a whole in individual developing countries and thus to focus attention of the international action that will be required in order to remove barriers, which would otherwise frustrate the growth of exports of these commodities. This could also facilitate the working out of international arrangements in respect of individual commodities. A further aspect concerns the way in which the studies can acquaint developing countries with one another's development plans and in particular their import requirements and targets in relation to exports. The availability of information of this kind might also serve to facilitate work in the field of regional co-operation.

So far studies have been completed for Nigeria and Uganda and those have been discussed by the Committee on Trade and Development.

The Committee has adopted a series of recommendations which were subsequently endorsed by the CONTRACTING PARTIES. These recommendations aim at securing urgent consideration for the reduction of tariff and trade barriers affecting the exports of these countries and at providing other measures of assistance and support for the development of the trade of these countries. They also seek the assistance and co-operation of contracting parties and of the international organizations concerned, in providing appropriate technical and financial assistance for projects aimed at improving production and export marketing.

The GATT hopes to continue the study of problems in the foreign trade sector of developing countries on a basis of co-operation with other interested agencies and organizations. It has also been collaborating with other international bodies in the study of measures for the development of the trade of a number of African countries in a framework of regional or sub-regional co-operation.

GATT trade information and trade promotion advisory services

In response to requests from a number of developing countries, the GATT CONTRACTING PARTIES decided in March 1964 to provide trade information and trade promotion advisory services for all developing countries. In May 1964 the GATT International Trade Centre was established for this purpose.
The primary objective of the Centre is to assist the developing countries in their efforts to expand their export markets and to help them both to develop their export promotion services and to train the personnel required to operate them. The facilities offered by the Centre are available to all developing countries irrespective of whether they are members of the GATT.

Fifty-four developing nations (of which sixteen are non-GATT) have already used one or another of the Centre's services. Its Market Information Service has investigated markets for twenty-four of them; the Centre's Publications Service has been used by thirty-seven developing countries; and its training facilities for export promotion are being used by thirty of them.

The Centre has built up a liaison network in both developed and less-developed countries that embraces government agencies, trade associations, chambers of commerce and major companies engaged in the infra-structural foreign trade services, as well as with numerous intergovernmental and international bodies concerned with foreign trade. The Centre uses this liaison network to collect much of the information needed to answer enquiries from developing countries; while in certain cases the Centre's own staff undertakes market surveys through desk and field research among the trade. The Centre's Market Information Service covers such facets of trade as market potential in importing countries, commercial policy measures affecting trade, marketing channels and techniques, price ranges, names of importers, etc.

The Centre has undertaken more extensive market surveys on items of importance for the present or potential export trade of many different developing countries, covering primary commodities as well as processed goods. During 1965 studies were completed on citrus juices and plywood and veneer. Selected for similar studies in 1966 are citrus fruits, olloaves for animal fodder, canned and frozen shrimp, and leather.

The Centre's main regular trade promotion publications are the International Trade FORUM and its Supplement, appearing eight times a year in separate English, French and Spanish editions.

Pamphlets have been produced on matters of particular utility to developing countries in their export efforts, including: a survey of export promotion techniques employed in some twenty-seven countries; lists of key trade and manufacturers' associations in twenty-eight major trading countries; and a bibliography for the export promotion services of developing countries. In preparation are: lists of trade organizations in countries with centrally-planned economies; a guide to the methodology of market research, especially designed for developing countries; an analysis of national export promotion techniques, including the organization of trade commissioner services; and bibliographies of sources of commodity trends and prices, and of export-import statistics with particular reference to developing countries.
In collaboration with governments of developed countries, the Centre has arranged for the provision of places in export promotion training courses for trade officials from the developing areas. Arrangements have so far been made for thirty-five such officials to participate in courses in Belgium, Ireland, Italy, the Netherlands, New Zealand and the United Kingdom. As other governments, including France, the Federal Republic of Germany, and Japan, have recently made offers of additional training facilities, it is expected that in 1966 the number of trainees will be more than doubled. Under the joint aegis of the Organization of American States and the Centre, a group of ten Latin American officials is currently finishing a four-month trade tour of Scandinavia, Belgium, Switzerland and Israel, as guests of these countries; and there will be a similar set of trade visits to Australia, New Zealand, Japan and Canada starting this September. In addition, we are expecting early confirmation of a grant by a single European government that will enable us to operate our own export promotion training programme in Switzerland starting in early 1967.

In May 1966 the Centre began a new Trade Promotion Advisory Service designed to help developing countries who need assistance in organizing trade promotion services and marketing arrangements conducive to expanding exports. The Centre has already provided on-the-spot counsel to certain such countries (in Asia and Africa) who have applied to it, and, in addition, it has arranged for exports from developed countries to visit other countries (in Latin America as well) to study their problems and give on-the-spot advice.
1. The Committee held its second meeting from 4 to 24 March 1965. The Committee had before it document COM.TD/W/8, setting out the agenda drawn up in accordance with the work programme established by the Committee at its meeting on 9 and 10 February.

2. The Committee took up the various items on its agenda, on the basis of notes and working papers submitted by the secretariat, or put forward by delegations, as listed in the different sections of this report, which summarizes the discussion and conclusions of the Committee in regard to each of the items on its agenda.

**EXAMINATION OF PRODUCTS OF EXPORT INTEREST TO LESS-DEVELOPED COUNTRIES**

3. In accordance with the decision taken at its first meeting, the Committee addressed itself to the establishment of guide-lines for the examination of the additional list of items, to be undertaken by a working group.

4. In the course of the discussion, it was pointed out that the examination should help to bring out the importance which many less-developed countries attached to these items in the context of the commitments in Part IV of the Agreement and further that the interest of less-developed countries in these products should be assessed not only with reference to present trade flows but also in the context of the need for these countries to diversify their production and exports, and of the potential importance of these items in their future trade.
5. It was suggested by some delegations that the lists of items should be examined according to objective criteria that would express the type and degree of interest involved. A possible criterion might be the percentage share of any particular product in total exports of the country concerned. It was agreed that, to this end, it would be helpful if, to the extent possible, less-developed countries in supplying data on any further lists of items, would also include information on export projections and targets.

6. The Committee agreed to the establishment of a Working Group with the following terms of reference:

- to examine those products in which less-developed countries have indicated an interest in the context of Part IV of the General Agreement;

- to submit to the Committee on Trade and Development its findings and recommendations with a view to providing guidance to contracting parties as to their work under Part IV of the General Agreement in respect of products of particular export interest to less-developed countries. Any list so established would not be exhaustive and could be supplemented from time to time.

7. As regards the composition of this Working Group, it was agreed that it should be composed of representatives of the countries listed below, and that it should invite the representatives of the countries who have notified an interest in a particular item to participate in the examination when such item, or items, are taken up for discussion.

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The Commission of the EEC was invited to participate in the work of the Group.

**REPORTING PROCEDURES RELATING TO**
**PART IV OF THE GENERAL AGREEMENT**

8. The Committee addressed itself to the reporting procedures to be adopted in connexion with the implementation of the provisions set out in Part IV of the General Agreement. The Committee based itself on a note (COM.TD/W.5) prepared
by the secretariat at the request of the Committee. There was general agreement in the Committee that, on the whole, the reporting procedures suggested in that document would permit the Committee to keep under review measures taken for giving effect to the provisions set out in Part IV of the Agreement.

9. As regards the scope and form of the reports, there was general support for the suggestion that the reports should focus on major developments affecting matters under consideration in the Committee. With this objective in mind, members of the Committee suggested that the periodic reports submitted by the secretariat should also contain a reference to decisions or recommendations of direct interest to the Committee, adopted by other international and intergovernmental bodies, such as the United Nations and its specialized agencies, the OECD and also those adopted by regional economic groupings, and to relevant documents issued by them, so that, in carrying out the mandate given to it, the Committee may be able to take account of the work done in these bodies. In this connexion considerable importance was attached to the provision of information regarding developments in commodity trade.

10. As regards the proposal that the Committee review developments of world trade in the light of data contained in the GATT annual publication "International Trade", it was emphasized that the major objective of such a review would be to provide data for action to be taken by the CONTRACTING PARTIES, or by governments, rather than provide for a mere review of trade developments.

11. The text of the reporting procedures agreed upon by the Committee is as follows:

**Reporting procedures**

Having regard to the provisions of paragraphs 2(a) and (b) of Article XXXVII and also to points 1, 2 and 3 of its terms of reference, the Committee agreed on the following reporting procedures:

(i) the secretariat shall circulate to the Committee all notifications received from contracting parties under paragraph 2(a) of Article XXXVII as and when these are received;

(ii) contracting parties should be requested to notify the secretariat of any action taken by them in pursuance of the provisions of paragraphs 1, 3(a), 3(b) and 4 of Article XXXVII;

(iii) on the basis of the reports so received, and taking into account notable developments in the work of other bodies of the CONTRACTING PARTIES, as well as any other relevant information available, the secretariat should submit a periodic report summarizing the latest position concerning tariffs or quota restrictions affecting items of interest to less-developed countries as well as any action taken in pursuance of the provisions mentioned in (ii) above;

(iv) in addition, ad hoc reports on the activities of the Trade Negotiations Committee and other sub-committees dealing with matters of interest to the less-developed countries in the trade negotiations, may be made available to the Committee if this proves necessary, taking into account the security procedure applicable to the trade negotiations;
the periodic reports from the secretariat should include a review of notable developments in GATT and other intergovernmental bodies in matters of interest to the Committee and, in particular, in matters relating to the organization of commodity trade so that the Committee may consider appropriate action. This review may also cover any activities under paragraph 2(e) of Article XXXVIII, including activities by the CONTRACTING PARTIES in the field of export promotion and the work of the International Trade Centre.

12. With a view to keeping under review developments in world trade, with special reference to the rate of growth of the trade of less-developed countries, the Committee on Trade and Development should also arrange for an annual review of the GATT publication "International Trade".

13. It may be noted that the reports submitted by contracting parties to the secretariat, and those submitted by the secretariat to the Committee on Trade and Development, would relate to the lists of products of interest to less-developed countries identified by Committee III, or which may be approved by the Committee on Trade and Development with a view to providing guidance to contracting parties as to their work under Part IV of the General Agreement, or which are otherwise acted upon by agreement.

MEASURES FOR ASSISTING ADJUSTMENT IN THE STRUCTURE AND PATTERN OF PRODUCTION AND TRADE

14. Members of the Committee expressed appreciation of the data which had been supplied by a number of contracting parties, and circulated in COM.TD/W/6. It was, however, noted that only a limited number of industrialized countries had responded to the invitation to supply data and further, that the information was not always specific in regard to the nature and type of policies directed towards facilitating adjustments in patterns of trade and production which would offer larger scope in import markets for products from less-developed countries. It was suggested that this might be due to some uncertainty as to the type of information required. It was pointed out that while a number of countries may have legislation and policy measures intended to facilitate domestic structural adjustments, there may be no separate set of rules or policies to deal with adjustments necessitated by import competition from less-developed countries. In this connexion it was pointed out that the examination of measures for assisting adjustments in the structure and pattern of trade should be carried out in the context (i) of the Ministerial Conclusions of May 1963, which refer to the need for industrialized countries, in drawing up or implementing policies affecting patterns of production and trade to take into account the need to facilitate the efforts of less-developed countries to strengthen their export capacity, to diversify their economies, and (ii) of the provisions of Part IV of the Agreement which refer to measures designed to provide greater scope for the development of imports from less-developed contracting parties, including steps to promote domestic structural changes.
15. It was, therefore, to be hoped that the GATT examination of these measures would cover such matters as tax exemptions and refunds, special credit facilities, resettling and training facilities for labour etc., for assisting adjustments, to take account of changing conditions in world trade, and give an indication of governmental policies, and the scope for international co-operation in this field. It was also suggested that it would be relevant to examine the experience gained in implementing measures for adjustment assistance provided for under the Treaty establishing the ESOC, the Treaty of Rome, and under the Benelux Treaty of Economic Union.

16. The Committee agreed that the detailed examination of this matter might best be carried out by a group of experts nominated by governments. The Committee drew up the following terms of reference for the Expert Group,

**Terms of reference**

- to study the material set out in document COM.TD/W.6 and addenda, and, as appropriate, to gather additional material,

- to report on the measures being applied, or proposed to be applied, by industrialized countries for assisting adjustments in the changing structure and pattern of production, so as to permit an expansion of international trade in products of interest to less-developed countries and to provide larger opportunities for imports from these countries.

17. The Director-General was requested to make the necessary arrangements for convening the Group.

**DEVELOPMENT PLAN STUDIES**

18. For discussion of this item, the Committee had before it a document, prepared by the secretariat in accordance with the request by the Committee, which gives an outline of the points which the Committee might wish to cover in the examination of the development plans, and also draft terms of reference and suggestions concerning the composition of an Expert Group, the establishment of which had been proposed at the first meeting of the Committee. The Committee also had before it a draft of the secretariat study on the Development Plan of Uganda.

19. A number of delegations expressed their appreciation of the work undertaken by GATT in relation to the study of problems in the foreign trade sector of the economies of less-developed countries. Such studies would be of particular value in view of the scarcity of detailed data on the inter-relationship of trade with aid flows and requirements. It was noted that, since the studies would concentrate on the trade aspects of development, they would avoid duplication of work in other international agencies concerned with the study of development planning.
The Committee agreed that the examination should be conducted in a way which would facilitate the adoption by contracting parties of constructive measures, notably in the field of commercial policy, for assisting the trade and development of less-developed countries.

20. A number of delegations stressed the need for the studies to take into account trade expansion possibilities and problems in other developing countries, particularly those in the same region. In this context it might be useful for the GATT to collaborate closely, in addition to the agencies listed in the secretariat note, with other intergovernmental organizations and international agencies, particularly those dealing with regional development or with commodities of particular importance in the context of the study or studies.

21. The Committee endorsed the outline suggested by the secretariat regarding the points to be covered in the examination, and also the suggestions concerning the composition of the Expert Group, subject to whatever modifications might be appropriate in the light of the requirements of a particular study. It was agreed that the arrangements in this regard should be made by the Director-General.

22. The Committee agreed on the following terms of reference for the Expert Group.

To examine studies submitted by the secretariat on the development plans of individual less-developed contracting parties with a view to analyzing (a) the trade and aid relationships in the plan and (b) the rôle of the export sector in the development programme, including an assessment of possibilities and prospects, and, on the basis of this examination, to transmit appropriate findings and recommendations to the Committee on Trade and Development.

23. The Group took note of the time schedule for the studies proposed by the secretariat which envisages that the development plans of Kenya, Uganda and Nigeria, would be taken up for study by the middle of May.
INTERNATIONAL COMMODITY PROBLEMS

24. The Committee had before it a document, containing a survey by the secretariat of the present situation in international commodity trade, and a document containing a draft recommendation by a group of less-developed countries for the establishment of a Working Group to deal with international commodity problems.

25. The Committee agreed to establish a Working Group on Commodities with the following terms of reference:

(i) to set forth in precise terms, on the basis of specific proposals, the positive measures that might be taken with a view to:

(a) attaining stable, equitable and remunerative prices for exports of the primary products of particular interest to less-developed countries, in conformity with paragraph 2(a) of Article XXXVIII of the General Agreement, and

(b) providing improved and acceptable conditions of access to world markets for such products, commensurate with their present trade, and expected trade growth, having regard to their financial and development needs. In dealing with such proposals, account shall be taken of experience with systems at the regional, bilateral, or national level which might serve as a guide for action towards the stabilization of prices for primary products, and of discussions and activities in any institutions set up on the basis of recommendations by the UNCTAD, and in other intergovernmental bodies concerned;

(ii) to consider specific proposals for bringing about effective and continuous co-operation between producers of synthetic and natural products, with a view to making the most efficient use of natural and synthetic resources, avoiding wasteful competition, and attaining the objectives set out in paragraph (i) above;

(iii) to submit a first report on its findings, and recommendations to the next meeting of the Committee on Trade and Development.

26. It was agreed that the Group should be composed of representatives of the countries notifying the Director-General of their interest in participating in this work.
27. At its first meeting on 9 and 10 February, the Committee instructed the secretariat to circulate the specific proposals earlier submitted by contracting parties, and to suggest draft terms of reference and the composition of a group to examine these proposals.

28. For the discussion of this item at the present meeting, the Committee had before it proposals submitted earlier to the Committee on the Legal and Institutional Framework of GATT for the amendment of Articles XVIII and XXIII of the General Agreement. The proposals for amendment of Article XVIII also included one for the use of import surcharges for dealing with balance-of-payments problems. The Committee also had before it a note prepared by the secretariat on the question of compensation to less-developed countries for the loss of trading opportunities resulting from the maintenance of quantitative restrictions, inconsistent with the provisions of GATT.

29. In discussing the proposed terms of reference, members of the Committee stressed the need for examining the provisions of Articles XVIII and XXIII in the light of the principles and provisions of the new Part IV of the General Agreement.

30. The Committee noted that, in its note the secretariat had endeavoured to clarify the present possibilities under the provisions of the General Agreement, and the procedures established by the CONTRACTING PARTIES for less-developed countries to secure compensation for loss of trading opportunities resulting from the maintenance by certain contracting parties of quantitative restrictions inconsistent with the GATT. The Committee agreed that the group to be set up to examine proposals for amendment to the General Agreement should also examine the secretariat note with a view both to enabling the Committee to fully assess the position and to take account of the existing possibilities when considering any amendment of Article XXIII. Some members of the Committee proposed that the same group should also discuss action to be taken by the Committee to secure elimination of residual import restrictions affecting the trade of less-developed countries. It was agreed that, since this problem was not directly linked to the question of further amendments to the General Agreement, it could best be discussed separately, and not as part of the terms of reference of this group.

31. The Committee agreed on the following terms of reference for the Working Group on Legal Amendments to the General Agreement:

Terms of reference

Basing themselves on proposals submitted by contracting parties, and taking account of discussion in the Committee on the Legal and Institutional Framework of GATT, the Council of Representatives and the CONTRACTING PARTIES, as well as the Committee on Trade and Development:
To examine what amendments to Articles XVIII and XXIII of the General Agreement, including - in respect of the proposal for use of surcharges to meet balance-of-payments difficulties - consequential amendments in other Articles of the Agreement, are necessary, or desirable, to meet the special trade and development needs of less-developed contracting parties, taking into account the secretariat note, and

To report its findings, together with any recommendations for the amendment of these Articles, as appropriate, to the Committee not later than October 1965.

32. It was agreed that the composition of the Group should be as follows:

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The Commission of the EEC was invited to participate in the work of the Group.

**PREFERENCES IN FAVOUR OF DEVELOPING COUNTRIES**

and

**EXPANSION OF TRADE BETWEEN LESS-DEVELOPED COUNTRIES**

33. For its discussion on item 7 the Committee had before it a proposal put forward by the United Arab Republic suggesting certain draft provisions relating to the granting of preferential treatment by less-developed countries to one another. The delegation of India also submitted a proposal suggesting certain procedures; (a) for the negotiation of preferential arrangements between less-developed countries, (b) for examination of problems in connexion with the expansion of trade between less-developed countries, and (c) for the establishment of preferences by industrialized countries in favour of less-developed countries.

34. It was recognized that, as a matter of practical convenience, it would be desirable to distinguish between the two aspects of the problem of preferences, namely, preferences granted by industrialized countries to less-developed countries, and preferences exchanged between less-developed countries. At the same time, it
was pointed out that some of the problems involved in the exchange of preferences between less-developed countries might need to be taken into account in the study of the question of preferences by industrialized countries in favour of less-developed countries. The Committee agreed that, while the two studies should be carried out in two distinct groups, it should be possible for the two groups to maintain liaison with each other, and for the Committee to take an integrated view of their findings.

35. Some delegations referred to the forthcoming examination of the question of the extension of preferences in favour of developing countries in the UNCTAD Special Committee on Preferences. The Committee agreed that, while the GATT examination should take into account discussions of this question in other bodies, notably the UNCTAD, the GATT should not put this work aside on the grounds that this matter was being also discussed elsewhere.

36. A number of delegations also pointed out that the establishment of new preferences by other countries in favour of less-developed countries, might affect advantages presently enjoyed by certain less-developed countries in certain markets to which they are given preferential access. It was agreed that the question of appropriate compensation for losses which might result for such countries through the extension of preferences to other less-developed countries, should be taken up in the Working Group established to study the problem. A number of delegations pointed out that this compensation should not embrace any new trade discrimination against other less-developed countries. The Committee also noted that, in approaching the problem of preferences, due regard should be given to the importance of action to achieve stable, equitable and remunerative prices for primary-commodity producing less-developed countries.

37. The Committee agreed on the establishment of a Working Group on Preferences, with the following terms of reference:

To examine the proposals submitted for the extension of preferences by industrialized countries to less-developed countries, taking into account discussions in other international bodies,

To consider also the findings of the Working Group on the Expansion of Trade among Less-Developed Countries in regard to the exchange of preferences inter-se, and

To submit to the Committee on Trade and Development by October 1965, appropriate findings and recommendations in the light of the practical and legal problems involved.
38. The Committee further agreed that the Group should be composed of countries notifying the Director-General of their interest in participating in the work.

39. The Committee's discussion of the question of preferences between less-developed countries was linked with its consideration of the item "Expansion of Trade between Less-Developed Countries". For the discussion on this item the Committee had before it a note submitted by the secretariat, containing an outline for a pilot study in respect of certain illustrative items, with a view to examining the possibilities and problems in developing or expanding trade flows between less-developed countries.

40. The Committee agreed that a study on the lines suggested could provide useful guidance as regards the action which could be taken in the field of tariff and other barriers to trade between less-developed countries, taking into account other relevant factors. It was felt, however, that the list of products to be studied should be extended to cover a more representative range of items.

41. It was suggested that the pilot study proposed should emphasize the identification of significant problems. It was pointed out in this connexion that some of the factors affecting trade between developing countries, such as market allocation arrangements between manufacturing firms, could not be analyzed merely by a statistical exercise on actual trade flows.

42. The Committee recognized that, while the examination of problems involved in the expansion of trade between less-developed countries might throw light on a range of measures for diversifying and expanding exports of less-developed countries to one another, it would be of particular value in bringing out the rôle of preferences between less-developed countries in promoting such trade. Further, the examination of specific proposals submitted by contracting parties for the establishment of such preferences would also be facilitated if it was carried out within this framework. The Committee noted that in any scheme for the establishment of such preferences, careful attention would need to be given to ensure that the interests of less-developed countries at the early stages of development are not adversely affected. Having regard to all these considerations, the Committee agreed on the establishment of a second Working Group with the following terms of reference:

1. To examine the problems involved in the expansion of trade between less-developed countries, with particular reference to the rôle of preferences between less-developed countries in promoting such trade, and taking full account of the work done earlier in the Working Party on Preferences and its findings;
(ii) To examine in this context, any specific proposals submitted by contracting parties for the establishment of preferences between less-developed countries;

(iii) To examine the pilot studies on trade flows between less-developed countries produced by the secretariat and to arrange for the extension of these studies to additional lists of products;

(iv) To report, with appropriate findings and recommendations, to the Committee on Trade and Development at the next meeting of the Committee and to transmit its findings also to the Working Group on Preferences.

43. The Committee agreed that the Group should be composed of countries notifying the Director-General of their interest in participating in this work.

ASSISTANCE IN EXPORT PROMOTION

44. The major item considered by the Committee under this heading of its agenda, was a report of the second meeting, held from 15 to 18 February 1965, of the Group of Experts on Trade Information and Trade Promotion (L/2362). The report of the Expert Group was presented to the Committee by Mr. Hans Mott, Sweden, the Chairman of the Group.
45. The Committee expressed appreciation of the work carried out by the Expert Group in providing guidance for the future activities of the Centre. It endorsed the recommendations formulated by the Group for a controlled expansion of the Centre's activities and a corresponding strengthening of its staff establishment, as reflected in the budgetary considerations contained in the report. The Committee felt that the activities of the Centre since its inception had given clear evidence of the great value to the less-developed countries of the type of activities carried out by it, and of the scope for further benefit to be drawn from a step-by-step expansion and development of its work.

46. While agreeing with the Expert Group's recommendations regarding the general orientation of the Centre’s work, as well as on the individual activities dealt with in the report, the Committee wished to place particular emphasis on certain aspects of the work and to put forward some new ideas.

47. The Committee emphasized the need for the Centre to obtain the fullest co-operation from developed as well as developing countries. In this connexion, several countries informed the Committee of their willingness to provide support to the activities of the Centre, and of special measures they had taken in this regard. The delegate for the Federal Republic of Germany, and the delegate for Switzerland reported on steps their authorities had recently taken to enable their national services to provide information also on their domestic markets. This was in pursuance of the recommendation formulated by the CONTRACTING PARTIES at their twenty-first session (L/2207). The Committee emphasized the importance of this recommendation. In this connexion one delegation suggested that industrialized countries submitting papers relating to the marketing of products from developing countries might make special reference to any steps taken in pursuance of this recommendation.

48. Several delegations also underlined the importance of an active co-operation between the developing and the developed countries, either directly or through the Centre, with a view to opening up concrete trading opportunities. As a general rule, the Committee felt that the actual results of the activities of the Centre in the longer run were to be measured in terms of increased trade for the
less-developed countries. One delegate stressed the importance of ensuring that the efforts of the Centre to promote an expansion of exports from less-developed countries would not be offset by restrictive measures in importing countries.

49. As regards the general orientation of the Centre's work, the Committee supported the Expert Group's recommendations that, in future, increased emphasis be placed on trade promotion activities. In this connexion, delegates from less-developed countries expressed their appreciation of the training facilities in export promotion that are being made available by several industrialized countries; further news in this respect had just been published in the second issue of the FORUM. While underlining the great value of such training, some delegates from developing countries explained the difficulties they were experiencing in availing themselves of training facilities abroad in cases where overseas travel was not paid for by the host country. They emphasized the desirability of providing training facilities for participants from less-developed countries on an all-expenses-paid basis, including transport. An alternative solution might be to arrange for technical assistance funds to be used to pay for such travel. The hope was expressed that this would prove possible.

50. With a view to enlarging the means of action of the Centre, some delegates suggested that, through the Centre, additional technical assistance funds might be obtained for financing assistance in the form of training courses; market research; arrangements for market research; specialized publicity for the products of interest to less-developed countries; on-the-spot surveys in relation to export promotion problems of less-developed countries, and also in relation to special facilities for less-developed countries for participation in international trade fairs. The delegate of the United Arab Republic informed the Committee that his country intended to put forward a concrete proposal for additional activities - in the form of a clearing house for trade opportunities - to be undertaken by the Centre.

51. With regard to the Centre's activities in the field of trade information, several delegations pointed to the need for more information on the markets of the developing countries; this gap could be filled by means of a systematic exchange of information through the Centre on the markets of the less-developed countries as well as on the pattern and trend of trade between them. In this connexion some countries pointed to the effect of traditional trade channels, and the need for special efforts to enable the developing countries to break into new markets. Attention would also have to be given to the differences in the levels of standardization achieved in the highly industrialized and the less-developed countries.

52. In regard to the orientation of the Centre's future work, the Committee thought it desirable that more developing countries participate in the work of the Group which had guided the establishment and initial phase of operations of the Centre. In this connexion, it was felt that there would be wider participation by less-developed countries if the designation "Expert Group" were to be changed to "Advisory Group" on trade information and trade promotion.
53. The Committee discussed a proposal submitted by a number of less-developed countries for dealing with this matter and agreed to establish a Working Group with the following terms of reference:

- To study the material set out in document L/2336 and Addenda, COM.TD/5, and any other relevant information and, on the basis of this examination, to transmit appropriate findings and recommendations to the Committee on Trade and Development in regard to all possible action to be taken to secure elimination of residual import restrictions being maintained on the trade of the less-developed countries inconsistently with the provisions of the GATT.

**TIME-TABLE FOR THE MEETINGS OF THE GROUPS ESTABLISHED BY THE COMMITTEE**

54. The Committee agreed on the following time-table for the meetings of the Groups established at its present meeting.

- Ad Hoc Group for the Examination of Products of Export Interest to Less-Developed Countries, 5-9 April and 5-7 May

- Ad Hoc Group on Legal Amendments to the General Agreement, 27-30 April

- Group of Experts on Trade and Aid Studies, 10-14 May

- Working Group on the Expansion of Trade between Less-Developed Countries, 1-4 June

- Working Group on Preferences, 8-11 June

- Working Group on International Commodity Problems, 11-16 June

- Working Group on Residual Restrictions, 16-18 June

- Group of Experts on Adjustment Assistance Measures, 21-24 June

55. It was also decided to hold the next meeting of the Committee on 29 and 30 June 1965.

56. The Committee agreed that the Chairmen of the different Working Groups would be announced after the Director-General had completed consultations with delegations.

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1Reference: paragraph 30 of this report.
INTRODUCTION

1. In its last report, submitted to the CONTRACTING PARTIES in March 1965, the Committee briefly outlined the main problems falling within its competence and the procedures it proposed to adopt for dealing with them. The Committee's programme of work included the outstanding items which had been handed down by its predecessor bodies as well as the examination of new matters relating to the provisions of Part IV of the General Agreement and the terms of reference given to the Committee by the CONTRACTING PARTIES. As indicated in that report, the Committee appointed a number of specialized groups, each dealing with a specific set of problems or issues. The Committee has since held three meetings at which it has reviewed the work done in the various groups and other matters relating to the implementation of Part IV.

2. The present report, intended for consideration by the CONTRACTING PARTIES at their twenty-third session, outlines the Committee's work in relation to the implementation of Part IV of the Agreement since March 1965 and includes a brief account of the conclusions and recommendations reached by it on the basis of its examination of the different specific subjects to which it has devoted its attention.

1BISD, Thirteenth Supplement, pages 77-89.
I. Review of the implementation of Part IV of the General Agreement

3. In order to ensure the effective implementation of the provisions of Part IV of the General Agreement, the Committee on Trade and Development recommended in March 1965 certain "reporting procedures" designed to elicit relevant information on action taken by contracting parties in the context of those provisions. These procedures, which were set out in paragraph 11 of the Committee's last report, were approved by the CONTRACTING PARTIES at their twenty-second session.

4. In the course of 1965, the Committee reviewed developments in this field on two occasions, namely at its third and fourth sessions held in July and December. A comprehensive review, on the basis of information adduced on those occasions as well as new material, took place at the Committee's fifth session in March 1966. In compliance with the reporting procedures, most developed contracting parties, as well as certain less-developed contracting parties, submitted notifications concerning action taken by them in relation to Part IV. Written notifications of this kind were received from Australia, Austria, Belgium, Canada, Ceylon, Czechoslovakia, Denmark, Finland, Federal Republic of Germany, India, Japan, Malawi, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. The Committee also heard oral statements giving similar information or supplementing reports submitted earlier from the representatives of Austria, Brazil, Canada, Chile, Czechoslovakia, Federal Republic of Germany, Italy, Pakistan, the United Arab Republic and Yugoslavia. All these notifications and statements are reproduced or otherwise reflected in the review document COM.TD/14 and addenda thereto.

5. The information available to the Committee has shown that some progress has been made by a number of developed countries in reducing or removing some of the barriers affecting the exports of less-developed countries. The progress so far made appears to the Committee to have fallen far short of the expectations raised by the commitments under Part IV and, with regard to quantitative restrictions, of the basic obligations under Article XI of the Agreement.

6. Many developed contracting parties have stated in their communications that they intended to take appropriate action in the context of the Kennedy Round to enlarge access to their markets for the products of developing countries. Developing countries have expressed disappointment that, with only a few minor exceptions - notably the indication given by Sweden that duties on a number of tropical products would either be reduced or removed with effect from 1 July 1966 - developed contracting parties have not so far taken action to remove customs barriers on products of export interest to developing countries ahead of the conclusion of the Kennedy Round negotiations.
7. The Committee noted the progress made by some countries in increasing significantly the level of imports from developing countries of such products as cocoa, tropical fruits and certain manufactures and semi-manufactures. Certain members of the Committee have stressed in this connexion the importance they attach to the possibility of increasing imports from developing countries through the use of appropriate measures of adjustment assistance.

8. The Committee has noted that while the standstill provisions as set out in Article XXXVII:1(b) and (c) have, on the whole, been adhered to, there have been instances in which customs duties or other charges have been increased on certain items of export interest to developing countries. In a number of these cases sufficient information has not been available to permit the Committee to judge the significance of the measure for the trade of less-developed countries. The Committee expressed the hope that contracting parties will make available full and prompt information in respect of all action that may be relevant to Part IV.

9. While the information supplied by contracting parties has undoubtedly facilitated the Committee's task of assisting the CONTRACTING PARTIES in giving effect to the provisions of Part IV, the operation of the reporting procedures over the last year suggests that it would be desirable if governments would attempt to be more exhaustive and comprehensive in their future notifications, referring not only to measures specifically enumerated in Article XXXVII but to all steps and measures which are of interest to the CONTRACTING PARTIES in relation to the objectives of Part IV, for example special facilities relating to trade promotion, adjustment assistance measures and any action of the kind covered by paragraph 3 of Article XXXVII. In this context it was suggested that future notifications by developed contracting parties should contain a more detailed breakdown of their imports from both developed and developing contracting parties as well as of their imports of raw materials, manufactures and semi-manufactures from less-developed countries. It was also suggested that a publication containing literature showing the progress so far made in furthering the objectives of Part IV should be prepared in due course for the information of contracting parties and the public.

II. Implementation of the 1963 Ministerial Conclusions

10. The Committee, on the basis of two papers which the secretariat drew up at its request (COM.TD/16 and 18), reviewed (a) action taken by developed countries in pursuance of the 1963 Ministerial Conclusions to eliminate restrictions applying to products of interest to less-developed countries and the present position concerning such restrictions, and (b) the implementation of the Ministerial Conclusions relating to trade in tropical products.
11. The Committee noted that while progress had been made in the removal of quantitative restrictions inconsistent with the provisions of the General Agreement, many contracting parties have not yet been able to eliminate these restrictions or to take adequate steps to overcome their cramping effect. In general there is also no indication as to when the contracting parties concerned intend to remove such restrictions or take adequate remedial measures.

12. The Committee noted that the 1963 Ministerial Conclusions relating to tropical products had not been implemented in all instances. It was also pointed out by less-developed countries that a number of these products continued to be subjected to import restrictions and high fiscal charges. The point was also made that the import of these products in processed or packaged form continued to be inhibited by differential tariffs. In a number of instances the tariffs had been temporarily suspended but not finally abolished.

13. The Committee noted that tariff and other barriers had been accepted as falling within the purview of the current trade negotiations and consequently would be given attention in these negotiations. The hope was expressed that it would be possible in the current trade negotiations to achieve full implementation of the 1963 Ministerial Conclusions. In so far as certain contracting parties have been unable to observe the target date set in the 1963 Conclusions for elimination of restrictions applying to certain products of interest to less-developed countries, the Committee recommends that the CONTRACTING PARTIES consider the further steps that need to be taken in this matter.

III. Residual import restrictions affecting the exports of less-developed countries

14. In continuation of the work of Committee III and of the Action Committee and in the context of the provisions of Article XXXVII:1(a), the Committee, in March 1965, set up a Group on Residual Restrictions to examine the remaining import restrictions on products of export interest to developing countries and to explore the possibility of their early removal.

15. The Group met twice in 1965 and held discussions with twelve developed contracting parties on restrictions applied by them to products included in a list of approximately 250 items notified to Committee III as being of export interest to developing countries with a view to exploring the reasons for the continued maintenance of the restrictions and possibilities for their early removal. The Group presented its findings and the record of its discussions with individual contracting parties in its second report (COM.TD/B/3).

16. The Group noted the progress towards import liberalization which had been made and the indications which had been given by some countries of plans or target dates for the removal of some of the remaining restrictions. It found, however, that a considerable number of products, including some of major export interest to developing countries and covered by the 1963 Ministerial Conclusions, continued to be subject to restrictions in one or more countries and that information on target dates or proposals for the removal of most of these restrictions was not available. Less-developed countries expressed disappointment over the slow
progress in the removal of these restrictions and emphasized that developed
countries should rely, in place of these restrictions, on other measures that
were consistent with the GATT such as adjustment assistance and urged the removal
of these restrictions. They also asked that where restrictions inconsistent with
the GATT were not removed, appropriate compensation should be given to developing
countries for the loss of trading opportunities suffered by them. The Group
suggested that restrictions on products of export interest to developing countries
should be subject to periodic reviews and that, while seeking to avoid duplication
of work being carried out within the framework of the Kennedy Round negotiations,
the country-by-country discussions should be extended to cover items notified in
the context of the Kennedy Round.

17. At its meeting in December 1965, the Committee approved these suggestions
and asked the secretariat to collect the necessary material for the next review
of such restrictions.

18. The Committee noted that the restrictions in question had, in many
instances, been the subject of almost uninterrupted discussion over a period of
years. While the current trade negotiations would give an opportunity for the
elimination of many of these restrictions, a special responsibility rested on
the CONTRACTING PARTIES in respect of restrictions which were inconsistent with
the provisions of the GATT and were not, therefore, a matter for negotiation.

19. The Committee proposes that the CONTRACTING PARTIES at the
twenty-third session address themselves to the question of how best to deal with
the remaining restrictions which are inconsistent with the provisions of the GATT.
The CONTRACTING PARTIES might consider whether contracting parties maintaining
such restrictions should be invited, as part of a comprehensive review of the
position, to give indications of solutions which they themselves might propose
for dealing with the problem. For instance, they may wish to adopt agreed
liberalization programmes with specified target dates, or they may decide to have
recourse to the waiver procedures.

20. Having regard to the fact that not all contracting parties have accepted
Part IV of the General Agreement and therefore participated in the work of the
Committee, the CONTRACTING PARTIES may wish to give attention also to the question
of whether there is need for adjustments in the procedural and institutional
arrangement for dealing with this matter so as to ensure that work in this field
can be effectively undertaken with respect to the restrictions applied by all
developed countries.

IV. Adjustment assistance measures

21. As was stated in its report to the twenty-second session, the Committee on
Trade and Development established a Group of Experts to initiate work in the field
of adjustment assistance. This Group has submitted a report (COM.TD/H/4) to the
Committee, based on a study of material submitted by governments to industrialized
countries (COM.TD/H/3) of measures applied, or proposed to be applied, by them in
the field of adjustment assistance which have a bearing on possibilities for
creating better trading opportunities for less-developed countries.
22. The Committee observed that, from the information provided, with the exception of the cotton textiles industry in the United Kingdom and a few other instances, adjustment assistance has not been used specifically for the purpose of dealing with difficulties that have been caused by increases in imports from less-developed countries. It was noted that adjustment assistance policies have so far been conceived broadly with a view to improving the overall domestic situation, or to directing a re-allocation of resources without specific reference to competition from imports and only in a few cases as a means of facilitating the adoption and implementation of liberal trade policies. The Committee also noted the comments of the Expert Group that on the basis of the information available it had not been possible for them to evaluate to what extent the adjustment measures in force had any effect on the trade opportunities of less-developed countries.

23. The Committee agreed that adjustment assistance could make some contribution to the solution of the problem of creating greater access for the exports of developing countries. The Committee noted that adjustment assistance could be used in particular to ease the problems of individual firms and groups of workers faced with difficulties through increases in the flow of exports from developing countries. It was thought by some countries that the question of long-term structural adjustment posed difficulties which might make it inadvisable to place too great an emphasis on the use of adjustment assistance as a means of bringing about long-term structural changes. The Committee, nevertheless, felt that adjustment assistance could play a useful part inasmuch as it would help developed countries to lower barriers to the exports of the less-developed countries and to deal with social and economic problems which might otherwise make it difficult for them to follow liberal commercial policies. It was noted that since countries vary greatly as to their economic, political and social conditions the appropriate form and scale of adjustment assistance could appropriately be considered by the developed countries themselves.

24. Some contracting parties recognized that in the application of this tool of adjustment assistance to permit greater imports from developing countries, there might be need for an expansion of the concept of adjustment assistance to cover not only difficulties arising in the production sector but also those encountered in the field of marketing.

25. Some contracting parties considered that this was a field in which the reference in Article XXXVIII to joint action was particularly relevant and was also one in which practical measures for co-operation could prove useful in enabling individual developed countries to adapt their policies in favour of better trading opportunities for developing countries.

26. The Committee agreed that the attention of contracting parties should be drawn for appropriate action to its conclusion that, although adjustment assistance as a tool in commercial policy designed to improve the trading opportunities of less-developed countries had its limitations, it nevertheless had a valuable rôle to play.
27. It was agreed that contracting parties participating in the Group on Residual Restrictions, the machinery which is examining the exceptions list in the Kennedy Round negotiations and the Cotton Textiles Committee, should be invited to consider to what extent adjustment assistance could be employed in dealing with the issues with which these bodies were concerned.

28. It was also agreed that where it was thought that more detailed examination of the contribution which adjustment assistance could make to the solution of particular problems not taken up elsewhere would be helpful, the matter could be taken up by agreement in the Group of Experts.

29. It was further suggested that information on the application of measures of adjustment assistance generally, should be obtained from governments and made available to contracting parties on a periodic basis. In obtaining information on new developments in the application of adjustment assistance measures, or in the bringing up-to-date of information already supplied, information should be requested from governments, particularly on the following four points:

(a) what measures of adjustment assistance were available under either general or specific legislation;

(b) which of these measures could be used specifically for the purpose of providing larger opportunities for imports from developing countries;

(c) instances in which measures under (b) had been employed and the progress made in achieving the objective outlined in that sub-paragraph;

(d) indications as to programmes in hand, whether in the enactment of new legislation, or in the employment of measures already available in the field of adjustment assistance, to promote imports from developing countries.

V. Expansion of trade among less-developed countries

30. An Ad Hoc Group was appointed by the Committee to examine the problems involved in the expansion of trade among less-developed countries with particular reference to the rôle of preferences in this regard and to perform certain related tasks. On the basis of two specific proposals, the Group discussed various questions relating to the use of preferences among less-developed countries. In a report submitted in February 1966 (COM.TD/D/3), the Group presented its views and conclusions on this subject. These views and conclusions were generally endorsed by the Committee and form the basis of its recommendations in this field.
31. The Committee supports the unanimous conclusion reached by the Group that the establishment of preferences among less-developed countries, appropriately administered and subject to the necessary safeguards, can make an important contribution to the expansion of trade among these countries and to the attainment of the objectives of the General Agreement. The Committee noted in particular the role that these preferences could play in helping less-developed countries to find larger markets and achieve economies of scale.

32. The Committee has also given consideration to such matters as the form and scope of preferential arrangements between less-developed countries, negotiating procedures for the establishment of preferences and measures to safeguard the interests of other contracting parties, as well as to the establishment of appropriate legal provisions for these arrangements. The Committee noted the view of less-developed countries represented on the Group that such preferences should be granted and applied on a non-discriminatory basis, and that less-developed countries should be in a position to exchange preferences with other less-developed countries in general and not only in the context of regional schemes of integration. The Committee considered that the establishment of such preferences should most appropriately be the subject of negotiations between developing countries, in which due account should be taken of the different stages of economic development of the negotiating partners. Some delegations held the view that any preferential agreements proposed should be examined by the CONTRACTING PARTIES and they felt that it was desirable to ensure that any preferences extended should provide a reasonable expectation of increased productivity through the enlargement of markets for the products concerned. Adequate provision should be made to ensure that the interests of other contracting parties were not unnecessarily damaged. Others pointed out that the value of preferences in expanding trade among developing countries would also be affected by other considerations including those relating to balance-of-payments difficulties. They also considered that the purpose of the examination by the CONTRACTING PARTIES of any preferential arrangements should only be to enable them to satisfy themselves that the trade interests of third countries were safeguarded and that the arrangements furthered the objectives of Part IV.

33. The Committee approved the view of the Group that before an attempt was made to draw up specific legal provisions or formulae for the exchange of preferences, it would be helpful to see what concrete proposals or arrangements might in practice be made or negotiated by less-developed countries acting within the spirit of Part IV. Less-developed countries have stated that they propose to enter into exploratory talks in this regard at an early date. The Committee recommends that arrangements be made for the examination of any such proposals or arrangements when they are received.
34. The Committee feels that negotiations for exchange of concessions between less-developed countries, whether on a preferential or most-favoured-nation basis, would be considerably facilitated if the interested countries could undertake to identify those products which would seem to offer the best prospects in exportation to other developing countries, and thus to constitute the most promising products for negotiation. As regards the forum for such exploratory talks or negotiations, the Committee considered that less-developed countries could take advantage of the meetings of the informal group of interested less-developed countries to initiate these talks or negotiations. The chairman of the Sub-Committee on the Participation of Less-Developed Countries in the trade negotiations could, however, be asked at an appropriate stage to provide guidance for certain aspects of these negotiations. The secretariat has been requested to provide necessary technical assistance by way of suggesting procedures for the conduct of the negotiations and supplying necessary statistical data.

VI. Preferences by developed countries to less-developed countries

35. In March 1965, the Committee appointed a Working Group on Preferences to examine proposals for establishment of preferences by industrialized countries in favour of less-developed countries. Questions relating to the establishment of such preferences had been earlier discussed in a GATT Working Party on Preferences. In July, the Committee reviewed the work done in the Group but did not enter into detailed discussion of the various aspects of the question of preferences pending further progress in dealing with this matter in the Group. In the meantime, active attention has been given by the CONTRACTING PARTIES to a proposal by the Government of Australia for establishment of preferences in favour of less-developed countries in respect of a list of products. It was suggested that information concerning progress made on this subject in other institutions should be made available to the CONTRACTING PARTIES at an appropriate stage of their deliberation of this subject.

VII. International commodity trade

36. Certain aspects of problems falling under this heading have been dealt with by the Working Group on International Commodity Problems. The Group, in a meeting held in November 1965, addressed itself to problems affecting international trade in cocoa, cotton and tropical timber, on the basis of proposals put forward by certain less-developed countries.

37. A number of specific suggestions and recommendations regarding further work to be undertaken by the Group in the field of commodity trade have been put forward (see COM.TD/C/2). With respect to cocoa, the Committee has brought to the urgent attention of the Special Group on Trade in Tropical Products the need to explore the possibilities of speedy progress in the removal of barriers affecting trade and consumption in that commodity. As regards cotton, the Committee agreed that discussions in the Group in relation to developments affecting international trade in cotton should be brought to the attention of the International Cotton Advisory Committee. In relation to developments affecting trade in tropical products, including tropical timber, the Committee has examined a secretariat paper on action taken by governments in pursuance of the 1965 Ministerial Conclusions relating to tropical products and its views are noted in Section II above.
VIII. Examination of products of export interest to less-developed countries

38. The Working Group established to deal with this matter met on three occasions in 1965 and submitted its report (COM.TD/A/2) to the Committee in July. As will be seen from that report, the Group carried out a detailed examination of trade flows and trade measures in relation to approximately eighty tariff items which had earlier been selected by less-developed countries for detailed study. For this examination the Group based itself on a comprehensive survey paper (COM.TD/A/N/3) drawn up by the secretariat in accordance with the instructions of the Group.

39. On the basis of the Group’s report the Committee agreed at its July meeting that, since the Group had essentially completed its task in relation to the items notified for detailed study, further meetings need not be scheduled for the time being. The Committee has indicated, however, that it will be open to contracting parties desiring information on the lines of the existing survey (COM.TD/A/N/3) for other products of interest to less-developed countries to notify the secretariat so that the necessary work may be undertaken.

IX. Legal amendments to the General Agreement

40. On the instructions of the CONTRACTING PARTIES, the Committee has dealt with outstanding issues relating to the amendment of the General Agreement to meet the special trade and development needs of less-developed countries which were not finished by the former Committee on Legal and Institutional Framework. The Ad Hoc Group on Legal Amendments, established by the Committee in 1965 to deal with these matters, has submitted an interim report (COM.TD/F/4). The Committee has further discussed the various proposals in the light of the findings of the Group and wishes to report on the two subjects of:

(a) amendment of Article XXIII to take account of difficulties experienced by less-developed countries in using that Article, and

(b) amendment of Article XVIII to authorize the use of surcharges by less-developed countries for balance-of-payments reasons.

Article XXIII

41. The work on this subject has been based on a proposal introduced by the Brazilian and Uruguayan delegations for amending Article XXIII. Their proposal had four elements: (i) the present arrangement for action under paragraph 2 of Article XXIII should be elaborated in a way which would give less-developed countries invoking the Article the option of employing certain additional measures; (ii) where it has been established that measures complained of have adversely
affected the trade and economic prospects of less-developed countries and it has
not been possible to eliminate the measure or obtain adequate commercial remedy,
compensation in the form of an indemnity of a financial character would be in
order; (iii) in cases where the import capacity of a less-developed country has
been impaired by the maintenance of measures by a developed country contrary to
the provisions of the GATT, the less-developed country concerned shall be
automatically released from its obligations under the General Agreement towards
the developed country complained of, pending examination of the matter in GATT;
and (iv) in the event that a recommendation by the CONTRACTING PARTIES to a
developed country is not carried out within a given time-limit, the CONTRACTING
PARTIES shall consider what collective action they could take to obtain compliance
with their recommendation.

42. At an early stage of the discussion the Brazilian and Uruguayan delegations
reformulated their proposal in the form of a draft decision, with a view to
expediting its adoption since an amendment would have to go through long
constitutional procedures in national legislatures.

43. The sponsors of the proposal explained that the intention behind the proposal
was to streamline and to set out clearly the procedures so as to speed up action
under that Article XXIII and to go some way towards redressing the unequal
bargaining position of less-developed countries vis-à-vis developed countries in
proceedings under that Article.

44. On the basis of the discussions in the Ad Hoc Group, the Committee has drawn
up a revised draft decision which embodied the agreement reached in the Committee
on procedures for more speedy and efficient use of the provisions of Article XXIII
by less-developed contracting parties. This revised text is contained in Annex I
to the report.

45. Less-developed countries, while agreeing that the procedures embodied in the
draft decision represented a positive step forward, felt that their fundamental
concerns had not really been met. The Brazilian and Uruguayan delegations in
particular stated that while they would accept the compromise reached on point (iv)
and reflected in paragraph 10 of the draft decision, they could agree to the
proposed draft decision only on the understanding that further work would be done
with a view to resolving the two issues mentioned in (ii) and (iii) above. The
developed contracting parties had no objection to these issues being given further
consideration in the Ad Hoc Group, but were unable to accept the proposed texts
in question for various reasons which have been stated in the report of the
Ad Hoc Group.
46. In agreeing that the annexed draft decision should be presented to the CONTRACTING PARTIES for adoption, the Committee also agreed that further work with regard to the two outstanding issues dealt with in the text of the two paragraphs reproduced in Annex II of the present report should be continued in the Ad Hoc Group on Legal Amendments.

47. The Committee agreed that the phrase "shall consider what measures" in paragraph 10 of the draft decision is intended to mean that the CONTRACTING PARTIES shall consider the matter with a view to finding appropriate solution.  

1The Chairman of the Committee on Trade and Development, in presenting the draft decision to the CONTRACTING PARTIES for adoption, asks also to place on record the following understanding regarding its provisions:

(1) In consultations to be carried out by the Director-General under paragraph 3 of the draft decision, the Director-General would, in addition to the entities mentioned in that paragraph, be free to consult such experts as he considered would assist him in studying the facts and in finding solutions.

(2) With respect to paragraph 6 of the draft decision the CONTRACTING PARTIES may provide more particular terms of reference for any such panel in order to assist them to assess the relative impact of the measures complained of on the economies of the contracting parties concerned and to consider the adequacy of any measures which those contracting parties would be prepared to take to remedy the situation. In establishing such particular terms of reference the CONTRACTING PARTIES or the Council should bear in mind the desirability of having such panels appraise, in particular, the following elements:

(a) the damage incurred through the incidence of the measures complained of upon the export earnings and economic effort of the less-developed contracting party;

(b) the compensatory or remedial measures which the contracting party whose measures are complained of would be prepared to take to make good the damage inflicted by their application;

(c) the effects of such measures as the injured contracting party would be prepared to take in relation to the contracting party whose measures have nullified or impaired the benefits deriving from the General Agreement which the former contracting party is entitled to expect.
Amendments to Article XVIII to authorize the use of surcharges by less-developed countries for balance-of-payments reasons

48. The Ad Hoc Group on Legal Amendments has considered this question at some length and the Committee heard an oral report by the Chairman of the Group in regard to the issues that have arisen in the course of these discussions. It appears that the issues which have been brought out in the deliberations have proved to be more complex than were first envisaged. It has been generally agreed that this question should remain on the agenda of the Ad Hoc Group on Legal Amendments, but that the Group will meet to deal with this question only when specific proposals for its consideration have been received and circulated well in advance in order to enable the Chairman of the Group to determine whether a meeting could usefully be held.

X. Trade and aid studies

49. The Expert Group on Trade and Aid Studies concluded its discussions of the development plans of Nigeria and Uganda at its last meeting. The findings and recommendations formulated by the Group on the basis of the studies of the plans of these countries are set out in the Group's report (COM.TD/G/6 and COM.TD/G/7).

50. The Committee noted that the experts had devoted their attention to specific and concrete problems relating to economic diversification and export marketing in the two countries, and that this pragmatic approach had yielded some practical results. The Committee recognized that some of the recommendations which had been made with regard to commodities of interest to these two countries were equally important to other less-developed countries. Consequently, the implementation of those recommendations relating to trade policy measures would benefit other less-developed countries also. It recognized that other recommendations which were particularly tailored to the conditions prevailing in the two countries could equally, with appropriate adaptation, be applied for the benefit of other less-developed countries. Thus the conclusions reached in these studies were of general value for a number of less-developed countries.

51. It was also noted that both the secretariat and the experts had found it necessary, in studying the problems pertaining to the building up of an export industry in the two countries, to deal with the totality of the problems involved. As a result, the experts had made recommendations in certain areas which fell outside the immediate competence of the CONTRACTING PARTIES. This, of course, did not mean that the GATT should extend its activities outside its normal competence. Rather the intention was for the CONTRACTING PARTIES to draw the attention of governments and competent international organizations to the recommendations of the experts in the hope that through co-operation implementation of the recommendations could be achieved.
52. Having examined the development plan studies of Uganda and Nigeria, the record of the discussions of these studies in the Expert Group, and the experts' final conclusions and recommendations, the Committee recommends to the CONTRACTING PARTIES that:

(a) they give urgent consideration, in their current trade negotiations, to the possibility of reducing or abolishing tariffs, as well as other trade barriers and fiscal charges, applicable to the commodities mentioned in paragraphs 11, 13, 16 and 18 of the report in COM.TD/G/6, and in paragraphs 7 and 9 of the report in COM.TD/G/7;

(b) in addition to measures to expand Nigerian and Ugandan exports generally they support by advice, assistance and active co-operation the efforts of Uganda and Nigeria to develop and intensify their regional trade;

(c) those of them who are in a position to do so grant the type of assistance recommended by the Expert Group in paragraphs 6, 10, 15, 21 and 26 of COM.TD/G/6 and in paragraphs 6, 10 and 15 of COM.TD/7;

(d) they authorize the secretariat to forward copies of these reports to other international organizations concerned for such action as these organizations might wish to take in respect of the recommendations contained therein;

(e) they authorize the secretariat to keep in touch with delegations with a view to following up any action taken on the recommendations by individual governments; and

(f) request the secretariat to report the progress achieved in this respect at the next meeting.

XI. Trade information and trade promotion

53. There was general satisfaction in the Committee on the good performance of the Trade Centre, to which reference was made in the report of the Group on Trade Information and Promotion Advisory Services (L/2574) transmitted to the Committee for information. Members generally pledged the continuing support of their governments for the future work and activities of the Centre. It was suggested by some delegations that the Centre should venture into the field of actual trade promotion services, for example, in exploring the possibilities of obtaining concessional rates for the participation of exporters of less-developed countries in trade fairs in industrialized countries and in promotion through radio, television, commercial journals and other information media. It was also suggested by these delegations that efforts should be made to ensure that
additional expenditure required for the expansion of the Centre's services was not financed exclusively through the ordinary budget of GATT which would involve increased contributions by contracting parties; if possible ad hoc contributions should be sought from governments of developed countries and fund donating agencies.

XII. Invitation to the Committee from the Government of Uruguay

54. The Committee discussed an invitation from the Government of Uruguay for the Committee on Trade and Development to hold its next meeting in Montevideo. The Committee wished to express its thanks to the Government of Uruguay for its hospitality. Some members of the Committee supported this proposal while reserving their position with respect to the most suitable date as well as the agenda for such a meeting. Some other delegations indicated that they have received no instructions, without which they were unable to give their support to acceptance of the invitation. It was therefore agreed that the matter be placed before the CONTRACTING PARTIES which could decide on it at the forthcoming session.
ANNEX I

Draft Decision on Article XXIII

The CONTRACTING PARTIES,

Recognizing that the prompt settlement of situations in which a contracting party considers that any benefits accruing to it directly or indirectly from the General Agreement are being impaired by measures taken by another contracting party, is essential to the effective functioning of the General Agreement and the maintenance of a proper balance between the rights and obligations of all contracting parties,

Recognizing further that the existence of such a situation can cause severe damage to the trade and economic development of the less-developed contracting parties, and

Affirming their resolve to facilitate the solution of such situations while taking fully into account the need for safeguarding both the present and potential trade of less-developed contracting parties affected by such measures,

Decide that:

1. If consultations between a less-developed contracting party and a developed contracting party in regard to any matter falling under paragraph 1 of Article XXIII do not lead to a satisfactory settlement, the less-developed contracting party complaining of the measure may refer the matter which is the subject of consultations to the Director-General so that, acting in an ex officio capacity, he may use his good offices with a view to facilitating a solution.

2. To this effect the contracting parties concerned shall, at the request of the Director-General, promptly furnish all relevant information.

3. On receipt of this information the Director-General shall consult with the contracting parties concerned and with such other contracting parties or intergovernmental organizations as he considers appropriate with a view to promoting a mutually acceptable solution.

4. After a period of two months from the commencement of the consultations referred to in paragraph 3 above, if no mutually satisfactory solution has been reached, the Director-General shall, at the request of one of the contracting parties concerned, bring the matter to the attention of the CONTRACTING PARTIES or the Council, to whom he shall submit a report on the action taken by him, together with all background information.
5. Upon receipt of the report, the CONTRACTING PARTIES or the Council shall forthwith appoint a panel of experts to examine the matter with a view to recommending appropriate solutions. The members of the panel shall act in a personal capacity and shall be appointed in consultation with, and with the approval of, the contracting parties concerned.

6. In conducting its examination and having before it all the background information, the panel shall take due account of all the circumstances and considerations relating to the application of the measures complained of, and their impact on the trade and economic development of affected contracting parties.

7. The panel shall, within a period of sixty days from the date the matter was referred to it, submit its findings and recommendations to the CONTRACTING PARTIES or to the Council, for consideration and decision. Where the matter is referred to the Council, it may, in accordance with Rule 8 of the Intersessional Procedures adopted by the CONTRACTING PARTIES at their thirteenth session, address its recommendations directly to the interested contracting parties and concurrently report to the CONTRACTING PARTIES.

8. Within a period of ninety days from the date of the decision of the CONTRACTING PARTIES or the Council, the contracting party to which a recommendation is directed shall report to the CONTRACTING PARTIES or the Council on the action taken by it in pursuance of the decision.

9. If on examination of this report it is found that a contracting party to which a recommendation has been directed has not complied in full with the relevant recommendation of the CONTRACTING PARTIES or the Council, and that any benefit accruing directly or indirectly under the General Agreement continues in consequence to be nullified or impaired, and that the circumstances are serious enough to justify such action, the CONTRACTING PARTIES may authorize the affected contracting party or parties to suspend, in regard to the contracting party causing the damage, application of any concession or any other obligation under the General Agreement whose suspension is considered warranted, taking account of the circumstances.

10. In the event that a recommendation to a developed country by the CONTRACTING PARTIES is not applied within the time-limit prescribed in paragraph 8, the CONTRACTING PARTIES shall consider what measures, further to those undertaken under paragraph 9, should be taken to resolve the matter.

11. If consultations held under paragraph 2 of Article XXXVII, relate to restrictions for which there is no authority under any provisions of the General Agreement, any of the parties to the consultations may in the absence of a satisfactory solution request that consultations be carried out by the CONTRACTING PARTIES pursuant to paragraph 2 of Article XXIII and in accordance with the procedures set out in the present decision, it being understood that a consultation held under paragraph 2 of Article XXXVII in respect of such restrictions will be considered by the CONTRACTING PARTIES as fulfilling the conditions of paragraph 1 of Article XXIII if the parties to the consultations so agree.
ANNEX II

Other Provisions Proposed for Inclusion in the Draft Decision

The following paragraphs were included (after the present paragraph 6) in the proposed Decision on Article XXIII procedures, and was considered in the Group on Legal Amendments and the Committee (see paragraph 46 of the present report):

(A) "In the event that the measures complained of have been applied by a developed contracting party and it is established that they are adversely affecting the trade and the economic prospects of the less-developed contracting party or parties concerned, the panel may recommend, where it is not possible to eliminate the measures complained of or to obtain an adequate commercial remedy, that the damage caused should be compensated by means of an indemnity of a financial character on mutually acceptable terms."

(B) "In cases where the import capacity of a less-developed contracting party has been or is being impaired by the maintenance of measures by a developed contracting party or parties which are inconsistent with the provisions of the General Agreement, the Director-General shall, with or without the assistance of a panel of experts as may be considered necessary, forthwith proceed to determine in particular the following elements:

"(a) the damage incurred through the incidence of the measures complained of upon the export earnings and economic effort of the less-developed contracting party;

"(b) the compensatory or remedial measures which the contracting party whose measures are complained of would be prepared to take to make good the damage inflicted by their application;

"(c) the effects of such measures as the injured contracting party would be prepared to take in relation to the contracting party whose measures have nullified or impaired the benefits deriving from the General Agreement which the former contracting party is entitled to expect.

In such cases the less-developed contracting party shall be released from its obligations under the General Agreement, towards the developed contracting party or parties acting contrary to the provisions of the General Agreement, for the purpose of taking appropriate remedial or retaliatory measures, pending the completion of the report by the Director-General or the panel of experts and its examination by the CONTRACTING PARTIES or the Council."
It was also proposed in the Group on Legal Amendments that the inclusion of the paragraphs above should be accompanied by the addition of the following words at the end of the second and third paragraphs respectively in the preambular part of the draft decision:

"... thereby necessitating compensation", and

"as well as adequate compensation for the damage which these contracting parties may have suffered".
FIRST REPORT OF THE GROUP ON RESIDUAL RESTRICTIONS TO
THE COMMITTEE ON TRADE AND DEVELOPMENT
(COM.1D/B/3 and Corr. 1-2)

1. The Group has held two meetings on 28-30 June and 18-21 October 1965 respectively. At its meeting in June this year the Group examined information made available by the secretariat concerning residual restrictions applying to a list of products notified by less-developed countries to Committee III as of export interest to them. The group agreed at this meeting that discussions on a country-by-country basis with contracting parties maintaining restrictions would be useful for accelerating import liberalization. The Group also agreed that the secretariat should seek information from governments in regard to quotas established for the restricted products, recent data on production and imports, and plans for liberalization, and also indications as to whether restrictions were being applied globally or in respect of imports from certain sources only. This decision of the Group was endorsed by the Committee on Trade and Development when it met last July.

2. In pursuance of the decision taken last June, the GATT secretariat requested detailed information from the following countries:

Austria Japan
Belgium/Luxembourg Netherlands
Denmark Norway
Federal Republic of Germany Sweden
Italy United Kingdom

United States

Information was also furnished by the Government of Australia and the Group heard a statement by the representative of Australia. The contracting parties concerned were also invited to furnish relevant information regarding restrictions on any other items in which less-developed countries had indicated an interest and which they thought might be relevant for the work of the Group.

3. The information furnished by contracting parties in response to this invitation was considered by the Group at its present meeting. The Group also consulted with each of the countries supplying this information, in the course of which it heard statements regarding the considerations behind the maintenance of these restrictions and indications of their plans for future liberalization of these products.
4. In the course of the discussion, representatives of developing countries sought clarification concerning the application of restrictions on specific products and emphasized the importance which they attached to the adherence to the target dates for liberalization set up in regard to items covered by the Action Programme, and to the establishment of agreed liberalization dates for other products. Disappointment was expressed that restrictions would continue to be maintained in respect of a number of products covered by the Action Programme even after the date 31 December 1965, and also that, for some of these products, no firm date for liberalization had been set as yet. Other representatives, while explaining difficulties experienced by their governments in notifying firm dates for liberalization, indicated the resolve of their governments to make the speediest possible progress in removing restrictions adversely affecting the trade of less-developed countries. In the course of the consultations some representatives gave indications concerning the areas in which progress could be expected to be rapid. The Group recognized the importance attached by less-developed countries to the need for providing more specific indications of liberalization plans in respect of all items still subject to residual restrictions which are under discussion in the Group.

5. The Group noted that, while in most instances there had been progress in applying restrictions uniformly without distinction between sources of supply, in some instances this type of discrimination continued to exist. The hope was expressed by some representatives that urgent action would be taken to eliminate the discriminatory element of the restrictions.

6. The points made in the course of the country consultations are contained in a record note which is annexed to the report. The Group recognized the importance to less-developed countries of rapid progress in the removal of remaining restrictions. The Group has noted that, while appreciable progress continued to be made in eliminating these restrictions, a number of products of interest to less-developed countries remain subject to quota or other limitations. The Group noted that attention would be given to non-tariff barriers affecting products of interest to less-developed countries in the Kennedy Round, and that the negotiations would provide further opportunity for eliminating these barriers.

7. The Group felt that, in addition to the usual report to the Committee on Trade and Development in regard to any changes in these restrictions and to progress made in achieving further liberalization, it would be useful to carry out a periodic review of restrictions maintained on products in which less-developed countries have indicated an interest on the lines of the examination already carried out at the present meeting. This examination could cover not only products notified to Committee III as of interest to less-developed countries, but also any other products which might have been notified, for instance in the context of the Kennedy Round, and still subject to residual restrictions. In this respect it was recognized that the Group should seek to avoid duplication of work being carried out within the framework of the Kennedy Round trade negotiations. It was suggested that for this purpose contracting parties might be asked to furnish information early in 1966 in respect of remaining restrictions, and a review on the lines of the examination carried out by the Group at the present meeting be carried out during the first part of the coming year.
8. The Group recognized that such an examination is without prejudice to the rights and obligations of contracting parties under Article XXXVII, paragraph 2, or under Articles XXII and XXIII of the General Agreement. It was noted that not all the developed countries maintaining restrictions had been invited to furnish information and to consult in the Group. The Group requested the secretariat to invite other contracting parties who might have been left out of the present consultations also to consult since the problem of residual restrictions was not related only to obligations assumed by contracting parties under Part IV of the General Agreement.

9. The Group also had a brief exchange of views on the question of compensation for residual restrictions affecting the trade of less-developed countries. In this connexion a number of representatives emphasized the importance of compensating less-developed contracting parties whose trade was adversely affected by these restrictions by alternative concessions on other items, or any other appropriate ways. Other members of the Group, while emphasizing their desire to make the speediest possible progress in eliminating harmful restrictions and their willingness to consult with less-developed countries with a view to mitigating any possible injury caused by such restrictions, pointed out that the legal issues involved in this proposal were currently under examination in the Group on Legal Amendments and that until the Legal Group had come to an agreed view in the matter, it would not be possible for the Group on Residual Restrictions to come to a finding in regard to any proposals for compensation.
ANNEX

Summary of Major Points Made During the Consultations on Residual Restrictions

At its meeting held from 18-21 October, the Group carried out consultations with the following contracting parties regarding quantitative restrictions maintained by them on products which had earlier been notified to Committee III, or the Committee on Trade and Development, as being of export interest to less-developed countries:

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<th>Austria</th>
<th>Japan</th>
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The major points made during the consultations, as well as a statement by the representative of Australia, are summarized below. In carrying out the consultations, the Group based itself on document COM.TD/B/W/1 and Addenda, containing the information supplied by governments in respect of restrictions maintained by them. Corrections to the data which were brought to the attention of the Group during the course of the consultations will be incorporated in the revised version of document COM.TD/B/W/1 which will be issued in due course.
AUSTRALIA

At the outset of the consultations, the representative of Australia stated that, although Australia was not among the countries for which a consultation had formally been scheduled, his Government had wished to inform the Group of the position in regard to aluminium and aluminium alloys - the only tariff items notified to Committee III as being of export interest to less-developed countries on which Australian restrictions were still maintained. He briefly explained the special economic circumstances of Australia and the reasons of defence, commercial and development policy which had led his Government to restrict imports of aluminium and aluminium alloys. The Government of Australia believed that these restrictions did not significantly affect the trade interests of less-developed countries. Nevertheless the import policy measure in respect of these items was currently under review by the Australian Tariff Board.

Representatives of less-developed countries expressed appreciation of the statement by the Australian representative and, in particular, for the information that the Australian authorities were currently reviewing this restriction.
AUSTRIA

In opening the consultation, the representative of Austria recalled the steps taken by his Government in recent years for liberalizing imports. With the virtual completion of the liberalization programme in October 1964, only a small number of products remained subject to residual restrictions. These included, as regards products in the industrial sector notified to Committee III or the Committee on Trade and Development as being of export interest to less-developed countries, only nine tariff items, and, as regards products in the agricultural sector, only five items. Austria had already had occasion to explain in other bodies of the GATT the reasons for which these agricultural restrictions were being maintained.

Representatives from less-developed countries noted with satisfaction the progress made by Austria in recent years in relaxing and eliminating quantitative import restrictions on products of export interest to them. At the same time they pointed out that restrictions continued to be maintained on items like jute goods and floor coverings, even though the target date envisaged in the Action Programme for removal of a number of such restrictions was about to expire. The members of the Group took note also of the measures adopted by the Austrian Government in order to eliminate discrimination in the import treatment. In reply to a question asked in this connexion, the Austrian representative explained that, apart from the restrictions applied on textiles under the Long-Term Arrangement on International Trade in Cotton Textiles, all items subject to restrictions were importable under global quotas. No distinction was made in the application of these quotas as to whether the imports came from EFTA countries or from other GATT countries.

While recalling the reservation made by the Austrian Minister at the time of the adoption of the Ministerial Conclusions on the Action Programme in 1963, the representative of Austria outlined briefly the efforts made by his Government to liberalize imports and the action currently under consideration in respect of certain specific items. Indications given in this regard were as follows:

Caustic soda (ETN No. 28.17, A1) and furniture (ETN 94.01 and ex 94.03)

Possibilities for import liberalization of these items in the not too distant future are currently being explored.

 Carpets, rugs and mats (item ex 58.02 B)

In the view of the Austrian authorities speedy liberalization was difficult because of certain special factors which operated in the trade in these items. The Government, however, hoped to liberalize imports of these items at a later date.
As regards antibiotics and medicaments containing antibiotics, (items 29.44 and ex 30.03) the Austrian representative pointed out that, because of the need at all times to ensure adequate and uninterrupted supplies, and because of certain peculiarities of international trade in these items, import liberalization would not be feasible.

Representatives of less-developed countries pointed out that liberalization of items of export interest to less-developed countries might be accelerated, even where it was felt that special difficulties affected trade, through a more detailed breakdown of the tariff positions presently affected by the restrictions. For example, as regards carpets, rugs and mats, a distinction should be made between machine and hand-made products, the latter being an item of particular export interest to less-developed countries, which should be liberalized at an early date. In this connexion it was pointed out that in India alone, the production and manufacture of floor coverings such as woollen and coir carpets, was a source of livelihood for approximately 700,000 persons. This explained the great importance which India attached to all possible measures being taken by contracting parties concerned for eliminating import barriers on such items.

In the more general discussion regarding Austrian import policy measures, the representative of a less-developed country also referred to, and congratulated Austria on, the elimination of the duty on tea in bulk. He further expressed the hope that the Austrian authorities would also give urgent consideration to eliminating the duty on tea in small containers.

At the conclusion of the consultation, the representative of Austria assured the Group that he would bring the specific points and suggestions made during the course of the discussion to the urgent attention of his Government.
BELGIUM/LUXEMBOURG

The representative of Belgium opened the consultation with a short statement in which he noted the small number of residual restrictions maintained by the Benelux countries, in line with their traditionally liberal trade policy. He described the reasons which had prompted his Government to maintain restrictions in respect of a few of the items notified to Committee III as being of export interest to less-developed countries. He pointed out that, out of the five tariff positions still affected by the restrictions, four related to agricultural products. In respect of one of these, sugar, it was relevant to note that Belgium had participated in the recently held United Nations Sugar Conference which aimed at finding solutions to the problems affecting international trade in sugar. He explained that the import regulations for sugar, currently in force in Belgium, were of a transitional nature, and would be replaced by the new EEC regulations for sugar as soon as the latter were established and put into effect. The representative of Belgium also recalled in this connexion that Belgium was a traditional producer and exporter of sugar. Yet, notwithstanding the importance which sugar beet held as a cash crop for Belgian agriculture, the acreage under sugar beet cultivation had remained stationary over several years.

As regards the restrictions applicable to imports of cut flowers, the representative of Belgium explained that, at present, the controls were still necessary to safeguard producer incomes, since, on the national level, there was no price regulation for cut flowers. Nevertheless, import liberalization of certain types of cut flowers had recently been put into effect and it was the intention of his Government to liberalize imports of cut flowers progressively in the coming years.

In referring to the restrictions on onions, the representative of Belgium explained that the importation of fresh onions destined for industrial use was already free from restrictions and that, the restrictions affected only a part of the tariff item. In this connexion he invited attention to the statistics provided by his Government, which showed that the import controls allowed substantial imports of the items.

As regards the regulations on imports of penicillin and medicaments containing penicillin, reference should be made to the section on the Netherlands which is also valid for the Benelux countries.¹

Commenting on the various restrictions being applied by Belgium, representatives from less-developed countries expressed the hope that the Belgian authorities would examine what measures might be taken to accelerate import liberalization. In

¹See page 63.
this connexion the hope was expressed that the regulations for sugar which were being drawn up within the framework of the EEC would not lead to an intensification of the present import restrictions imposed by Belgium on that product, but would, indeed, provide opportunities for increasing access of less-developed countries to markets in the EEC.

A representative of a less-developed country pointed to the recent tightening of administrative licensing procedures applicable to certain imports in the textiles sector. He expressed the hope that these procedures would urgently be reviewed by the Belgian authorities so as to eliminate their restrictive effect. The representative of Belgium explained that procedural changes had been made only for achieving better statistical control. It was not intended to restrict imports by these procedures which were being applied in conformity with the provisions of Article VIII of the General Agreement.
DENMARK

At the outset of the consultations, the representative of Denmark explained that his Government had drawn up a specific time schedule and target dates for the abolishment, not later than 31 December 1966, of the remaining quantitative import restrictions on goods listed from Chapter 25 to the end of the Brussels Nomenclature and on some goods listed in Chapters 17 to 21. Among the items concerned of special interest to less-developed countries were sugar confectionery, biscuits, certain marmalades, and rubber footwear. He also informed the Group that import liberalization of sixteen other tariff items was presently under consideration by the Government. This left only seven of the items notified by less-developed countries as being of export interest to them subject to restrictions in Denmark. The import control measures applicable to these products were deemed to be consistent with Denmark’s obligations under the General Agreement.

Representatives of less-developed countries expressed appreciation of the statement by the representative of Denmark and in particular of the indications regarding the establishment of specific target dates for the elimination of some of the restrictions. They also expressed the hope that, as a result of the review of the import policy in respect of other products, currently being carried out by the Danish authorities, it would be possible to announce further import liberalization measures for the near future.

In the discussion relating to specific commodities, representatives of less-developed countries expressed the hope that, notwithstanding the fact that certain of the restrictions were considered to be consistent with the General Agreement, special consideration would be given to removing restrictions on such items as sugar, manioc and manioc products, all of which were items of considerable export interest to developing countries.

1For a fuller description of the items concerned and the target dates given, please see document COM.TD/B/W/1/Add.2.
FEDERAL REPUBLIC OF GERMANY.

The consultation with the Federal Republic of Germany was opened by a statement in which the representative of the Federal Republic outlined measures taken over the past years to liberalize imports, thereby further increasing access to the German market, and reducing the area of restrictions.\textsuperscript{1}

In dealing with the restrictions on specific products, the representative of the Federal Republic explained that, as a result of continual increases in import quotas, the share of imported coir carpets, in the domestic market had risen from 22 per cent in 1961 to 35.5 per cent in 1964\textsuperscript{,} the import quota for 1965 amounting to DM5.4 million. However, despite the measures taken for facilitating adjustment to increased import competition, the industry, consisting mainly of small and medium size enterprises, was still faced with considerable difficulties. Possibilities for further import liberalization were currently being examined. While this examination had not yet been completed, it was hoped that imports of woven coir carpets could possibly be liberalized on 31 December 1967.

Referring to remaining restrictions on jute products, the representative of the Federal Republic of Germany described the adjustments which had already taken place in the industry. In spite of the efforts made by the jute industry to adjust to increased import competition, the situation remained such that it had not been possible to achieve full import liberalization. On the other hand the German authorities had ensured, in consultation with the parties concerned, that quotas continue to be increased annually. His Government stood ready to consult with the parties concerned in regard to any new difficulties experienced by the latter. In any event, it was his Government's hope that the problems which had arisen in the trade in this commodity could be solved in the not too distant future.

As regards import controls on worsted yarns and certain woollen fabrics, the representative of the Federal Republic explained that controls were being administered in a liberal manner; in fact, all applications for imports from GATT member countries had so far been approved, regardless of the quantities involved, except where the Federal Republic had entered into special arrangements with a country. He pointed out that in 1964 imports of worsted yarn had amounted to 40 per cent of German domestic production. In the case of woollen fabrics imports amounted to more than 50 per cent of production in the Federal Republic.

\textsuperscript{1}The full text of the statement was circulated to the Group in document Spec(65)99.
As regards agricultural items, only processed edible vegetable oils remained subject to import control, in accordance with the provision of the German Marketing Law. Until now there had been no instances in which quotas opened for imports of these oils had been fully utilized and, in most cases, the imported quantities had amounted to less than one half of the allocated quota. A market regulation for oils and fats was presently under preparation in the European Economic Community. Consequently, the German Government would find it difficult to modify the import system for processed vegetable oils at the present stage.

A similar situation existed for sugar, syrup and molasses which were also all products covered by the German Marketing Laws. He recalled that the member States of the EEC were in the process of establishing a common set of regulations for these items.

Finally, certain canned fruit and vegetables remained subject to restrictions. This industry had lost a considerable part of its traditional market as a result of the division of Germany. A certain measure of protection for the industry had therefore become necessary. However, restrictions had already been lifted in respect of many of the items which had been notified to Committee III as being of export interest to less-developed countries under this general heading.

The representative of the Federal Republic of Germany pointed to the import liberalization measures which his Government had put into effect at an early date. As a result, for some time already, only a small number of sensitive hard-core items remained subject to quantitative restrictions. The unrestrained access to the German market over many years for the major part of the products exported by less-developed countries had, no doubt, been of benefit and importance to these countries. He assured the Group that the German authorities would continue their efforts to increase access for exports of less-developed countries to the German market. Quotas would continue to be increased annually and full liberalization of products still subject to restrictions would be put into effect as soon as this becomes possible. In the meantime, the Federal Government was always prepared to enter into bilateral consultations so that the specific trade problems of its trading partners would be given full consideration.

Members of the Group expressed appreciation of the progress in import liberalization made by the Federal Republic over the last year, and of the announcement that it was planned to liberalize imports of coir carpets on 31 December 1967. It was however, a matter of disappointment to the developing countries that progress in import liberalization was slow and, also, that there continued to be an element of discrimination in the application of the restrictions. Considering that import liberalization of some of these items had engaged the attention of contracting parties for some time, it was to be hoped that the
Federal Government would explore every possibility open to them to eliminate these restrictions at the earliest possible date. In the meantime the Federal Government should take immediate action to eliminate discrimination and to enlarge quotas. Representatives of less-developed countries all stressed the importance of a reduction in tariffs for these items.

While expressing recognition of the difficulties with which certain industries in the Federal Republic might be faced, representatives of less-developed countries also referred to the serious economic, social and human problems of developing countries and the importance which they had to give therefore to increasing their export revenues as a basis for the development of their economies. The labour market in the Federal Republic was tight, liberalization of imports was therefore unlikely to have any serious social implications. Many less-developed countries were running a heavy balance-of-payments deficit with the Federal Republic which was not wholly compensated by the financial assistance provided to these countries by Germany. A substantial part of the earnings from increased exports to Germany would also be spent by less-developed countries on larger purchases from the Federal Republic. According to representatives of less-developed countries these considerations underlined the need for early action by the Federal Republic. It was also pointed out that import liberalization of items of particular export interest to less-developed countries might be facilitated by establishing sub-positions for these items in the tariff statistical nomenclature. For instance, as regards coir carpets, a distinction would seem to be indicated in respect of machine-made and hand-made carpets, the latter being a product of particular interest to the less-developed countries.

The representative of the Federal Republic assured the Group that he would bring the comments and suggestions made during the consultation to the attention of the competent authorities in the Federal Republic.
ITALY

In opening the consultation, the representative of Italy recalled that his Government had since long adopted a liberal import policy, particularly as regards imports from developing countries. As a result, only a few products were still subject to restrictions, as could be seen from the documentation before the Committee. As regards two of these items (salt and tobacco), it might be noted from the reply of his Government to the questionnaire that they fell under State monopoly. For those monopolies, which were moreover administered in accordance with the provisions of Article XVII of the General Agreement, Italy was covered by the provisions of the Annex Protocol concerning legislation already existing on the date of that Protocol. As regards two other tariff items, bromine and bromine compounds, contacts had been established between the Italian Government and the country which had notified these items to Committee III as being of export interest to it. It was hoped that these contacts would help to resolve the problems which this country might consider to arise in trade with Italy. Referring to restrictions on soyabean oil, the representative of Italy drew attention to the fact that the major exporters of this product were developed countries. The controls were, in effect, not maintained to restrict imports from less-developed countries and the control measures were unlikely to have a marked effect on opportunities to export to the Italian market.

As regards bananas, the representative of Italy recalled that, the Italian banana monopoly had been abolished on 1 January 1965 after having been in existence for approximately thirty years. To permit the necessary adjustments to be made without unnecessary dislocations to trade, and also to take into consideration Italy's commitments vis-à-vis Somalia, import quotas had been introduced as a transitional measure. The import régime for bananas was currently under consideration of the Government with a view to freeing imports, while taking account, temporarily, of the great significance of banana exports in Somalia's economy. He recalled that, for a small group of products— including bananas, Somalia at present enjoyed a special customs régime for imports into Italy.

While expressing appreciation of the indication given by the representative of Italy that the restrictions on bananas constituted a transitional measure, members of the Group representing less-developed countries noted with disappointment that the abolition of the Italian banana monopoly had not yet permitted their countries to share more fully in the Italian market. Also, there were certain administrative regulations pertaining to the licensing of imports which were not conducive to freer trade. They urged the Italian authorities to re-examine the administration of these regulations with a view to eliminating their restrictive effects. They also urged, pending full import liberalization, that the quota system be operated in a manner which would ensure that no less-developed country producing bananas would be prevented from obtaining a fair share of the Italian market.
In that connexion the representative of Italy pointed out that, within the limits of established quotas, no import licences for banana imports were needed; the customs authorities were entitled to admit imports freely until the quotas were exhausted.

As regards residual restrictions maintained by Italy on fruit juices, representatives of less-developed countries expressed the hope that, pending full liberalization of imports still subject to quantitative restrictions, tropical fruit juices would be excluded from the list of items subject to such restrictions. The Italian representative pointed out that the maintenance of these restrictions was due, above all, to the special situation of undertakings in the less-favoured areas of southern Italy. That was a situation which it would be difficult not to take into account in any liberalization measures which the Government could possibly take. He assured the Group that the suggestions and the points made during the consultation would be conveyed to the urgent attention of the Italian authorities.
JAPAN

In his introductory remarks, the representative of Japan stated that since 1960 Japan had vigorously pursued the liberalization of its imports despite various domestic problems. Consequently, 93 per cent of its imports were at present liberalized as against 42 per cent in 1960. Over the last six years imports from less-developed countries had doubled. The annual growth rate amounting to 15 per cent, the highest rate recorded by any country over the same period. After the United States and the United Kingdom, Japan was, at present, the third largest market for products of less-developed countries.

The representative of Japan explained that out of forty items on the Committee III and Committee on Trade and Development lists, still subject to restrictions, twenty-seven were agricultural items. As was well-known, international trade in agricultural products presented difficulties for many countries. As regards remaining restrictions on industrial products, the items concerned were generally those produced by the economically weaker industries of Japan. The representative of Japan explained that, although at the present time it was not possible for his Government to announce target dates for import liberalization, it was the firm intention of the Government to relax restrictions, by increasing import quotas to the extent possible, and wherever possible to remove the restrictions. It was envisaged that imports from less-developed countries would continue to increase since domestic consumption of the items concerned was expected to expand. The representative of Japan emphasized that Japan was actively participating in the Kennedy Round. He expressed his earnest hope that the Kennedy Round should contribute to the expansion of exports from less-developed countries.

During the course of the consultation, the representative of Japan informed the Group that cocoa powder was scheduled for import liberalization in the near future, and that diesel engines, one of the items figuring in the list of products notified to Committee III, had recently been liberalized.

While expressing appreciation of the progress made by Japan in recent years in liberalizing imports, members of the Group expressed disappointment that many of the products notified as being of export interest to developing countries continued to be subject to restrictions and, in particular, that target dates for the liberalization of these items had not yet been set. They expressed the hope that the Japanese authorities would without delay undertake a re-appraisal of the overall import régime affecting the items notified as being of export interest to less-developed countries. They also invited attention again to the target date of 31 December 1965, for the elimination of quantitative restrictions on items covered by the Action Programme.
In further discussion of Japan's import policy measures, the representative of a less-developed country pointed out the imbalance in trade between Japan and less-developed countries in Africa. While expressing appreciation of the interest shown by Japan in encouraging imports from these countries by such means as the exchange of trade missions, it seemed that so far the missions had not had the desired result of contributing to any significant increase in exports from African countries to Japan. What was particularly important was that trade barriers should be eliminated on the products which Japan's trade partners among less-developed countries were already in a position to supply.

As regards black tea, it was noted with regret that this item was still subject to import restrictions, in addition to the import duty of 35 per cent ad valorem. Members of the Group recalled that tea was one of the first items which had been notified to Committee III, in view of the very considerable export interest of this item for a number of less-developed countries. Tea was also one of the items covered by the Action Programme. The hope was expressed that remaining restrictions on this item would soon be removed and that Japan would find it possible to announce free entry for that product, as other developed countries had done in implementation of the 1965 ministerial Conclusions. The representative of Japan explained that, prior to the notification of this item to Committee III of GATT, the Japanese authorities had operated a programme for encouraging the production of tea in certain areas of southern Japan where possibilities for profitable farming were generally unfavourable. At the present time black tea produced in these areas was not competitive with imported tea, and the industry continued to be in need of some protection. At the same time, Japan recognized the importance attached by less-developed countries to increasing their tea exports to Japan. The Government had imposed limitations on the acreage under tea cultivation, aiming at limiting domestic production. While the Government was not at present in a position to announce that imports of tea would soon be liberalized, it was the intention of his authorities to enlarge access to the Japanese market by increasing import quotas as far as possible with a view to ensuring an appropriate share of imports in total consumption.

In respect of restrictions maintained by Japan on manioc and tapioca, representatives of less-developed countries pointed out that these products were almost entirely produced in less-developed countries. They urged, therefore, that every attempt be made to liberalize these items at an early date. In his reply the representative of Japan explained that the restrictions had been imposed to protect growers of sweet potatoes. Sweet potatoes were used in Japan as a substitute for manioc and tapioca and the product was grown in Japan under rather difficult conditions in certain parts of the country where alternative production possibilities were particularly unfavourable. Representatives of less-developed countries urged the Japanese authorities to give nevertheless urgent consideration to early import liberalization of these items.
The Group also discussed import restrictions on leather, an item of export interest to many less-developed countries. The representative of Japan explained that import restrictions on leather continued to be necessary because of the very conservative nature of that industry which had so far not responded to the apparent need for its modernization. Possibilities for action in this regard were further limited by the fact that the enterprises were, in general, located in areas offering few alternative employment opportunities. He pointed out that the high cost of domestically produced leather also made it necessary to restrict imports of leather footwear.

Representatives from less-developed countries stated that, important as these considerations might be, these reasons could hardly be considered a justification for the continuation of restrictions affecting exports of less-developed countries in an item of such importance to them. Members of the Group expressed the hope that urgent attention would be given by Japan to encouraging the industry to adjust itself to increased import competition, and achieving speedy import liberalization.

Representatives from less-developed countries also expressed concern over the continued imposition of restrictions on such items as groundnuts and groundnut oils, roasted coffee, certain vegetable and fruit preparations, and syrups, all of which were items of export interest to a considerable number of less-developed countries. In this connexion, it was pointed out by a representative of a less-developed country that some of the sanitary regulations applied by Japan in respect of tropical fruit amounted, in effect, to a complete prohibition of imports. He urged that consideration be given to the elimination of the regulations on tropical fruit having such prohibitive effects.

The representative of Japan assured the Group that he would bring the comments and suggestions made during the course of the consultation to the attention of the competent authorities in Japan.
THE NETHERLANDS

The representative of the Netherlands referred, as far as the general position of his country in respect of residual restrictions was concerned, to the statement made earlier by the representative of Belgium on behalf of the Benelux countries.

While turning to the two items remaining subject to residual restrictions in the Netherlands, i.e. shrimp and penicillin, he briefly outlined in respect of the former the social and economic reasons which had led to the establishment of a market regulation for shrimps. The market regulation provided for an inter-related system of floor prices, levies on producers, diversion of excess supplies to animal feed, and import licensing. He explained that, in practice, the licensing controls had not had a restrictive effect on imports, since all applications for licences had been granted in full. He also informed the Group that full liberalization of shrimps in the not too distant future was under the active consideration of his Government.

As regards the restriction of imports of penicillin and medicaments containing penicillin into the Benelux countries, the representative of the Netherlands recalled briefly the difficult conditions prevailing in world markets, due to severe competition, while for obvious reasons a supply of this product must be available under all possible circumstances and production therefore be protected, as was the case in many countries producing penicillin.

The Group expressed appreciation of the statement by the Netherlands representative and, in particular, of the indication given by him that his Government was giving active consideration to the early removal of import controls on shrimps.
NORWAY

In his opening remarks the representative of Norway drew the attention of the Group to some of the main features of the Norwegian economy. Norway was a country in a special geographic location, having a population of less than 4 million. More than 40 per cent of total production of goods and services was being exported, and more than 40 per cent of Norway’s total consumption of goods and services was being met through imports. Norway was a firm believer in the international division of labour and had always supported efforts directed to achieve a freer flow of trade. In line with this policy, restrictions on practically all industrial items had been eliminated in the post-war period. Further, in the context of the Kennedy Round, Norway was offering without exception a 50 per cent tariff cut on all industrial items, despite its already low tariffs.

While Norway maintained certain import regulations on agricultural products, it was hoped that, in the context of the Kennedy Round, Norway would be able to make a comprehensive offer in this sector also. As regards tropical products, tariffs were generally very low, in some cases nil, and there were no quantitative restrictions.

Referring to import restrictions affecting items notified as being of export interest to less-developed countries, the representative of Norway informed the Group that sugar, one of the more important items in trade, would be liberalized completely on 1 November 1965.

In reply to a question concerning possibilities for early liberalization of manioc products, the representative of Norway explained that the import regulations on these products were maintained mainly because of the high starch and inulin contents which compete with similar products made of potatoes. The import regulations on manioc products were also maintained for technical reasons as the customs tariff has no separate sub-items for these products.

Rice is liberalized. Husked or broken rice is under restrictions owing to regional development problems. No decision has yet been taken as to the liberalization of these products.
In opening the consultation the representative of Sweden briefly explained that, in toto, only twelve items continued to be subject to residual restrictions in Sweden. Five out of these twelve items had been notified as being of export interest to less-developed countries. The import controls on these products were being applied in a liberal manner. Licences were being issued freely, the purpose of the licensing requirement being primarily to safeguard against sudden developments in trade. He explained that for quite some time there had, to his knowledge, been no cases where licence applications for imports from less-developed countries had been denied. Sweden's agricultural policies were to be subjected to a full-scale review in the near future and, therefore, it was for the time being, unfortunately, not possible to indicate when imports of items still subject to import controls might be liberalized.

While expressing appreciation of the generally liberal trade policies followed by Sweden, one representative of less-developed countries drew attention to the fact that manioc starches were among the products still subject to import control. The hope was expressed that specially this item would soon be liberalized.
UNITED KINGDOM

In her opening statement the representative of the United Kingdom recalled that, as a result of earlier liberalization measures, the United Kingdom market was now virtually free from quantitative import restrictions. Of the items notified by less-developed countries as being of special export interest to them, only jute manufactures, bananas, cigars and certain citrus products remained subject to import control. While import restrictions on jute manufactures had been progressively eased, import restrictions on bananas, cigars and citrus fruit were, in fact, being maintained in the interest of certain less-developed countries.

The Group did not enter into a detailed discussion of the restrictions being maintained by the United Kingdom. The Group took note that the current import arrangements for jute were to be reviewed in 1967. The representative of a less-developed country, in referring to the importance of jute to his country, took the opportunity of expressing the hope, that the United Kingdom surcharge would soon be eliminated, although recognizing that this question was being dealt with in another working party.
UNITED STATES

In opening the discussion, the representative of the United States explained that the import controls on sugar, cotton, peanuts and unwrought lead were being applied consistently with her Government's obligations under the General Agreement. Restrictions on cotton and peanuts were covered by Article XI:2(c)(1), while import controls on unwrought lead were being imposed under the provisions of Article XIX. Finally, import controls on sugar were covered by the Protocol of Provisional Application. The efforts of the United States Government had all along been directed to bring about, through various measures, a better balance between supply and demand of the products concerned, while at the same time trying to avoid placing all the burden of adjustment on either the domestic or the foreign producers.

With regard to the restrictions maintained on cotton and peanuts, the United States had submitted a detailed report earlier this year (L/2340), and the report had been scrutinized carefully by a special working party. For both of these items it had been found necessary to maintain price support programmes for domestic producers and consequently the United States had not been in a position to allow unlimited imports of these commodities since these would have interfered with the governmental programmes and operations relating to these products. However, the acreage under cultivation had been greatly curtailed since the restrictions were instituted, and, in the case of peanuts, was at the minimum level required by law. Several measures had also been adopted to stimulate consumption of these products. In this connexion she informed the Group that new farm legislation relating inter alia to these two commodities was now being considered by Congress.

New legislative proposals were currently under consideration by Congress as regards sugar. The proposed legislation aimed at assuring foreign suppliers of the opportunity of sharing in the growth of consumption in the United States. The United States representative explained that production of sugar had been reduced in 1965 in order to prevent a decrease in the level of imports; imports in that year accounted for more than one third of consumption. The United States Government had recently participated in the United Nations Sugar Conference and would continue to co-operate in international discussions in this regard with a view to working out appropriate solutions for problems arising in international trade in this commodity.

With regard to lead, United States imports amounted to about 360,000 tons, representing some 60 per cent of total consumption of lead metal and concentrates in the country. The United States Tariff Commission had recently carried out a full investigation of the lead industries under the Trade Expansion Act and the question of the removal of the quantitative restrictions on this item was being examined by the competent authorities.
It was pointed out by the representative of a less-developed country that less-developed countries' exports of peanuts were being affected not only by the restrictions maintained by the United States, but also by the disposals of soya-bean oil (a substitute for groundnut oil) in third markets under United States Public Law 480. While he recognized that the United States was consulting with affected countries concerning such disposals, the consultations were sometimes embarrassing and often ineffectual, considering that the countries consulting with the United States bore in mind the more or less charitable nature of Public Law 480 programmes. In any event, the effect of these disposals was that markets were lost. In this connexion, he cited the case of a country which had started to compete in export markets for groundnut oil only after the receipt of large quantities of soya-bean oil under Public Law 480.

The delegate of the United States informed the Group that consultations regarding the disposal of vegetable oil under Public Law 480 were carried out in accordance with the procedures laid down by the FAO. To the best knowledge of the United States delegations the countries consulted seemed to have been satisfied with the consultations on Public Law 480 sales and had not heretofore indicated that United States exports of soya-bean oil under Public Law 480 had displaced normal exports of peanut oil of these countries. While United States policy on sales under Public Law 480 was outside the terms of reference of the Group on Residual Restrictions, the United States is ready to discuss this matter bilaterally with any country concerned, and in this connexion invited any government concerned to submit any specific cases in which it was considered that United States exports of soya-bean oil under Public Law 480 had displaced their exports of peanut oil.
SECOND REPORT OF THE GROUP ON RESIDUAL RESTRICTIONS
(COM.TD/E/6)

1. Since submitting its last report (COM.TD/E/3) the Group has met on two occasions, namely from 13 to 15 July and on 17 and 18 October 1966. As instructed by the Committee on Trade and Development (COM.TD/24, paragraph 15) the Group has applied itself to two main tasks: (i) the conduct of country-by-country discussions with developed contracting parties on restrictions on products notified in the context of the Kennedy Round as being of export interest to developing countries; and (ii) a preliminary examination of reports sent by developed countries in response to the recommendation adopted by the CONTRACTING PARTIES at the twenty-third session that governments applying restrictions on products notified to Committee III give immediate consideration to the elimination of these restrictions and to report by June on compliance.

2. With regard to point (i), the Group has held country-by-country discussion on restrictions affecting Kennedy Round items with Austria, Belgium-Luxemburg, Canada, Denmark, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom and the United States. As regards point (ii), the Group, in the course of those country-by-country discussions, held in July, also examined with the governments concerned the remaining restrictions on Committee III products, in certain cases based on written reports previously received from the governments (cf. COM.TD/26). The information obtained through these discussions has been summarized in a secretariat note (COM.TD/3/4). In view of the fact that certain governments applying the restrictions were yet unable to remove them or to announce a date for their removal, the Group decided to invite the governments once again to give urgent consideration to this matter and to report by September 1966. The Group would reconvene immediately prior to the next meeting of the Committee on Trade and Development to examine any new responses that might be received. In October the Group once again discussed the remaining restrictions with the contracting parties concerned, some of which had submitted an additional written report (cf. COM.TD/29).

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1 At the October meeting, the Group was informed that its Chairman, Mr. C.H.J. Amaratunga (Ceylon), having been transferred to a new duty station, was unable to continue to chair the Group. The Group expressed appreciation of the able and efficient manner in which Mr. Amaratunga had guided the Group's work. Mr. A. Patriota (Brazil) was elected to chair the meeting.
3. The Group has found that since the twenty-third session steps to remove certain import restrictions affecting Committee III restrictions have been taken by the Governments of Denmark, the Federal Republic of Germany, Japan and Sweden; and that target dates for the removal of certain restrictions on Committee III items have been announced by Austria, Denmark, the Federal Republic of Germany and the Netherlands. Furthermore, import liberalization measures or target dates for the removal of restrictions on Kennedy Round items have been announced by Austria, Denmark, the Federal Republic of Germany and the Netherlands. In certain cases the governments stated that the possibility of removing or relaxing the restrictions was being actively considered, either within the framework of the Kennedy Round negotiations or in the context of a general review of the country's commercial or agricultural policy. The Group welcomes the measures of liberalization. It is to be regretted, however, that restrictions inconsistent with the GATT continue to be applied in many instances and that, on the whole, contracting parties maintaining such restrictions have been unable to indicate specific dates for the removal of them or to announce measures to deal with the problem.

4. A list of the restrictions that continue to be applied on products notified as being of export interest to developing countries, including references to their legal justifications and target dates for their removal, compiled by the secretariat at the request of the Group, is contained in COM.TD/B/W/7. Discussions in the Group at its July and October meetings are summarized in the secretariat notes contained in COM.TD/B/4 and 5. These documents are presented by the Group as an integral part of its report to the Committee.

5. In the light of the information obtained through written reports submitted by contracting parties or in the course of the discussion at its meetings, the Group considered what findings it could transmit to the Committee on the remaining restrictions in general. The Group recalled that the Committee, in requesting the CONTRACTING PARTIES to consider how best to deal with the remaining restrictions which were inconsistent with GATT provisions, had suggested that they "might consider whether contracting parties maintaining such restrictions should be invited, as part of a comprehensive review of the position, to give an indication of solutions which they themselves might propose for dealing with the problem. For instance, they may wish to adopt agreed liberalization programmes with specified target dates, or they may decide to have recourse to the waiver procedures" (L/2614, paragraph 19). The Group kept these possibilities in mind in its discussions.

6. Certain developed contracting parties were of the view that further progress could now be made, consistently with the procedures of the GATT, if the discussions were pursued on the basis of real interests affected. They felt that the established procedures for consultations had proved to be capable of contributing to the solution of concrete problems created.
7. Developing countries expressed the view that the existing procedures, though useful in some cases, had not been effective in securing the removal of the more obdurate type of restrictions which directly affected certain traditional exports of developing countries. The commitments undertaken by developed countries under Part IV, in their view, should have the effect of accelerating the process of trade liberalization in the interest of developing countries particularly since many of the restrictions had already been the subject of lengthy and detailed discussions and had been clearly shown to have detrimental effects on the exports of developing countries. The developing countries expressed great disappointment at the fact that, apart from the announcement of target dates for the liberalization of certain products, no contracting party maintaining such restrictions had, in their view, given an indication of the solutions which it might propose for dealing with the problem still existing in respect to residual restrictions. While consultations could provide a forum in which the solutions could be discussed, it was important that the solutions should first be proposed by the contracting parties maintaining such restrictions. As regards the suggestion that the question of residual restrictions could be pursued on the basis of real interest affected, it was pointed out by the developing countries that the mere maintenance of these restrictions inconsistent with the GATT acted as a significant impediment to the development of the export trade of the developing countries. Where restrictions were maintained because of fears of imports from developed countries consideration should be given to restricting imports from the developed countries and liberalizing imports from the developing countries. As regards the import control procedures themselves, it was suggested that in certain cases a developed country might, as a first step, dispense with its import controls by relying instead on export controls on the products concerned administered by the exporting countries.

8. At the twenty-third session the CONTRACTING PARTIES had agreed that governments which had not yet undertaken to apply Part IV of the Agreement should be urged to participate in the work of the Committee on Trade and Development and to co-operate with it in the exploration of possibilities of liberalizing their imports in so far as these were of concern to the Committee (SR.23/10, pages 156-7). The Group was advised that France, which had not accepted Part IV or the Declaration on its de facto application, had not responded to this suggestion from the CONTRACTING PARTIES. The secretariat had sent an enquiry to the French delegation on this subject with a request for information on the French restrictions. No replies to this enquiry had reached the secretariat, but the Group noted that France had recently removed a number of restrictions, including restrictions on products under discussion in the Group (L/2674). The Group noted that in seeking redress with regard to restrictions applied by a contracting party not participating in the work of the Committee on Trade and Development, a contracting party would have to resort to the procedures adopted by the CONTRACTING PARTIES in 1966 for dealing with residual restrictions (BISD, 9th supplement, pages 19-20). Attention was drawn in this connexion also to the Decision of 5 April 1966 on procedures under Article XXIII. The Group expressed disappointment at the lack of response to the recommendation made by the CONTRACTING PARTIES at the twenty-third session as noted above. In the circumstance, it was suggested that the Committee on Trade and Development might wish to give further consideration to the proposal made earlier regarding the need for adjustments in the procedural and institutional arrangements (BISD, 14th supplement, page 133).
REPORT OF THE EXPERT GROUP ON ADJUSTMENT ASSISTANCE MEASURES
(COM.TD/H/4)

1. The Group was appointed by the Committee on Trade and Development at its first meeting in March 1965 and was instructed:
   - to study the material set out in document COM.TD/W/6 and Addenda and, as appropriate, to gather additional material; and
   - to report on the measures being applied, or proposed to be applied, by industrialized countries for assisting adjustments in the changing structure and pattern of production, so as to permit an expansion of international trade in products of interest to less-developed countries and to provide larger opportunities for imports from these countries.

2. The Group met in June 1965 and February 1966. The membership of the Group is given in the Annex. The Group wishes to take this opportunity of expressing its appreciation for the valuable assistance rendered it by the ILO, OECD and other organizations.

3. The documents COM.TD/W/6 and Addenda referred to above contain statements which had been supplied by governments in response to requests made by Committee III and the Action Committee and had been handed over to the Committee on Trade and Development upon its establishment. After an examination of this material at its first meeting in June 1965 the Group considered that an attempt should be made to elicit further information and requested replies to four specified questions from governments. In response to this request, the governments of a number of developed countries supplied new statements. The material thus made available enabled the Group, at its second meeting held in February 1966, to carry the study a step further and to draw up the present interim report.

4. All this material, which has been supplied by the governments of developed countries, and which has been the subject of the Group's study, is reproduced in document COM.TD/H/3, which the Group wishes to present to the Committee together with the present report as an integral part of its submission.
5. On the basis of this material the Group proceeded to a general examination of the types of adjustment assistance legislation in force, the measures applicable under the legislation and their value in relation to the purpose of increasing the access of the exports of less-developed countries to the markets of developed countries.

6. The material supplied by governments indicates that the following types of assistance are provided by governments through adjustment assistance measures, including measures designed to overcome regional imbalances:

(a) **Financial assistance**

(i) Grants, advanced and loans (often low interest and with generous repayment periods) to:

A. private firms for machinery and building,
B. local authorities for infrastructural expenditure.

(ii) Grants or loans to firms to facilitate the scrapping or "mothballing" of machinery.

(iii) Acquisition of land and construction of factories for hire or sale to manufacturing concerns.

(iv) Subsidies towards costs of factory buildings.

(v) Guarantees of private loans to manufacturing concerns.

(vi) Payments to offset interest charged on private loans to manufacturing concerns.

(vii) Grants to enable feasibility studies by private firms.

(viii) Inauguration of public works programmes.

(b) **Fiscal inducements**

Tax exemptions and rebates, including accelerated depreciation allowances.
(c) **Retraining of labour**

(i) Establishment of training facilities.

(ii) Grants or loans to local authorities for the establishment of training facilities.

(iii) Grants or loans to firms for the establishment of their own training facilities.

(iv) Payment or part payment of salaries of instructors and trainees.

(v) Payment for workers during periods of unemployment or reduced employment.

(d) **Movement of labour**

(i) Payments to enable travel for training and interviews.

(ii) Payment for movement of family and effects.

(iii) Publicity on employment opportunities in localities outside the depressed area.

7. The use of particular measures and the conditions under which they are made available tend to differ from country to country. While the material has not permitted an exhaustive analysis, the following general points and characteristics of the measures of certain countries would appear to be relevant for any description of the general pattern:

(a) in most of the countries which have furnished information on the subject, there is no general legislation designed specifically to facilitate structural adjustments necessitated by changing conditions in world trade;

(b) in a number of countries the autonomous adjustment of factors of production to market forces is assisted by governmental policies aimed at promoting the mobility of labour and fostering employment opportunities or directed towards stimulating growth, in particular in the economically depressed regions; measures designed to encourage structural adaptation are not always distinguishable from general policy measures aimed at securing economic expansion and higher levels of employment, particularly in relation to problems of regional development;
(c) one country has ad hoc legislation specifically designed to assist a particular industry (cotton textiles) to adjust to changing conditions in world trade. Another country has introduced measures involving the "mothballing" of excess capacity which serves the same purpose;

(d) The ECSC and EEC Treaties contain provisions for the granting of adjustment assistance by the respective executive authority on the requests by member States. Under the ECSC Treaty assistance could be provided to facilitate the re-adaptation of workers whose employment is affected by the opening of the Common Market as well as to deal with the consequences of technological developments or structural changes. The EEC Treaty provides more generally for provision of employment opportunities and labour mobility through aid from the Social Fund. In both cases the use of adjustment assistance to promote structural changes aimed at forestalling or mitigating injury is related to the framework of rights and obligations constituted by the Treaty instruments;

(e) a number of governments have legislation on measures of assistance designed to overcome problems arising from regional imbalances. To the extent that the situation of industries in a particular economic region is made worse by the working of the international trade mechanism, these measures could be used to mitigate injury arising from the impact of import competition. With the possible exception of Lancashire, it is not clear, however, how far adjustment assistance has been used to deal with the consequences of import competition in an industry whose production units were concentrated in a particular locality or region and the extent, therefore, to which regional legislation has served the purpose mentioned in the Group's terms of reference;

(f) in at least one country a system of public credits, shortly to be reinforced by a system of guarantees, is used to assist enterprises in effecting adaptations and adjustments made necessary by international competition;

(g) In the Trade Expansion Act 1962, the United States has comprehensive legislation authorizing adjustment assistance where increased imports resulting from trade concessions become a major factor in causing or threatening serious injury, the assistance being given to enable the affected firms or workers either to become more competitive or to move into other fields of activity. While, to date, the legislation has been invoked in several instances, there has been no finding to justify the provision of assistance.
8. In the course of analyzing the contents of the individual statements submitted by governments, some members of the Group commented on the measures reported and their relationship to the commercial policies and trade flows of the countries concerned. The experts representing these countries indicated that they would convey these comments, which are briefly summarized in this paragraph, to the attention of their respective governments. Commenting on the individual reports submitted by governments, some experts observed that Austria had been taking liberalization measures over a period of years. They felt that it would be useful if the Austrian Government had indicated whether it had considered the use of adjustment assistance in the course of its liberalization programme and whether it could also consider using such measures to secure the removal of the remaining restrictions. The Austrian representative replied that in the first place no such questions had been put to the Austrian Government in the request for material for this Group and secondly the appropriate forum for questions of this kind would appear to be the Group on Residual Restrictions to which Austria had supplied information. With regard to the information submitted by Belgium and the Netherlands, one expert felt that although owing to the liberal commercial policy followed by these countries it had not been necessary to employ adjustment assistance measures specifically to provide opportunities for increasing imports from developing countries, nevertheless legislation to that end existed. He further expressed the hope that Belgium and the Netherlands would endeavour to influence the policies of the EEC and suggest the use of adjustment assistance to facilitate liberalization in areas of particular difficulty. With regard to the information submitted by Czechoslovakia, one expert commented that the adjustment which had been taken in certain Eastern European countries appeared to have contributed substantially to an increase in exports of some developing countries. This should be borne in mind by other countries in the efforts to increase their trade with the developing countries. One expert, referring to the notification from the Federal Republic of Germany and its restrictions in force on particular products, said that his country imported three times the amount it exported to the Federal Republic. It was hoped that these restrictions would be removed at an early date through the use of adjustment assistance measures. He felt that the policy statement contained in paragraph 6(d) on page 31 of the notification of the Federal Republic should be carefully scrutinized. In this connexion, he pointed out that less-developed countries could only make their prices competitive if they were given a chance to export. With regard to the notification by Finland, he felt that adjustment assistance measures would perhaps also point the way to dealing with the problem faced in providing access to one particular product. In the case of Japan, he observed that Japan had experienced difficulty in removing restrictions from many items. He hoped that the Japanese Government would find adjustment assistance measures helpful in this regard. With regard to the notification submitted by the United Kingdom, he felt it would be useful if information could be submitted as to whether the schemes on incentives to promote mobility in
industry will also take into account the need to afford more access to exports of developing countries. The provisions in Title III, Chapter III of the United States Trade Expansion Act 1962 were welcomed as this, in his view, was a positive approach towards expanding foreign trade on the understanding that if injury was at all caused or threatened certain adjustment assistance measures would be taken. The proposals under consideration to make certain changes in the operative provisions of the United States/Canada automotive products agreement were noted.

9. The Group agreed that the secretariat should be requested to obtain information from governments on new developments or changes in the legislation and measures notified by them and should be made available to contracting parties on an annual basis. An attempt should be made particularly to obtain information on the four points specified in paragraph 3 of COM.TD/H/3, viz.:

(a) what measures of adjustment assistance were available under either general or specific legislation;

(b) which of these measures could be used specifically for the purpose of providing larger opportunities for imports from developing countries;

(c) instances in which measures under (b) had been employed and the progress made in achieving the objective outlines in that sub-paragraph;

(d) indications as to programmes in hand, whether in the enactment of new legislation, or in the employment of measures already available in the field of adjustment assistance, to promote imports from developing countries.

10. On the measures reported in COM.TD/H/3 as a whole, the Group observed that the information provided revealed that measures in the nature of adjustment assistance had generally been prompted by a variety of circumstances including adjustments required for long-term structural reasons, to facilitate regional development, to face up to a situation of technological backwardness and low productivity, and so forth. The policy instruments, therefore, appear to have been conceived broadly with a view to improving the overall situation or to directing a re-allocation of resources without specific reference in every case to competition from imports as such. The Group noted that on the basis of the information available it was not possible to evaluate to what extent the adjustment assistance measures in force had effect on the trade opportunities of less-developed countries.
11. In those cases where adjustment assistance measures were related more directly to difficulties arising from imports, it appeared possible to distinguish between two types of measures: (a) those designed to improve productivity and the competitiveness of the industry through modernization and rationalization of equipment, introduction of a higher degree of automation and other technological improvements, etc., and (b) those designed more particularly to increase the mobility of labour and capital with a view to encouraging re-allocation of resources from one line or branch of production to another. The Group noted that the latter type of measures was more directly related to the adjustment of the economy to a larger volume of imports. It was emphasized by experts from developing countries that adjustment assistance measures should not be employed as a means of artificially stimulating productivity in the developed countries at the expense of imports from developing countries.

12. Experts from the developing countries pointed out that the existence of provisions for general adjustment assistance measures had not prevented developed countries from raising new barriers to the imports of developing countries some of these inconsistent with the GATT. Even countries which enjoyed full employment had resorted to restrictions. These experts suggested that special legislation, or special measures under existing legislation, specifically aimed at bringing about structural adjustment to overcome this problem, was desirable.

13. The Group then discussed in a general way the type of legislation which appeared to be the most desirable in relation to the problem of providing greater access for the exports of less-developed countries. The Group did not take a firm position as to whether the legislation of a general character (i.e. legislation providing for measures applicable to structural problems of varying origins) or specific character, would be more appropriate. Since there were variations in the circumstances of industrial countries, both in economic structure and political conditions, it should be for the industrialized countries themselves to decide how best to proceed. The Group, however, felt that where such legislation was of a general character, the countries concerned should try to relate it as directly and as sympathetically as possible towards easing the very grave economic and human problems faced by the developing countries. In the course of discussing these questions, the Group heard statements from representatives of the ILO and the OECD about the parallel work with regard to manpower and industrial adaptation policies which these organizations were undertaking in this field. The Group was pleased to note that the views of the Group and these representatives appeared to be generally similar with respect to the legislative approach.

14. The Group observed that the data furnished by contracting parties had not indicated that, apart from the textile sector and except in a few other specific instances, adjustment assistance measures have been used specifically for the
purpose of dealing with any difficulties which might have been caused by increases in imports from developing countries. Nor were there indications that governments which had provided tariff or non-tariff protection for their industries had, in each case, examined how far this problem could have been dealt with through the use of measures of adjustment assistance. There was also little specific information as to whether in certain cases actual use of such measures, or assurance that such measures could be used, had enabled certain countries to reduce, eliminate or avoid additional measures of tariff or non-tariff protection. It was suggested that such information should be obtained from governments together with that mentioned in paragraph 9 above.

15. The Group felt that the role which adjustment assistance measures could play in facilitating greater trade liberalization to the advantage of all countries, could be illustrated by the adjustment assistance provisions of the United States Trade Expansion Act which created the pre-conditions for the removal of barriers in a manner which would enable imports, and their impact on the market, to bring about adjustments in the United States economy. The Group noted that enactment of these provisions indicated that the assurances that there was the possibility of adjustment assistance being provided could be helpful in reconciling domestic interests to a larger degree of trade liberalization. Of course, in each country and for each industry, there might be a number of political and social factors which would need to be taken into account.

16. The Group noted that in most instances it should be possible to take action to liberalize imports without having to consider adjustment assistance measures and that such measures would be needed only if serious damage to the domestic industry were to result from such action. In view of the growing demand for manufactures in developed countries and the relatively low rate of growth in most lines of exports of less-developed countries, it was to be expected that adjustment assistance would be the exception rather than the rule.

17. Experts, mainly from developed countries, pointed out that to place too much emphasis on the value of adjustment assistance might create the opposite effect of retarding trade liberalization; for example, it might provide grounds for local interests to demand the maintenance of protection in circumstances where adjustment assistance measures were not immediately available. Recognizing the force of this argument, experts, mainly from less-developed countries, however, stressed that, nevertheless, governments should make every effort to ensure that difficulties cited as constituting obstacles to the liberalization of imports were dealt with by the removal of those difficulties through internal adjustment, and if necessary, by means of measures of adjustment assistance rather than continue to maintain tariff and non-tariff barriers.
18. Several experts felt that there was need for developed countries to provide for anticipatory adjustment assistance which would serve not only to ease difficulties caused by actual imports but also to facilitate the transfer of factors of production away from sectors in which less-developed countries expected to be in a position to expand their exports in the future, particularly the labour intensive branches of manufacturing. Experts from developed countries, however, pointed out various difficulties, both political and practical, for governments in market economy countries, in bringing about structural adjustment in anticipation of future imports. Given liberal commercial policies, market forces could normally be relied upon to ensure the necessary adjustment and the rôle of adjustment assistance should not be over-emphasized. The Group agreed that in administering adjustment assistance, the developed countries should always give appropriate weight to the needs of less-developed countries to expand their trade. The expert from Sweden observed that in his country manpower legislation had been used to bring about the transfer of labour in anticipation of future changes in the economic structure of the country.

19. Some experts from developing countries referred to point (viii) of the Ministerial Conclusions on the Action Programme, the provisions included in the Cotton Textiles Long-Term Arrangement, the general provisions of the General Agreement, and the commitments accepted by governments under Article XXXVII of the Agreement. They pointed out that these provisions implied a commitment to use adjustments where these may be necessary in the context of the need to enlarge access for exports of less-developed countries. Experts from member States of the EEC recalled in this connexion the position taken by the Ministers of the EEC and associated countries with regard to the Action Programme as noted in paragraph 6 of the Ministerial Conclusions. The representatives of Japan and the United States also drew attention to the qualifications regarding the position of their Governments as noted in paragraph 4 of the Conclusions. Experts from less-developed countries commented that the use of adjustment assistance measures had to be seen in relation to commercial policy problems generally. They also felt that the United States, in providing for adjustment assistance measures in the Trade Expansion Act had been able to lead the way towards major trade liberalization. The inclusion in Article XXXVIII of provisions for joint action relating to adjustment of national policies would also facilitate the task of individual countries.

20. In view of these obligations, the minimum that a developed country maintaining obstacles to imports from less-developed countries should do was to explore every possibility of making use of adjustment assistance with a view to removing those obstacles. It was generally agreed that it would be desirable within the context of the General Agreement to examine the relationship between adjustment assistance legislation and measures of developed countries and their commercial policies and restrictions. Such discussions would cover the nature of the difficulties in question and the extent to which adjustment assistance would contribute to solving those difficulties.
21. It was also suggested by experts from developing countries that appropriate mechanism should be set up within the framework of the Group for the exchange of information and for consultations between developed and developing countries on likely developments on this subject from the latter and for the co-operative consideration of realistic policies to deal with any problems which might arise. The point was made by some experts from developed countries that without more precise information it was difficult to visualize what sort of mechanism and what sort of information beyond that which was already available from other sources would be involved.

22. Experts of less-developed countries also felt that the Group should undertake case studies on the use which could be made of adjustment assistance measures in dealing with difficulties in particular industries. Some experts from developed countries felt that to embark on case studies in the specific context of adjustment assistance, which was expected to be the exception rather than the rule, seemed of questionable value. Other experts felt that it would be sufficient for the purposes of this Group, if appropriate arrangements were made for reviewing and examining new information supplied by governments. In this connexion governments of the developed countries should be invited to review their positions in the light of the information, analysis and conclusions of this report, and to report periodically to the Committee on any new steps taken and progress made in this field. The Group stressed that whatever arrangements were made for the dissemination and analysis of information, governments should not await the results of any such studies, but should take whatever action might be open to them in providing adjustment assistance.

23. It was the general view of the Group that adjustment assistance measures could contribute to the solution of difficulties which might otherwise create pressures for the erection of new barriers or impede the rapid removal of existing barriers affecting the trade of developing countries and that, therefore, the developed countries should, wherever such difficulties were faced, explore the possibility of resolving them through the use of such measures. The Group also agreed that greater public awareness of the desirability of accepting structural adjustments with a view to permitting a higher level of imports from less-developed countries would be helpful.
ANNEX

Group of Experts on Adjustment Assistance Measures

Chairman: MR. N.A. PINCH (United Kingdom)

Membership:

M. S.P. de Liedekerke (Belgium)
Mr. B.B. Babosa (Brazil)
Mr. M. Sakellaropoulos (Canada)
Mr. Obermüller (F.R. Germany)
Mr. S. Narasimhan (India)
M. Ugo Vitale (Italy)
Mr. P.V. Marsh (Jamaica)
Mr. K. Akiyama (Japan)
Mr. Akhtar Mahmood (Pakistan)
Mr. C.S.T. Canarp (Sweden)
Dr. S. Harb (United Arab Republic)
Mr. Edgar Eaton (United States)
Dr. D. Kakanovic (Yugoslavia)
1. The Group was established by the Committee on Trade and Development in March 1965, and was instructed to examine problems involved in the expansion of trade among less-developed countries, with particular reference to the rôle of preferences in this regard, and to perform certain related tasks. The full terms of reference of the Group are given in Annex I to this report.

2. The Group held its first meeting in June 1965, and the discussion at that meeting was summarized in a secretariat note (COM.TD/D/2), which was transmitted to the Committee and discussed at its meetings in July and December 1965 (COM.TD/10 and 12). The comments made by the Committee on these occasions have served as further guidance for the Group in the pursuance of the tasks entrusted to it.

3. The Group had before it certain documents specially prepared for it, including a background note on past discussions of the subject (COM.TD/D/W/2), and a general review of trade among developing countries (COM.TD/D/W/3), as well as a pilot study, as referred to in paragraph 3 of the Group's terms of reference (COM.TD/D/W/1).

Preferences

4. In discussing the rôle of preferences among developing countries in promoting their mutual trade, the Group had before it two proposals which had been submitted to the Committee on the Legal and Institutional Framework, and remitted to the Committee on Trade and Development. The first of the proposals, submitted by the United Arab Republic, envisaged the establishment of general preferences among less-developed countries and the other, submitted by the United States, related to preferential arrangements among countries in the same geographic or economic region. These proposals provided a starting point for the Group's deliberations, and the questions raised on them and answers provided by the proposing delegations, as well as certain general and specific comments on their various elements, are summarized in the notes annexed hereto (see Annex II).
5. The Group was aware that the value of the exchange of preferences among less-developed countries in increasing the foreign exchange earnings of these countries, and in diversifying their economies had been widely recognized in past discussions in GATT. There had also been a large measure of agreement on the principle involved in the granting of such preferences, even though views on the exact form of the preferential arrangements to be adopted had tended to differ. The discussion in the Group has led it to the unanimous conclusion that the establishment of preferences among less-developed countries, appropriately administered and subject to the necessary safeguards, can make an important contribution to the expansion of trade among less-developed countries and to the attainment of the objectives of the General Agreement. The general view of the less-developed countries, as reflected in the discussions in the Group, is that such preferences should be granted and applied on a non-discriminatory basis and that less-developed countries should be in a position to exchange preferences with other less-developed countries in general and not only in the context of regional schemes of integration. Some delegations held the view that any preferential agreements proposed should be examined by the CONTRACTING PARTIES and they felt that it was desirable to ensure that any preferences extended should provide a reasonable expectation of increased productivity through the enlargement of markets for the products concerned. Many other delegations pointed out that the value of preferences in expending trade among developing countries would also be affected by other considerations, including those relating to balance-of-payments difficulties.

6. It was also the general view that the establishment of such preferences should most appropriately be the subject of negotiations between developing countries. In such exchange of reciprocal preferences due account would be taken of the different stages of economic development of the negotiating partners.

7. The Group further noted that, while the negotiation of any preferential arrangements among less-developed countries must be the responsibility of the less-developed countries themselves, adequate provision should be made to ensure that the interests of the other contracting parties are not unnecessarily damaged.

8. The Group felt that, before attempting to draw up specific legal provisions, or formulae for the exchange of preferences, it would be helpful to see what concrete proposals or arrangements might in practice be made or negotiated by less-developed countries acting within the spirit of Part IV. The representatives of the less-developed countries stated that they proposed to enter into exploratory talks at an early date. The Group recommends that arrangements should be made for the examination of any such proposals, or arrangements when they are received.
Other measures

9. While discussion in the Group was concentrated on the proposals on preferences, a number of other aspects of the problem of trade expansion among less-developed countries were also taken up. In this regard the Group again was guided by past discussions in GATT. In particular the Committee on Trade and Development had, at its meeting in July 1965, referred to a number of measures other than preferences and had given attention to the trade and payments aspects of the problem, particularly:

(a) the dismantling of quantitative restrictions affecting intra-trade;

(b) non-tariff arrangements to overcome payments limitations;

(c) avoidance of tied loans.

It had also been suggested in the Committee that a specific programme of action aimed at trade expansion among developing countries, limited in scope at the beginning and capable of being expanded subsequently in keeping with the needs of the contracting parties concerned, might be drawn up.

10. At the meeting in January-February 1966, the Group took up these points and heard "certain specific suggestions" from the Indian representative. These suggestions related to a number of measures aimed at giving greater flexibility to less-developed countries in the planning and implementation of their commercial policies and at directly increasing the imports of less-developed countries from other less-developed countries on a reciprocal and non-discriminatory basis. They included the following:

(a) A target rate be adopted for the annual expansion of trade among less-developed countries.

(b) Less-developed countries should try to identify, from their lists of products notified as being of export interest to them, those items the export of which to other less-developed countries appear to be capable of expansion. The products thus identified should be notified to the CONTRACTING PARTIES together with any relevant data on trade, production, production plans, etc. Such notifications should be collated and circulated for the information of all less-developed contracting parties. Less-developed countries should then be asked to supply data concerning their present and future import capacity for these products.
(c) Less-developed countries should be asked to indicate what special measures they consider should be taken by importing countries under Part IV, or by international organizations, for the expansion of this trade.

(d) In addition to the exchange of tariff preferences, such measures as the exchange of import quotas might be resorted to by less-developed countries in order to enable them to obtain imports over and above that which could be effected on the basis of their overall foreign exchange availabilities.

(e) Where imports were made by governments, or State agencies, rules might be evolved to ensure that maximum possible preference was given to purchases from sources in less-developed countries.

(f) Guidelines or rules might be adopted to ensure that aid given to less-developed countries by developed countries, or by international institutions, were untied, or at least that a part of the foreign exchange thus made available was usable for payments for imports from other less-developed countries.

(g) A fund be set up, within the framework of the appropriate international financial institution, for the provision of loans needed to finance imports by less-developed countries from less-developed countries.

(h) The exchange, on a regular basis, of information about their development plans and import requirements, so as to maximize imports.

(i) Measures should be taken to prevent the operation of licensing and similar arrangements, entered into by firms in less-developed countries with foreign firms, from operating in such a way as adversely to affect trade among less-developed countries.

(j) Measures should be taken to solve any transport, communication, and marketing difficulties which might be limiting the expansion of trade among less-developed countries.

(k) Since the Kennedy Round provided an immediate opportunity for implementing these and other ideas for general expansion of trade among less-developed countries, maximum advantage should be taken of the Kennedy Round to expand trade among less-developed countries.
11. The representative of India further urged that maximum possible flexibility should be provided to the less-developed countries in working out arrangements for expansion of trade among themselves in a non-discriminatory manner. The only requirement should be for establishing reporting and consultation procedures after the arrangements have been worked out.

12. The points in paragraphs 10 and 11 were presented by the Indian delegation as suggestions to facilitate discussion in the Group and not as official proposals by the Indian Government. In view of the lack of time, the Group did not enter into any detailed discussion of the merits of, or the technicalities involved in, the suggested measures. Some members of the Group, however, did take the opportunity to engage in a preliminary exchange of views on some of the points. Some members stressed the importance which they attached to such measures as the provision of untied loans, the earmarking of governmental purchases, and the exchange of import quotas, which, in their view, would make a significant contribution to the expansion of trade among developing countries. Some members of the Group pointed out the difficulties inherent in these points. As regards the exchange of import quotas among the less-developed countries, it was pointed out that Article XIV:2 could also be utilized for expanding trade among the less-developed countries. Some members of the Group, while agreeing that these suggestions warranted careful study, did not feel that the GATT, being an organization having competence primarily in the field of commercial policy, was an appropriate forum for the discussion of certain problems which lay in the field of finance and payments. Other members considered, however, that the GATT, precisely because of its responsibility in the field of international trade, could not disassociate itself from international financial problems related to trade.

13. The Group draws the attention of the Committee on Trade and Development to the work being undertaken in other organizations, particularly relating to the problems of aid, loans and credit facilities. The Group believed that it was important for contracting parties to keep abreast of developments in these fields in order that GATT could, where appropriate, collaborate in seeking feasible methods for expanding the international trade and exchange earnings of developing countries.

14. Members of the Group suggested that it would be useful for the less-developed countries, in considering ways and means of expanding trade among themselves, including the reduction of tariffs and other barriers to trade on a most-favoured-nation basis, to have available to them statistical data relating to imports and exports of particular commodities and information on some of the points mentioned by the Indian representative. This information would also be of particular value in the immediate context of the Kennedy Round. The Group agreed that such statistical data would have to be supplied largely by the less-developed countries themselves. The secretariat was asked to provide appropriate assistance in the collection and the co-ordination of such material.
ANNEX I

Terms of Reference of the Group on Expansion of Trade among Developing Countries

- To examine the problems involved in the expansion of trade between less-developed countries, with particular reference to the role of preferences between less-developed countries in promoting such trade, and taking full account of the work done earlier in the Working Party on Preferences and its findings;

- to examine in this context, any specific proposals submitted by contracting parties for the establishment of preferences between less-developed countries;

- to examine the pilot studies on trade flows between less-developed countries produced by the secretariat and to arrange for the extension of these studies to additional lists of products;

- to report, with appropriate findings and recommendations, to the Committee on Trade and Development at the next meeting of the Committee and to transmit its findings also to the Working Group on Preferences.

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1 See L/2410, paragraph 42.
ANNEX II

Secretariat Note on the Discussions at the
Second Meeting of the Group

1. The present secretariat note is intended to summarize the discussion at the second meeting of the Group held from 31 January-7 February 1966 inclusive. It does not cover all points already noted in the report of the Group which alone constitutes its official record.

A. Preferences among developing countries

2. The discussion was opened by a statement of the United Arab Republic representative in which he recalled briefly some of the major problems affecting trade among less-developed countries, the still very low level of trade among these countries, and the major provisions of the United Arab Republic proposal relating to preferences. This proposal (see COM.TD/W/2, Annex II) envisaged the establishment of preferences on selected products by means of agreements negotiated between interested developing countries to which other developing countries could also accede. In selecting the products account would be taken of the negotiating countries' respective need for industrial protection and for customs revenue, etc. It was not envisaged to draw up any common list of products for the granting of such preferences, and the choice of types of products to be covered would be determined through negotiation, which would also ensure a proper balance of benefits and obligations among the participating countries. The preferential arrangement would apply not only to tariff rates but also to non-tariff measures. One would also expect that such preferences should provide benefits for imports from less-developed countries no less favourable than those at present accorded by certain developing countries to imports from certain developed countries. As regards the question of safeguarding the interests of third countries, the United Arab Republic proposal provided for the accession of other developing countries to any agreement concluded, and for recourse by any contracting party considering its interests impaired to the provisions of Article XXXVII:5. The United Arab Republic proposal also contained provisions on time-limits for the validity of the preferences so that they would not be in force longer than was necessary for the purposes for which they were granted. The representative of the United Arab Republic considered that the envisaged preferences could be implemented within the framework of Part IV of the General Agreement.

The full text of the statement by the representative of the United Arab Republic was circulated to the Group in document Spec(66)2.
3. The representative of the United States recalled briefly the major considerations underlying the United States proposal (COM.TD/W/2, Annex IA). First, it was the view of the United States that the establishment of preferences among less-developed countries should be closely linked to the co-ordinated development of production and trade among the participating countries and that co-ordinated development could most easily be achieved between countries having common interests and practical facilities for collaboration, which would normally mean countries in the same region. Secondly, preferential arrangements might be desirable because the countries concerned might not always find it possible to establish free-trade areas or customs unions, while wishing to make progress nevertheless towards co-ordinated development in a more limited manner. Such arrangements would enable them to collaborate in establishing or expanding their industries; through the creation of a wider market, sheltered from outside competition for a specified period of time. For this purpose an exception might be made to the provisions of Article I of the General Agreement to enable developing countries to enter into preferential arrangements. The criteria for justifying such a deviation from Article I should be, first, that the arrangements in question could be expected to lead to a rise in efficiency and productivity in the industries concerned so as to enable it eventually to withstand foreign competition, and secondly, that they would not cause undue damage to the interests of third countries. In his statement the United States representative also commented on the specific questions raised at the first meeting of the Group (see COM.TD/1/2, paragraph 29). The points made by him are noted in the following paragraphs which summarize the discussion of the various aspects of the general question of preferences.

4. In discussing the general objectives of such arrangements, representatives of some less-developed countries pointed out that the less-developed countries expected the preferences to make a contribution to their development more immediate and substantial than the benefits that they might eventually derive from regional economic integration arrangements. In present balance-of-payments circumstances, for example, the establishment of tariff preferences, coupled with other appropriate measures, might open up new avenues of trade, creating trade that would not otherwise have been possible owing to the constraints imposed by the scarce foreign exchange resources of less-developed countries.

5. Some representatives pointed out that preferential arrangements among less-developed countries must be aimed at making industries more competitive; for otherwise they would not achieve the final objective of increasing standards of living, but merely burden the economy with the higher economic and social costs involved in obtaining imports from higher cost suppliers. The implications of this element for the balance of payments were particularly important if account were taken of the capital outlays which would be needed for the ensuing expansion of industrial production.

1The full text of the statement was circulated to the Group in document Spec(66)3.
6. Representatives from less-developed countries explained that they placed emphasis on the creation of trade which would otherwise not exist. While, in the short-term, the preferences might involve a shift towards higher cost suppliers, it was their hope that, once production for a larger market got under way, developing countries would become increasingly competitive suppliers of the goods in question. As regards the effect of preferences on the balance of payments, representatives of developing countries noted that, there being a scarcity of exchange resources in convertible currencies, imports at lower nominal prices in terms of convertible currencies might well be far more costly to the less-developed countries than those at higher prices but payable in non-convertible currencies which they could earn through expanding their mutual trade. At any rate, even if a loss was involved this would be outweighed by the direct and indirect benefits deriving from the development production and trade which would otherwise not have been there.

7. On the question of regional versus a more generalized system of preferences among developing countries, representatives of less-developed countries also felt that preferences embracing a few countries confined to a given region would not provide them with the flexible instrument which they felt was required for obtaining the maximum benefit from preferences. Such advantages of regional co-operation as the greater ease for collaboration among countries situated close to each other, a more intimate knowledge of each others markets, and the generally lower transport costs were likely to be less significant and fundamental than the accompanying disadvantages, such as the often found lack of complementarity, on account of similarity in resource endowments and in the stage and pattern of industrial development, etc. On balance one would think therefore that inter-regional trade among developing countries should be just as easy to develop and expand through the establishment of preferences as would intra-regional trade.

8. The United States representative explained that for the purposes of the United States proposal, the term "economic region" need not necessarily be taken strictly in the geographic sense, but might broadly denote any group of countries which were considered capable of co-operating with each other for their integrated development. Other members of the Group felt that any tying of preferences to the concept of economic regions would introduce an undesirable limitation, which was not envisaged in the generalized language used in Part IV of the General Agreement. Furthermore, many members noted that regional trading arrangements among developing countries could be covered by the provisions of Article XXIV of the General Agreement.

9. As regards the mechanism to be used for establishing preferences among developing countries, the Group generally considered that any preferential arrangements would have to issue from negotiations among developing countries. Members of the Group explained that such agreements would probably have to be negotiated between a limited number of interested countries on the basis of reciprocal concessions and to be broadened thereafter by the accession of other less-developed countries. Due allowance would have to be made in the negotiations for differences in the stage of economic development of the negotiating partners. The methods and procedures evolved in the GATT tariff negotiations in the past might serve as a guidance for the less-developed countries.
10. Certain members stated that preferences in their view should be exchanged mainly on manufactured and semi-manufactured products. One member of the Group referred to the generally low level of duties on raw materials and to the need to minimize raw materials cost in industry, and considered it particularly inadvisable to apply preferences on primary products. Other members of the Group felt that there was no need to spell out, at this stage, the type of products that could be covered by such preferences; the advantages or the disadvantages of using preferences for specific products would have to be weighed and compared in the course of the negotiations.

11. As regards commercial policy measures to be covered, the representative of the United States explained that the United States proposal related only to the customs tariff preferences since, under the General Agreement, this was to be the main instrument of protection that could be accorded to domestic industries. He agreed, however, that one could examine the possibility of extending the use of such preferences to other commercial policy measures, for example in the administration of quantitative import quotas and restrictions, although this was not covered by the United States proposal.

12. Reference was made in the discussion to the effect of preferential arrangements at present in force between certain developed and certain developing countries. It was suggested by certain members of the Group that the margins of the new preferences should be at least as large as those granted to imports from the developed country. As an alternative, some members suggested the preferential treatment at present in force for imports from the developed country might be withdrawn.

13. Members of the Group discussed the question of safeguards for the interest of third countries. Some members of the Group stressed that the preferences should not be established through an increase in the most-favoured-nation rate, nor should the existing most-favoured-nation rates be raised for the purpose of providing larger margins of preference. Particularly in cases where existing rates were high, there should be some limitation on the permitted preferential margin, so as to ensure an equitable share of the market for suppliers in third countries. Some members noted that they did not think preferences should be extended to non-tariff measures such as quotas precisely because of the greater danger of adverse effects in the interests of third countries. If it should be agreed that preferences should cover import quotas, especially careful attention must be given to ensuring that third countries' fair share of the market was not excessively affected.

14. There was general agreement that, as one of the safeguard measures, adequate provision would have to be made for consultations with affected contracting parties. Reference was also made to the provision in the United States proposal for compensation to be given to third countries in case of injury resulting from the preferences. Some members of the Group were of the view that any preferential agreements negotiated should be submitted to the CONTRACTING PARTIES for prior approval. Other members stressed that sufficient
flexibility must be left with developing countries in the negotiation of such agreements, and that there should be no cumbersome procedures which might delay action. They felt that the provisions of Part IV provided sufficient scope for the use of such preferences. One delegation pointed out that, whatever provisions of the General Agreement were invoked to cover such schemes, it would be useful to draw up, at an appropriate time, guidelines or procedural provisions for adoption by the contracting parties which were to formulate the establishment and operation of such preferences.

15. Several members of the Group stated that they intended to avail themselves of the opportunity offered by the Kennedy Round to hold exploratory talks with other contracting parties on ways and means of expanding trade among less-developed countries.

16. In the course of formulating its conclusions on this subject (see paragraphs 5-8 of the report), the Group took note of a statement made by Ambassador Valenzuela (Chile) on behalf of the less-developed countries represented at the second meeting of the Group. Ambassador Valenzuela stated that the discussions in the Group had shown a general consensus that preferences among less-developed countries constituted a useful means for the expansion of their mutual trade. There appeared also to exist among all members of the Group a genuine desire to explore the possibilities open to contracting parties for action in this regard. The less-developed countries were aware of the similarities, as well as the complementary features, of their economies and were mindful of the common links in the objectives of their national development programmes. Taking these into account they were in favour of general, non-discriminatory preferences among less-developed countries, to be established on the basis of negotiations in which due account would be taken of the different stages of economic development of the different countries and of the interest of third countries. The less-developed countries in GATT would take the first opportunity to enter into exploratory talks within the spirit of Part IV and in the light of economic realities, on the most appropriate form and procedures to be adopted in order to bring about practical and viable preferential schemes among developing countries. At this stage of the discussion, the less-developed countries would not wish to ask contracting parties to undertake any commitments, or to bind themselves with regard to the modus operandi or any specific formulae to be adopted, on the establishment of preferences among developing countries.

B. Other measures for the expansion of trade among less-developed countries

17. In the course of discussion the representative of India presented a number of suggestions which might constitute a programme of action for the expansion of trade among less-developed countries (see paragraphs 10 and 11 of the report). The establishment of such a programme of action had been suggested by the Committee on Trade and Development at its meeting in July 1965 (COM.TD/10, paragraph 31). Members of the Group pointed out that, since they had not yet had time to study the issues involved in these suggestions, they could make only observations of a preliminary nature. These points made by the representative of India and other members of the Group are noted below:
(a) Adoption of a target rate for the expansion of trade among less-developed countries: The representative of India noted that in view of the still very low level of trade among developing countries, it should not be unrealistic to envisage a target of expansion of between 15-20 per cent per year. Some members of the Group agreed that the establishment of target rates for the expansion of trade might be of some value in providing a focussing point for action. They felt, however, that the actual target to be adopted would have to be examined on the basis of statistical data on the pattern of export production, etc.

(b) Identification of products particularly worthy of attention in the mutual trade of less-developed countries: The Indian representative suggested that the products might be chosen from those already notified as being of export interest to less-developed countries, but that they need not be confined strictly to this category. Members of the Group agreed that such an indication should be of value in this regard. Some members noted in this connexion that the data so far compiled by the secretariat related in general to broader commodity headings while, to be really useful for the purpose of exploring possibilities for trade expansion, they should be fairly specific. It would therefore be in the interest of the less-developed countries to supply the secretariat with all relevant data relating to specific export production. Members expressed the hope that the collection of further material would not in any way delay any immediate action that might be open to the less-developed countries.

(c) Suggestions on special measures importing countries might take: One member suggested that action to be taken by developing countries might relate to the reduction of high rates of duty, the relaxation of non-tariff barriers, etc.

(d) Exchange of foreign exchange and import quotas. In the course of this discussion a reference was made to the provisions of Article XIV:2 of the General Agreement which might conceivably be invoked to cover action in this field. Some members pointed out that, in view of the scarcity of foreign exchange in developing countries, these countries should endeavour to make the best possible use of their exchange resources, and avoid imports from higher cost countries. One member, representing a developed country, expressed concern that action by developing countries along these lines, by favouring a return to bilateralism, might lead to trade diversion. Representatives of developing countries noted that the purpose of such action would be to create additional trade among developing countries, for instance trade in certain types of consumer goods which would not have been possible were it not for the foreign exchange facilities thus made available. Reference was made during the discussion to the possible exchange of tariff quotas in the context of the Kennedy Round. Some members thought that tariff quotas applying to imports from certain contracting parties, but not those from others, would be contrary to the existing provisions of the GATT and that no provision had been made for this measure in the negotiating rules of the Kennedy Round.
(e) Earmarking of State agencies purchases: Some members of the Group supported the suggestion. Other members of the Group expressed the view that an undue reliance on government purchasing policies for the purpose in question might easily lead to an undesirable diversion of trade.

(f) Untied loans: Some members of the Group from developed countries noted that the provision of an untied loan was financially more burdensome to the lending country than loans which did not include the use of its convertible currency resources; insistence on untied loans would thus simply mean that fewer loans could be granted. They stated that their delegations would be prepared to discuss the financial assistance measures operated by their governments if it was the wish of the Group to examine the experiences of aid-giving countries. Some members of the Group noted that the issues involved related not only to the trade implication of aid, but also to developments in the international financial situation and that the matter was under discussion in other international institutions more directly concerned with problems of international payments.

(g) Fund for the provision of loans needed to finance trade among developing countries: One member of the Group recalled the operation of the Export and Import Bank of the United States, and the contribution which it had made to the expansion of trade in the inter-war and post-war periods. Many members stressed the need to give adequate attention to the payments aspects of the problems encountered by developing countries in expanding their trade. Some members referred to the work being undertaken by other institutions in this field and recalled the view of contracting parties that the GATT could make a contribution by providing advice on the trade aspects of international financial arrangements. Other members noted that the fact that these matters were under examination in other institutions should not prevent the contracting parties from addressing themselves to problems so intimately linked to international trade. Some members suggested that the Indian suggestion be given serious consideration by governments, and be taken up again in the Group at an early date.

(h) Exchange of information among developing countries on development plans and import requirements: Several members of the Group stated that such an exchange of information should indeed be helpful. One member suggested that countries in each region might wish to consult with each other on their development plans with a view to eliciting the pattern of their production and exports.

(i) Avoidance of harmful effects of industrial licensing arrangements: There was no discussion on this point.

(j) Measures to overcome difficulties in transport, communications and marketing: No discussion.
(k) Making use of the Kennedy Round: Members from a number of developing countries stated that their governments were anxious to make the greatest possible use of the opportunities thus afforded.

18. In presenting these specific suggestions, the representative of India stated that his Government considered it important that the less-developed countries should enjoy sufficient flexibility in the establishment, operation and adaptation of any necessary and justifiable measures. For instance, less-developed countries should be free to take action within the framework of Part IV of the GATT without having in each case to bring it before the CONTRACTING PARTIES for approval or formal action. In most cases it should be sufficient if action taken under Part IV were reported to the CONTRACTING PARTIES and adequate opportunity were provided for consultations to be held where such action was considered to have an adverse effect on the trade of third countries. The consultations would serve to explore what needs to be done in order to avoid any such unnecessary damage and what alternative measures were available for the purpose of expanding trade among less-developed countries.

20. Members of the Group noted that the preliminary exchange of views on some of the Indian suggestions had been useful, but that it would not be possible to enter into a full discussion at the present meeting. Members generally agreed to revert at a later stage to these points, if possible on the basis of more detailed suggestions.
NOTE ON THE MEETING OF THE GROUP ON EXPANSION OF TRADE
AMONG DEVELOPING COUNTRIES HELD
IN SEPTEMBER 1958
(COM.TD/D/4)

1. The third meeting of the Group on Expansion of Trade Among Developing Countries
was held on 12 and 13 September. At the outset of the meeting, the Group was
informed that its Chairman, Mr. L.F. Collynmore, had been transferred from Geneva
to another important assignment in his Government's service and would, therefore,
not be in a position to continue to chair the Group. Appreciation was expressed
of the able and efficient manner in which Mr. Collynmore had guided the work of
the Group. Mr. B.N. Swarup, of India, was elected Chairman of the Group.

2. The Group addressed itself mainly to the question of possibilities for the
removal of non-tariff barriers in inter-less-developed country trade. The Group
was supplied with a secretariat paper (COM.TD/D/IV/5) on import restrictions applied
by developing countries on products notified as being of export interest to
less-developed countries. While expressing appreciation of the initiative taken
by the secretariat, members of the Group considered that, for the purposes of
further work in this field, it would be useful if information of this kind could
be made available for products of current or potential importance in trade among
the developing countries. It was suggested that the secretariat should consult
with the developing countries and compile a list of such products. Detailed
information relating to the type of import control measures applied on these
products, the reasons for the maintenance of these restrictions as well as such
relevant data on trade and production as might be available should then be
collected and circulated as soon as possible to contracting parties.

3. The Group had an exchange of views on various questions involved in any
general scheme for the removal of quantitative restrictions for the expansion of
trade among less-developed countries. Reference was made in the discussion to
existing arrangements among developing countries providing for mutual trade
liberalization and the post-war experience in European trade liberalization.
One developing country suggested that such liberalization could best be carried
out at least initially within the framework of regional arrangements.
4. It was agreed that, instead of trying at this stage to draw up specific schemes or formulae for trade liberalization among less-developed countries, it would be useful to see what concrete proposals or arrangements could be formulated through discussions among the less-developed countries themselves. It was suggested that such exploratory discussions among the less-developed countries could conveniently be carried out in the first instance in the informal group of less-developed countries in GATT. The informal group could give attention to the following points:

(a) the grounds on which restrictions on different products are maintained by individual developing countries and the problems in removing these restrictions;

(b) the scope for multilateral action by developing countries to remove or reduce quota and non-tariff restrictions affecting their mutual trade;

(c) the form such multilateral action can take, and any supporting measures that may be adopted, and the procedures that may be followed;

(d) Any other relevant points (for example, concerning the safeguard of the interests of other contracting parties), and the further examination of such arrangements.

5. The Group considered that the other outstanding points which had been put forward for consideration at the last meeting of the Group on Trade Expansion (set out on pages 3-5 of COM.TD/D/3) might also be taken up by the informal group.

6. It was further agreed that the Chairman of the Group on Expansion of Trade Among Developing Countries, in consultation with interested delegations, would convene its next meeting in the light of the progress made in the discussions in the informal group and other relevant circumstances.
NOTE ON THE FIRST MEETING OF THE GROUP ON INTERNATIONAL

COMMODITY PROBLEMS

(COM.TD/C/2)

1. The Group held its first meeting from 24 to 26 November, to discuss its programme of work and developments in international trade in cocoa, cotton and tropical timber in respect of which notes and certain proposals for action had been placed before the Group by experts from a number of African countries. The Group also had before it a note drawn up by the secretariat (COM.TD/C/W/4), intended to provide further data in relation to these commodities.

2. The major points made in the discussion in relation to these three commodities, as well as the points of a more general nature relating to the work programme and procedures, are summarized below under the respective headings.

COCOA

3. The Group had before it document COM.TD/C/W/1, the note drawn up by experts from a number of African countries, dated 14 October 1965; the secretariat note, as well as two UNCTAD documents (TD/COCOA 1/ WP.1/R.18, and TAD/63) - the report and a press release respectively - on the meeting of Working Party 1 (Prices and Quotas) of the United Nations Cocoa Conference, held in Geneva from 18-22 October 1965. The Group noted that its terms of reference provided that, in dealing with the problems before it, it should take full account of the work carried out in other organizations.

4. At the outset of discussions, the Group took note of a statement by the observer from UNCTAD - made at the request of the Group - regarding work recently undertaken, or in progress, in connexion with the meetings of the United Nations Cocoa Conference. In his statement the representative of UNCTAD outlined briefly the scope of the work undertaken by his organization in the commodity sector. As regards cocoa, he drew the attention of the Group to the sections of the report of the recent meeting of Working Party 1, relating to short and long-term measures for overcoming problems in the international cocoa market (pages 4 and 7 respectively of document TD/COCOA WP.1/R.18). He also informed the Group that the next meeting of the Working Party would be held from 10-21 January in New York, to discuss the bases for a new international cocoa agreement, and also to consider the resumption of a negotiating conference for a long-term agreement on cocoa. The Group expressed appreciation of the statement.
5. Bearing in mind that Working Party 1 of the United Nations Cocoa Conference would meet shortly, the Group did not enter into a detailed discussion of these aspects of the problem expected to be taken up by the UNCTAD Working Party, but concentrated its discussion on the question of the removal or reduction of customs duties, internal fiscal charges and other barriers affecting international trade in coca and cocoa products, a matter which is under consideration in the GATT.

6. A number of representatives emphasized the importance they attached to the urgent removal of trade barriers and particularly of high fiscal charges and restraints on consumption, stressing the effect that these have in limiting consumption, and thus on trade. Other members of the Group pointed out that the effect of such charges on consumption would depend largely on the general system of taxation applied by the importing country, or countries, a matter which would have to be taken into account in any consideration of this matter.

7. Taking account of the specific concerns and responsibilities which the CONTRACTING PARTIES have in relation to the removal of barriers to trade, both in the context of the Kennedy Round, and by virtue of the provisions of the General Agreement, the Group considered that, notwithstanding the forthcoming discussions on cocoa in UNCTAD, the CONTRACTING PARTIES should consider how, as a matter of urgency, they can discharge their responsibilities in this field. It was pointed out by some delegations that action on these barriers should not wait until the Kennedy Round negotiations, or negotiations for a long-term cocoa agreement, were completed.

8. Several delegations referred to the responsibilities entrusted to the Special Group on Trade in Tropical Products in the framework of the Kennedy Round negotiations. In this connexion it was recalled that the Special Group on Trade in Tropical Products had been charged with the responsibility of working for the creation of acceptable conditions of access for tropical products in the course of the Kennedy Round, and that it had been agreed that the Group should review the situation in respect of offers on tariffs and other barriers on tropical products, in the course of which developed countries participating in the Kennedy Round negotiations would furnish explanations on the contents and scope of their offers.

9. The Group agreed that the attention of the Special Group should be invited to the need for urgent review of the situation in respect of fiscal barriers affecting trade in cocoa with a view to exploring possibilities for speedy progress in this field. The Group further agreed that the concerns voiced at the present meeting should be brought to the attention of the Special Group and recommended that a meeting of the Special Group be convened at an early date.
COTTON

10. In opening the discussion, the representative of Chad introduced document COM.TD/C/W/2, the note submitted by experts from African countries. He highlighted the importance which cotton had for the economies of many less-developed countries and their dependence on this commodity as a source of foreign exchange earnings. As regards Chad, exports of cotton accounted for 80 per cent of its total export earnings. While his country was trying to diversify production and exports, it had to be remembered that these efforts depended to a large extent on Chad's ability to increase its income from its major export commodity - cotton. This required, however, that Chad, as well as other cotton producers, would obtain for their cotton remunerative prices on world markets. Taking account of difficulties experienced by countries like Chad - notably unfavourable conditions of production, remoteness from ports, etc. - the cotton prices prevailing in export markets did not provide enough of a margin to finance the necessary improvements to the cotton industry, not to mention the development or diversification of export industries generally.

11. Referring to the deterioration of cotton prices on world markets in recent years, the representative of Chad expressed concern about the possible impact of the provisions on cotton contained in the new farm legislation recently adopted by the United States. He stated that in the view of the experts from African countries, a solution to the problem affecting trade in cotton requires the drawing up of a broad international agreement, along the lines set out on pages 11 and 12 of document COM.TD/C/W/2, envisaging the organization of the cotton market, harmonization of production of natural and synthetic fibres, the settling of problems arising from the accumulation of stocks, and measures for promoting the consumption of cotton.

12. Commenting on recent changes in United States farm legislation, the representative of the United States indicated that this legislation covered a four-year period (1966-70), but that a solution to this problem would take a longer period of time. He noted that the United States was the only country attempting to restrict production. Despite the United States efforts to restrict production with the previous higher price support levels, the stocks of cotton owned by the Commodity Credit Corporation had continued to increase. He indicated that the most important objective of the new legislation was intended to improve the competitive position of cotton vis-à-vis man-made fibres. He explained that analyses carried out by the United States had shown that competition between these fibres was by far the greatest problem facing the cotton industry, not only in the United States but also in other countries. Another important objective of the new farm legislation was to bring about a gradual decrease of stocks owned by the CCC, and at the same time, to increase the rôle of private trade and to minimize that of the Government. He explained that the United States had been reducing its price support
of cotton over a number of years. Support prices in 1965 amounted to 29 cents per lb. for "one-inch middling", which serves as a standard in relation to market prices for other qualities of cotton. Under the new legislation, price supports to producers for cotton would be 21 cents per lb. for one-inch middling in 1965-67 and 90 per cent of the world market price thereafter. He explained that, in order to qualify for such support, farmers who produce more than ten acres or 3,600 lbs. of cotton would have to reduce the acreage under cotton cultivation by at least 12 1/2 per cent from the base level. Further incentives were being given for additional reductions in the acreage devoted to cotton cultivation. Cotton stocks acquired by the Commodity Credit Corporation under this new legislation will not be offered for resale at less than 110 per cent of the loan rate, in other words, in 1965-67 one-inch middling - under price support loan at 21 cents per lb. - was to be offered for sale at not less than 23.1 cents per lb. He recalled that under the previous system, which provided for sales by the Commodity Credit Corporation at 105 per cent of the loan rate (amounting to 29 cents per lb. in 1965) a subsidy of 5 3/4 cents per lb. was given for sales to domestic mills or for export. Taking account of the subsidy payment, it might be expected that the new legislation would result, in 1966-67, in offering for resale the one-inch middling acquired under price supports at not less than 23.2 to 23.3 cents per lb., about the same as that in 1965.

He explained that the new legislation did not give the Secretary of Agriculture any authority in regard to export pricing of cotton that he has not had for many years. The new legislation is a continuation of the United States policy in effect for several years of reducing the price supports and is intended to reduce United States stocks. In past United States consultations on residual import restrictions, other cotton-producing countries have indicated that the large stocks built up under the previous higher price supports had an important influence on world prices and United States retention of import quotas. He assured the Group that the United States' objectives in regard to prices for cotton are the same as those of other cotton-producing countries; namely, that prices be at the maximum level commensurate with an adequate volume of sales.

13. Without going into detail regarding the information set out in document COM.TD/C/W/2, which was before the Group, one representative pointed out that certain aspects such as information on the actions of other countries on prices, efficiency of some of the countries listed as reflected in yields and productivity, the direction of trade by certain governments, re-exports of cotton by State-trading countries, which have an influence on prices and world trade in cotton, were not covered. Other aspects which would require fuller coverage or analyses were the influence of substitution of man-made fibres for cotton and the influence of the level of imports of cotton by certain areas - particularly Europe - on the exports of certain countries.
14. Referring to the problems arising for cotton exporting countries from substitution of cotton by man-made fibres, one delegation drew the attention of the Group to the work relating to substitution problems currently in progress in UNCTAD, and suggested that the Group should keep in close contact with that work.

15. Commenting on the points made in document COM.TD/C/W/2 regarding the need or possibility of an international cotton agreement, several members of the Group pointed out that this matter was also under consideration in the International Cotton Advisory Committee (ICAC). They felt that it might be desirable to continue discussions relative to this aspect in that body. The Group agreed that it would be desirable to bring the points made during the present discussion to the attention of the ICAC. It was also pointed out that some less-developed countries exporting raw cotton were not represented in the ICAC, and that more information in regard to the discussions in ICAC and the activities of that body, as well as of other international organizations, would be helpful. The Group agreed that it would be useful to have a summary of the work of other international bodies relating to the work and discussions pertaining to the problems experienced in international trade in cotton. The secretariat was requested to prepare a paper summarizing such information, as well as other additional information on the international trade in cotton so that the Working Group might consider what specific aspects of the problems put before it in COM.TD/C/W/2 might be considered further.

TROPICAL TIMBER

16. The Group had before it document COM.TD/C/W/3, the note prepared by experts from African countries, together with the secretariat note referred to earlier. The Group took note of the information contained in these notes but felt that for a thorough examination of any problems which might exist in this sector additional data would be required.

17. Commenting on the conclusions contained in the notes submitted by experts from African countries, one delegation pointed out that it would be important to focus attention not only on the short-term situation but to examine also the longer-term prospects and problems in the timber trade. In addition to problems on the production side, mentioned also in the note prepared by the experts, certain other problems relating to transport costs and to disparities in prices offered to supplying countries, etc., might also need examination.

18. Attention was drawn to the differentials in tariff rates applicable to wood at various stages of processing. Reference was made in this connexion to the duty suspension accorded by some countries on a temporary basis for tropical timber, following the adoption of the 1963 Ministerial Conclusions. The hope was expressed
by some delegations that, pending consolidation in the Kennedy Round, the duty suspensions would continue in force. In reply to a question, the representative of the Commission of the European Economic Community stated that the extension of the duty suspension, originally scheduled for a two-year period, ending 31 December 1965, was presently under study in the Community. He stated that he saw no reason to believe that the policy hitherto followed in respect of tropical timber would be modified.

19. The secretariat was requested to provide the Group, in collaboration with governments and international agencies concerned, with further and more comprehensive data relating to international trade in tropical timber, so as to enable the Group to identify the specific trading problems with which it should deal, having regard to the work already being carried out elsewhere, for instance by the FAO.

GENERAL

20. It was suggested that it might be useful to organize the Group’s programme of work so as to allow it to deal with the problems under three broad headings, namely (a) international trade in agricultural commodities - including tropical products (b) international trade in mineral products and (c) questions relating to substitution. The Group noted that while this might represent one way of grouping commodity problems in regard to international trade, it might be practical for the Group to consider the problems and specific problem in respect of each commodity as these are presented for consideration.

21. Referring to the terms of reference of the Group which state that the Group should base its work on specific proposals, one delegation pointed out that, if the Group is tied in every case only to the discussion of specific proposals submitted to it, it might not be able to carry out a complete examination of the problem affecting commodities, and the secretariat might not find it possible to deal with all relevant aspects of the situation affecting particular commodities which might need to be taken into consideration. It was pointed out that the Group had been given its present terms of reference by the Committee on Trade and Development, and interested delegations wishing to amend the Group’s terms of reference could raise this point in the Committee.

22. It was also suggested in the course of the discussion that meetings of producer countries might be helpful in connexion with such matters as standardization, harmonization or control of production and exports, and other appropriate measures for improving marketing prospects for various products. It was pointed out that discussions in such meetings might facilitate more comprehensive discussions on commodity problems.
REPORT ON THE MEETING OF THE AD HOC GROUP
FOR THE EXAMINATION OF PRODUCTS OF EXPORT INTEREST
TO LESS-DEVELOPED COUNTRIES
(COM.TD/A/2)

1. At its meeting in March 1965, the Committee on Trade and Development established an Ad Hoc Group with the following terms of reference:

- "to examine those products in which less-developed countries have indicated an interest in the context of Part IV of the General Agreement;

- "to submit to the Committee on Trade and Development its findings and recommendations with a view to providing guidance to contracting parties as to their work under Part IV of the General Agreement in respect of products of particular export interest to less-developed countries. Any list so established would not be exhaustive and could be supplemented from time to time."

2. The membership of the Group is as follows:

Chairman: Mr. L. RYDFOSS (Sweden)

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<tr>
<th>Argentina</th>
<th>India</th>
<th>Netherlands</th>
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<td>Austria</td>
<td>Indonesia</td>
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<td>Federal Republic of Germany</td>
<td>Kenya</td>
<td>United States</td>
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<td>Greece</td>
<td>Luxemburg</td>
<td>Yugoslavia</td>
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3. During its two meetings\(^1\), the Group examined data furnished by the secretariat in document COM.TD/W/1/Rev.\(^1\) with its addenda 1, 2 and 3 and COM.TD/A/\(1^{st}\)/Rev.2, respectively in regard to the thirty-eight commodity groups for which less-developed countries had notified an export interest. In the course of this examination the Group took note of amendments, corrections and additional information made available by delegations, and endeavoured to identify additional information which would serve to provide a fuller picture of trade flows and import treatment for those items, and of other relevant factors, with reference in particular to the export interest of less-developed countries.

4. The Group felt that, although both the data compiled by the secretariat, and the information supplied by delegations in the course of the meetings were very useful, it would, nevertheless, seem desirable to have supplementary information on certain points. The type of additional information which contracting parties have been asked to supply, in accordance with the different headings agreed upon by the Group under the schema for the presentation of data, is set out in GATT/AB/\(4^{th}\)/455. Information thus received, as well as the information made available during the meeting, and the factual points brought out in the discussion, will be taken up in a revision of document COM.TD/W/1/Rev.1 being prepared by the secretariat in accordance with the schema agreed upon by the Group\(^2\). The schema may be seen in the Annex to this report.

5. In establishing the schema, the Group took note both of the desire of some delegations for information in regard to the percentage share of less-developed countries in present trade in particular items, and of the views expressed by some less-developed countries that an indication of the existing share in trade, particularly where it rested on statistics pertaining to a single year, might not give an adequate indication of the importance of particular items to less-developed countries, especially in the sectors of semi-processed and processed goods which provided the main potential for future development. The Group also noted that the validity of a particular export figure might be affected by such special factors as steep fluctuations in the level of agricultural production, or a decline in prices affecting the export earnings of primary producers. The provision in this schema for information in respect of import trends and possibilities and prospects for promoting imports into developed countries of the products concerned was made at the suggestion of the less-developed countries.

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\(^1\) The Group met once more, on 1 July 1965, to adopt the present report. At that meeting the Group also agreed that it would also transmit to the Committee, for information, document (COM.TD/A/W3), it being understood however, that the data in that document are still subject to correction, amendment and completion.

\(^2\) This information has since been circulated in document COM.TD/A/W3 which supersedes document COM.TD/A/1/Rev.1 and Add.2.

\(^3\) Originally 79 items in terms of the ETN; as a result of additional indications given during the meeting of the Ad Hoc Group, regarding the products of interest to less-developed countries, the data in the revised document COM.TD/A/W3 now relate to 81 items in terms of the ETN.
6. In the discussion regarding obstacles to trade affecting the products listed in document COM.TD/W/L/Rev.1, it was pointed out by a representative of a less-developed country that tariff duties and other import restrictions generally increased sharply with the degree of processing of the products concerned. He stated that this general policy, together with the highly protective measures adopted by developed countries in favour of the agricultural sector of their economies, affected the possibilities of a rapid expansion of exports by less-developed countries and should, therefore, be the object of prompt action by contracting parties concerned, in accordance with the provisions of Part IV. The Group noted that the schema made provision for information on tariff differentials related to the degree of processing to which particular products had been subjected.

7. As regards the presentation of data showing the percentage share of less-developed countries in trade in these items, reference was made to the absence of an agreed definition of the term "less-developed country". Members of the Group felt that, desirable as it might be to define this term more clearly, it would not be within the terms of reference of the Group to attempt such a definition. It was suggested by some members that the Group might wish to recommend that the Committee on Trade and Development discuss this matter.

8. In relation to the data to be provided by the secretariat, it was suggested that statistical information should be presented in a way which would not prejudice the claim of individual countries to be treated as less-developed countries, and, on the other hand, would not commit other members of the Group to accept the claim of individual countries to be less-developed.

9. The Group agreed that the data furnished by the secretariat should also incorporate information on the share of manufactures and non-manufactures in total exports of each country.2

Interpretation of terms of reference

10. The Group also discussed, at some length, the interpretation of its mandate. In view of some divergence of views regarding the interpretation of the terms of reference, the Group decided to request from the Committee on Trade and Development appropriate guidance in the matter.

11. In particular, differences of interpretation centred around:

- the status of the product list examined by the Group in relation to the obligations of developed countries under Part IV of the General Agreement, and

- the admissibility of the Group considering action taken, or proposed to be taken, by developed countries in terms of their obligations under Part IV.

1 This information has since been circulated in document COM.TD/A/W/3 which supersedes document COM.TD/W/L/Rev.1 and Add.2.

2 Cf. COM.TD/A/W/3/Add.1.
12. As regards the status of the product list, less-developed countries stressed that the products appearing in the list should be regarded as being of export interest to less-developed countries, and be dealt with accordingly in the context of Part IV of the General Agreement. Further, the obligations of Part IV should apply both to these items and to all other products in which less-developed countries had an interest.

13. Representatives of less-developed countries underlined that, as many products to which they attached considerable importance were not covered by the present list, the discussion of items in that list should not be construed to mean that the interest of less-developed countries in the context of Part IV of the General Agreement was limited to those items.

14. Other representatives - mainly representatives of developed countries - considered that it would be beyond the terms of reference of the Group to define a list of products to which the obligations of Part IV applied, or to indicate how such obligations should be fulfilled in respect to any list of products. They felt that any examination carried out by the Group could only be indicative in character and would not go beyond providing information regarding the present or potential interest of less-developed countries in trade in certain items, and such other relevant considerations as the developed countries could usefully take into account in determining how they should interpret their obligations under Part IV. In particular, any list examined by the Group could not in itself have juridical implications for the purpose of Part IV.

15. Representatives of less-developed countries felt that under its terms of reference the Group was competent to take into consideration action by developed countries in conformity with their Part IV obligations and also to ask developed countries to notify what action they proposed to take in respect of these items. They suggested that developed countries might already be in a position to give a preliminary indication of such action, but that, in any event, the Group should meet again, prior to the next meeting of the Committee to examine the reports submitted by developed countries in response to the invitation circulated in GATT/AIR/452.

16. Representatives of developed countries were, however, of the view that consideration of action taken by them in conformity with their Part IV obligations fell outside the terms of reference of the Group.

Recommendations of the Group

17. On the basis of its discussion and without prejudice to the points of interpretation stated at paragraphs 10-16 above, the Group recommended that:

(1) governments should take full account of the information contained in the documentation prepared for the Group, and, in particular, should draw it to the attention of those concerned in their administrations with action, and decisions, affecting the import treatment of the listed items, and with the implementation of Part IV;

\[1\text{See footnote 1 on page 106} \]
(ii) without prejudice to the lists the developing countries have submitted in accordance with procedures adopted by the Trade Negotiations Committee - the work carried out by the Group in relation to the present list of products should be borne in mind in relation to any trade negotiations under the auspices of the GATT and, in particular, in relation to the Kennedy Round;

(iii) developed and developing countries should keep under review the information they have provided for incorporation in the list of products examined by the Group, and should be prepared, as appropriate, to propose amendments or provide such additional information from time to time as may be relevant;

(iv) the list examined by the Group could be used as a reference document to which additional items may be added, it being understood that the inclusion or exclusion of any item in the list carried no juridical implications for the purpose of Part IV of the General Agreement.

18. The Group further agreed that:

(i) the secretariat should take account of the information elicited during the examination of the items in revising the list in the form of the schema annexed;¹

(ii) the information in the list should be kept up to date, and any additional information should be incorporated as it becomes available;

(iii) at a later stage, similar information should be gathered concerning other products that less-developed countries have notified, or will in future notify, as being of interest to them.

¹See COM.TD/A/W/3 - in particular footnote 'D', shown in respect of a number of the commodity notes in that document.
ANNEX

LIST OF PRODUCTS NOTIFIED AS OF INTEREST TO
LESS-DEVELOPED COUNTRIES

Proforma Sheet for Each Item

<table>
<thead>
<tr>
<th>Statistical and other information</th>
<th>Annotation (example causa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Precise BTN and SITC numbers, and description of item or part of item.</td>
<td>1. Statistics do not relate exactly to this item. Figures generally relate to BTN/SITC No. (description) except in the case of countries .................</td>
</tr>
<tr>
<td>2. Name of countries notifying the item or part of the item.</td>
<td>2.</td>
</tr>
<tr>
<td>3. Export trade:</td>
<td>3.</td>
</tr>
<tr>
<td>(i) total</td>
<td>(i) less developed countries account for .......... per cent of world exports.</td>
</tr>
<tr>
<td>(ii) of less-developed countries - value, share of world exports and share of national exports (by country)</td>
<td>(ii) any additional information supplied by individual exporting countries on existing or potential trade</td>
</tr>
<tr>
<td>(iii) of other countries - value, and share of world exports (by country).</td>
<td>(iii) countries for which relevant statistical information is not available</td>
</tr>
<tr>
<td>(i) total</td>
<td>(i) notification by less-developed countries ................. of plans for development of or rapid increase in production.</td>
</tr>
<tr>
<td>(ii) of less-developed countries - value or volume, share of world production</td>
<td></td>
</tr>
<tr>
<td>(iii) of other countries - value or volume, and share of world production.</td>
<td></td>
</tr>
</tbody>
</table>

1With regard to points listed in this proforma sheet, information will be furnished to the extent available.
<table>
<thead>
<tr>
<th>Statistical and other information</th>
<th>Annotation (exempli causa)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5. Consumption:</strong></td>
<td>5.</td>
</tr>
<tr>
<td><strong>6. Imports into developed countries:</strong></td>
<td>6.</td>
</tr>
<tr>
<td>(a) total</td>
<td>(i) any information regarding trends in imports, share of imports in total consumption etc., and any other information supplied by industrialized countries or international organizations</td>
</tr>
<tr>
<td>(b) from less-developed countries.</td>
<td>(ii) percentage share of each developed country in (a) and (b).</td>
</tr>
<tr>
<td><strong>7. Trade barriers:</strong></td>
<td>7.</td>
</tr>
<tr>
<td>(i) in developed countries - quantitative restrictions, tariff, etc.</td>
<td>(i) any information provided by developed countries on intended changes in trade barriers</td>
</tr>
<tr>
<td>(ii) in less-developed countries - any information submitted.</td>
<td>(ii) differentials in tariffs and other import measures in particular countries related to the processing of products</td>
</tr>
<tr>
<td>(iii) any other relevant information submitted by developed countries in regard to policies and prospects for promoting imports from less-developed countries.</td>
<td></td>
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<tr>
<td><strong>8. Other notes.</strong></td>
<td>8.</td>
</tr>
<tr>
<td></td>
<td>(i) international agreement in force or under consideration.</td>
</tr>
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</table>
1. At the twenty-second session, the CONTRACTING PARTIES endorsed the
decision of the Committee on Trade and Development to establish an Ad Hoc Group
on Legal Amendments to the General Agreement with the following terms of
reference:

basing themselves on proposals submitted by contracting parties, and taking
account of discussion in the Committee on the Legal and Institutional
Framework of the GATT, the Council of Representatives and the CONTRACTING
PARTIES, as well as the Committee on Trade and Development,

to examine what amendments to Articles XVIII and XXIII of the proposals
for use of surcharges to meet balance-of-payments difficulties -
consequential amendments in other Articles of the Agreement, are necessary,
or desirable, to meet the special trade and development needs of less-
developed contracting parties, taking into account the secretariat note
in document COM.TD/5, and


to report its findings, together with any recommendations for the amendment
of these Articles, as appropriate to the Committee not later than
October 1965.

2. The Group commenced its work on the basis of certain proposals and
suggestions which had been submitted by governments and referred to the
Committee on Trade and Development by the CONTRACTING PARTIES. These consisted
of (a) a proposal by Brazil and Uruguay relating to amendment of Article XXIII;
(b) proposed provisions on the use of surcharges by less-developed countries to
safeguard their balance of payments, which had been studied by the former
Committee on Legal and Institutional Framework (see L/2195/Rev.1); (c) a
proposal by the Indian delegation regarding compensation for less-developed
countries for trade losses resulting from the application of quantitative
restrictions inconsistent with the GATT; and (d) a suggestion for the
simplification and streamlining of the text of Article XVIII, which had been
originally submitted to the Committee on Legal and Institutional Framework.
3. At an early stage of the Group's work, it recognized that the question of amending Article XXIII, and the question of surcharges appeared to involve more complexities than had been apparent, and agreed that its subsequent discussions would have to be concentrated on these two questions. As a result, the Group has been obliged to lay aside, for the time being, the proposals referred to in (c) and (d) above, which it proposes to take up at a later stage.

4. In the course of 1965 and early in 1966, the Group held three meetings. For the earlier part of the discussion which helped to clarify a number of issues and to identify the direction in which pursuit would be the most fruitful, the Group wishes to refer to the secretariat notes on the discussions at its first two meetings, COM.TD/F/2 and COM.TD/F/3. The present report summarizes in the paragraphs below the main points made in its discussions on the proposal by the Uruguayan and Brazilian delegations for amending Article XXIII.

Article XXIII procedures

5. The Brazilian/Uruguayan proposal on amendment of Article XXIII was discussed at the Group's first meeting. The two delegations stated that their proposal was not intended to tamper with the GATT tradition of solving differences by conciliation. What was intended was to streamline the procedures provided for under Article XXIII so as to speed up action under that Article and to enable countries to know exactly where things stood at any stage in the proceedings. They stated that their proposal was also intended to take account of, and to go some way towards redressing, the unequal bargaining position of less-developed countries vis-à-vis developed countries in proceedings under Article XXIII. In discussing the Brazilian/Uruguayan proposal, all delegations expressed their sympathy with its general objectives, but some stated that their governments were unable to accept certain features of the proposal.

6. In the light of that discussion, the two delegations submitted a new proposal for the adoption of a decision on the implementation of the existing provisions of Article XXIII and this served as a basis of discussion at the Group's second and third meetings. The sponsors explained that they had set out the essence of their original proposal in the form of a decision to meet some of the difficulties which had been pointed out, in the hope that it would be more acceptable in that form.

7. During the discussion of the draft, some members of the Group indicated that the concepts of (a) financial compensation, (b) automatic release of GATT obligations of a less-developed country suffering damage from measures taken by developed countries incoherently with the provisions of the General Agreement, and (c) collective action (paragraphs 7, 11 and 12 of the original
proposal (COM.TD/P/3)) were unacceptable to them; in their view they were proposals of a nature which could not be handled as a technical matter in the manner proposed. With regard to the other paragraphs in the proposed text, these members felt that these provisions were an important step forward in meeting the desire of the less-developed countries for a clear-cut procedure to be employed in the invocation of Article XXIII; that these procedures would contribute to the speeding up of the handling of complaints brought by less-developed countries concerning nullification and impairment; and that the provision for an initial recourse to the good offices of the Director-General for the sorting out of issues and for the exploration of possible solutions would be a most useful innovation. These members, therefore, hoped that in view of the improvements contained in the paragraphs on which agreement had been reached in the Group the Committee on Trade and Development would be able to recommend a decision containing these paragraphs to the CONTRACTING PARTIES for adoption.

8. Members of the Group from less-developed countries felt that a decision containing only the agreed paragraphs and omitting paragraphs 7, 11 and 12 would be inadequate and could not really deal with the basic difficulties which less-developed countries faced when making use of the provisions of Article XXIII. Most of the members representing less-developed countries said that they would nevertheless support the adoption of these paragraphs, and that they did so in the hope that the developed countries would come forward with solutions for the difficulties which the less-developed countries had attempted to resolve by means of the provisions in paragraphs 7, 11 and 12 of the proposed decision. One of the sponsors of the proposal stated that since this had been submitted as a single document in which all parts were interrelated he had no authority to support a revised text in which certain important passages were omitted; he was therefore obliged to reserve his position. The points made in the discussion on the three paragraphs in question are set out in paragraphs 11-16 below.

9. It was noted by the Group that in the consultations to be carried out by the Director-General under paragraph 3 of the draft decision, the Director-General would, in addition to the entities mentioned in that paragraph, be free to consult such panel of experts as he considered would assist him in studying the facts and in finding solutions.

10. With respect to paragraph 6 of the draft decision, as it now stands, the Group considered that the CONTRACTING PARTIES may provide more particular terms of reference for any such panel in order to assist them to assess the relative impact of the measures complained of on the economies of the contracting parties concerned and to consider the adequacy of any measures which those contracting parties would be prepared to take to remedy the situation. In establishing such particular terms of reference the CONTRACTING PARTIES or the Council should bear in mind the desirability of having such panels appraise, in particular, the followir elements:
(a) the damage incurred through the incidence of the measures complained of upon the export earnings and economic effort of the less-developed contracting party;

(b) the compensatory or remedial measures which the contracting party whose measures are complained of would be prepared to take to make good the damage inflicted by their application;

(c) the effects of such measures as the injured contracting party would be prepared to take in relation to the contracting party whose measures have nullified or impaired the benefits deriving from the General Agreement which the former contracting party is entitled to expect.

The question of financial compensation

11. The provision in paragraph 7 of the draft decision was opposed by a number of members of the Group. The reasons advanced against the inclusion of this paragraph included: that the adoption of such a provision was tantamount to the introduction of an entirely new concept into GATT and the imposition of a new obligation not existing in the present Agreement; that it would be impossible to evaluate the loss incurred by a contracting party in its export opportunities in money terms or to work out an appropriate level of financial compensation in each case; that although a country might be affluent and capable of making cash payments, any requirement on it to assume such an obligation would seem to require more authority than a mere finding by a panel of experts; that even if the assessment question could be solved, the problem of enforcing the payment of such an assessment would remain; that it was inconceivable that national legislatures would be willing to vote budgetary provisions for this purpose; that it was unreasonable to expect that a sovereign country would agree to be fined for its action; that it was difficult to see how a fine could be imposed on "mutually satisfactory terms" and that the most effective redress might be the removal of the measure complained of rather than some form of compensation.

12. Those members of the Group which supported the inclusion of paragraph 7 in the decision considered that Article XXIII, as it now stood, did not rule out financial compensation, and that consequently the reference to this in the decision would be in the nature of a clarification rather than an amendment of the Agreement. The alleged difficulties relating to assessment and enforcement were not insurmountable. There had been many cases in international relations in which as a result of conflict governments had passed special legislation to enable the payment of financial compensation to foreign States. The words "on mutually acceptable terms" had been deliberately used to introduce an element of flexibility, and to provide for the possibility of making financial compensation in forms other than cash payment; the contracting party causing the damage might find it easier to grant such compensation as the extension of credit on favourable terms, the provision of specific goods needed by the contracting party suffering the damage, etc. The Group agreed to reproduce the text of the paragraph in question within square brackets (paragraph 7 in the annexed text).
Automatic release of obligations of less-developed countries

13. A number of members of the Group considered that the procedure envisaged in paragraph 11 of the draft decision (paragraph 8 in the text annexed to this report) would not work to the best interests of the GATT as a whole and could lead to a chaotic situation. Some members noted that the GATT was a multilateral instrument incorporating strict provisions to govern the withholding of obligations in special circumstances and that recourse to these provisions should not be taken lightly. These members pointed out that departure from the multilateral procedures provided in Article XXIII and in the agreed paragraphs of the draft decision would lead to a scaling down of GATT obligations which could hardly be in the interest of the developing countries. Further there would be little point in providing for the intervention of the good offices of the Director-General, the establishment of a panel, and the submission of appropriate solutions to the CONTRACTING PARTIES, if a contracting party which considered itself injured were free to take its own remedial action.

14. Those members of the Group who supported the provisions of paragraph 6 of the draft decision considered that while it was true that the right to take automatic retaliatory action might not be necessary in ordinary cases, the same could not be said of the present situation in which some developed contracting parties had ignored some of their explicit obligations under the GATT. Many less-developed countries were suffering damage from measures applied inconsistently with the GATT provisions and the countries affected were obliged to honour their own obligations without any protection from the damage that they suffered. The present system, in their view, was in fact one in which GATT obligations could be violated unilaterally by some countries because the countries affected by such illegal action lacked sufficient bargaining power to protect their legitimate interests. They explained that the procedures envisaged in paragraph 8 were nothing more than an attempt to incorporate into Article XXIII the procedures of Article XIX under which, in special circumstances, a country is released from some of its commitments under the General Agreement. Other members pointed out, however, that Article XIX did not permit discriminatory action, and limited the remedial action open to the injured party. The Group agreed that paragraph 8 be retained in the draft between square brackets.

Other measures to ensure compliance

15. Members of the Group who were opposed to the concept in paragraph 12 felt that the provision for collective action which had appeared in the original Brazilian/Uruguayan proposal (COM.TD/F/3) would be prejudicial to the GATT which was a forum in which problems had generally been resolved on a conciliatory basis through procedures for bilateral and multilateral consultations. They felt that such a provision went far beyond the present scope of Article XXIII. It was also pointed out that collective action might operate to the detriment of contracting parties which were not parties to the dispute.
16. Those members of the Group who supported the provision explained that they had no particular type of action in mind, but merely considered it useful to have such a clause to provide for any action which might be found by the CONTRACTING PARTIES to be appropriate and effective in given circumstances. It would be up to the CONTRACTING PARTIES to decide on what action to take in any given case. This provision would also have the effect of exerting a certain pressure on the contracting parties to abide by the recommendations of the CONTRACTING PARTIES. What they were seeking was the possibility of invoking the moral sanction of the contracting parties in instances where individual contracting parties deliberately flouted decisions or recommendations of the CONTRACTING PARTIES. The Group agreed that the whole paragraph be enclosed within square brackets.

**Relationship between the procedures of Articles XXXVII and XXIII**

17. One member of the Group suggested that the words "if the parties to the consultations so agree" should be added at the end of paragraph 13 of the draft decision. He pointed out that paragraph 2 of Article XXXVII provided for multi-lateral consultations, and if contracting parties were given the right to invoke the provisions of paragraph 2 of Article XXIII immediately after a consultation under Article XXXVII:2, this would involve a modification of the present procedures under which resort to Article XXIII:2 must be preceded by bilateral consultations. It was therefore necessary that this new procedure should be subject to the consent of both parties so that should it appear to one of them that bilateral consultations with a view to the satisfactory adjustment of the matter would be useful the procedure would provide that such consultations must be held before recourse is had to Article XXIII:2.

18. Another member of the Group considered that the inclusion of this qualifying clause was unnecessary. He recalled that one of the main objectives of the proposal before the Group was to expedite and streamline the procedures under Article XXIII and every effort should therefore be made to avoid duplication of effort. This point had also been brought out in the secretariat note in COM.TD/5. He emphasized that in so far as restrictions inconsistent with the provisions of the GATT were concerned, many bilateral and multi-lateral discussions had already taken place in the context of the Action Committee and even before it. In any case, consultations under Article XXXVII were not expected to prejudice bilateral discussions. It would, therefore, be incorrect to say that paragraph 13 of the draft decision, without the qualifying clause now proposed, would involve a significant modification of the present procedures.

**Text of the draft decision**

19. The Group hereby transmits the draft decision contained in the Annex to this report to the Committee on Trade and Development for consideration.
ANNEX

Draft Decision on Article XXIII

The CONTRACTING PARTIES,

Recognizing that the prompt settlement of situations in which a contracting party considers that any benefits accruing to it directly or indirectly from the General Agreement are being impaired by measures taken by another contracting party, is essential to the effective functioning of the General Agreement and the maintenance of a proper balance between the rights and obligations of all contracting parties,

Recognizing further that the existence of such a situation can cause severe damage to the trade and economic development of the less-developed contracting parties /thereby necessitating compensation/, and

Affirming their resolve to facilitate the solution of such situations while taking fully into account the need for safeguarding both the present and potential trade of less-developed contracting parties affected by such measures /as well as adequate compensation for the damage which these contracting parties may have suffered/,

Decide that:

1. If consultations between a less-developed contracting party and a developed contracting party in regard to any matter falling under paragraph 1 of Article XXIII do not lead to a satisfactory settlement, the less-developed contracting party complaining of the measure may refer the matter which is the subject of consultations to the Director-General so that, acting in an ex officio capacity, he may use his good offices with a view to facilitating a solution.

2. To this effect the contracting parties concerned shall, at the request of the Director-General, promptly furnish all relevant information.

3. On receipt of this information the Director-General shall consult with the contracting parties concerned and with such other contracting parties or intergovernmental organizations as he considers appropriate with a view to promoting a mutually acceptable solution.

4. After a period of two months from the commencement of the consultations referred to in paragraph 3 above, if no mutually satisfactory solution has been reached, the Director-General shall, at the request of one of the contracting
parties concerned, bring the matter to the attention of the CONTRACTING PARTIES or the Council, to whom he shall submit a report on the action taken by him, together with all background information.

5. Upon receipt of the report, the CONTRACTING PARTIES or the Council shall forthwith appoint a panel of experts to examine the matter with a view to recommending appropriate solutions. The members of the panel shall act in a personal capacity and shall be appointed in consultation with, and with the approval of, the contracting parties concerned.

6. In conducting its examination and having before it all the background information, the panel shall take due account of all the circumstances and considerations relating to the application of the measures complained of, and their impact on the trade and economic development of affected contracting parties.

7. In the event that the measures complained of have been applied by a developed contracting party and it is established that they are adversely affecting the trade and the economic prospects of the less-developed contracting party or parties concerned, the panel may recommend, where it is not possible to eliminate the measures complained of or to obtain an adequate commercial remedy, that the damage caused should be compensated by means of an indemnity of a financial character on mutually acceptable terms.

8. In cases where the import capacity of a less-developed contracting party has been or is being impaired by the maintenance of measures by a developed contracting party or parties which are inconsistent with the provisions of the General Agreement, the Director-General shall, with or without the assistance of a panel of experts as may be considered necessary, forthwith proceed to determine in particular the following elements:

(a) the damage incurred through the incidence of the measures complained of upon the export earnings and economic effort of the less-developed contracting party;

(b) the compensatory or remedial measures which the contracting party whose measures are complained of would be prepared to take to make good the damage inflicted by their application;

(c) the effects of such measures as the injured contracting party would be prepared to take in relation to the contracting party whose measures have nullified or impaired the benefits deriving from the General Agreement which the former contracting party is entitled to expect.
In such cases the less-developed contracting party shall be released from its obligations under the General Agreement, towards the developed contracting party or parties acting contrary to the provisions of the General Agreement, for the purpose of taking appropriate remedial or retaliatory measures, pending the completion of the report by the Director-General or the panel of experts and its examination by the CONTRACTING PARTIES or the Council.

9. The panel shall, within a period of sixty days from the date the matter was referred to it, submit its findings and recommendations to the CONTRACTING PARTIES or to the Council, for consideration and decision. Where the matter is referred to the Council, it may, in accordance with Rule 8 of the Intersessional Procedures adopted by the CONTRACTING PARTIES at their thirteenth session, address its recommendations directly to the interested contracting parties and concurrently report to the CONTRACTING PARTIES.

10. Within a period of ninety days from the date of the decision of the CONTRACTING PARTIES or the Council, the contracting party to which a recommendation is directed shall report to the CONTRACTING PARTIES or the Council on the action taken by it in pursuance of the decision.

11. If on examination of this report it is found that a contracting party to which a recommendation has been directed has not complied in full with the relevant recommendation of the CONTRACTING PARTIES or the Council, and that any benefit accruing directly or indirectly under the General Agreement continues in consequence to be nullified or impaired, and that the circumstances are serious enough to justify such action, the CONTRACTING PARTIES may authorize the affected contracting party or parties to suspend, in regard to the contracting party causing the damage, application of any concession or any other obligation under the General Agreement whose suspension is considered warranted, taking account of the circumstances.

12. In the event that a recommendation to a developed country by the CONTRACTING PARTIES is not applied within the time-limit prescribed in paragraph 10, the CONTRACTING PARTIES shall decide what measures, further to those undertaken under paragraph 11, can be taken to resolve the matter.

13. If consultations held under paragraph 2 of Article XXXVII, relate to restrictions for which there is no authority under any provisions of the General Agreement, any of the parties to the consultations may in the absence of a satisfactory solution request that consultations be carried out by the CONTRACTING PARTIES pursuant to paragraph 2 of Article XXIII and in accordance with the procedures set out in the present Decision, it being understood that a consultation held under paragraph 2 of Article XXXVII in respect of such restrictions will be considered by the CONTRACTING PARTIES as fulfilling the conditions of paragraph 1 of Article XXIII if the parties to the consultations so agree.