SECOND REPORT OF COMMITTEE III ON EXPANSION OF TRADE

INTRODUCTION

1. Since furnishing its first report to the CONTRACTING PARTIES (document COM.III/1 of 26 March 1959) Committee III has met on three occasions, namely, on 22 May and 28 May 1959, and from 28 September to 6 October 1959.

2. At the meetings in May, the Committee decided to examine in the first instance the obstacles to the expansion of trade in the following eleven products:

   - Vegetable oils and seeds
   - Tobacco
   - Cotton manufactures
   - Tea
   - Coffee
   - Cocoa
   - Jute manufactures
   - Cotton
   - Timber
   - Copper
   - Lead

   These products were selected for priority treatment as the problems in respect of them affected a number of less-developed countries. It was understood that the examination of other products would be undertaken as soon as feasible.

3. At its meeting starting 28 September, the Committee had before it documentation submitted by the secretariat and by a number of countries, including both industrialized and less-developed, in which information was given on tariffs, quantitative restrictions, including import quotas, revenue duties and internal fiscal charges, State trading and other measures affecting the trade in the eleven selected products. It had also before it a pilot study prepared by the secretariat on the cotton manufacturing industry (document COM.III/8).

4. The Committee, taking into account the documentation available as indicated in paragraph 3, concentrated its work at this meeting on the problems connected with trade in the products mentioned in paragraph 2. Though reducing obstacles to trade in these products appears more urgent, the priority given to this study did not imply that this was necessarily more important than other tasks assigned to the Committee. It was agreed that other aspects of the highly complex problem of raising the earning capacity of less-developed countries should as soon as possible and with equal attention be examined by the Committee in accordance with its initial work programme.
5. The Committee, acting under Section II.1 of the work programme established in document COM.III/1 of 26 March 1959, appointed a Working Party with the task of identifying and describing, on the basis of the material available, the main obstacles to the expansion of imports of the selected products exported by less-developed countries.

GUIDING CONSIDERATIONS

6. The Committee had in mind the following considerations:

(i) The imbalance in the development of export earnings of the less-developed countries as compared with that of the industrialized countries indicates an urgent need for rapid and sustained expansion in the export earnings of the less-developed countries if their development is to proceed at a satisfactory pace.

(ii) Although international aid is essential for the development of many countries, aid can be no substitute for trade expansion. In any case, the volume of external loans is dependent on the credit worthiness of the borrower for whom therefore the enlargement of export earnings is of vital importance.

(iii) Growth of export earnings of less-developed countries through economic development will promote rather than decrease the trade of industrialized countries, as it will enhance the capacity of the less-developed countries to buy the exports of the industrialized countries.

(iv) In order to achieve a rapid and sustained growth of the export earnings of less-developed countries it is necessary not only to reduce or eliminate trade barriers that are specially restrictive of their export trade but also to explore other positive measures to expand their export earnings.

(v) The gravity of the problem of expanding the export earnings of less-developed countries should be taken account of in tariff negotiations and should be kept under continuous review in Committee II, as well as in Committee III.

EXAMINATION OF OBSTACLES TO TRADE

7. The Committee examined the report of its Working Party (document COM.III/12/Rev. 1)\(^1\) which identified and described what appeared to be main obstacles in the export markets of less-developed countries to the expansion of their export of the selected products. The obstacles were classified under the headings of:

- Tariffs
- Revenue Duties and Internal fiscal charges
- Quantitative Restrictions including Import Quotas
- Restrictive State trading
- Other measures

\(^1\) Comments made in the Committee on specific aspects of the Working Party Report are contained in Annex A.
In relation to each category of obstacles, the following points were noted:

A. **TARIFFS**

(i) **The level of tariffs.** For some manufactured products, e.g., cotton and jute manufactures, the rates imposed by a number of industrialized and semi-industrialized countries appear to be sufficiently high to hinder the expansion of exports from less-developed countries. For tea also, high tariffs are imposed and proposed by some countries. The advantage of moderate tariffs is in some cases impaired by other restrictive measures.

(ii) **Differential tariff rates for raw materials and processed products.** The cases of lead, oilseeds and vegetable oils, copper and cocoa illustrated the general position that many countries favour the entry of primary products whilst applying protective tariffs vis-à-vis the processed products, which may diminish the possibilities for less-developed countries to export processed products to them.

(iii) **Differential tariffs according to origin.** There are two types of differential tariff arrangements affecting exports from less-developed countries: (a) those recognized at the inception of the General Agreement and (b) those being established within the European Economic Community, e.g., for cocoa, coffee, wrought copper, tea and tobacco, in favour of the associated overseas territories.

B. **REVENUE DUTIES AND INTERNAL FISCAL CHARGES**

In addition to tariffs, high revenue duties and internal fiscal charges greatly increase the total tax incidence on certain products, often constituting an obstacle to the expansion of exports from less-developed countries. It is recognized that the internal charges are of two distinct types: (a) in the case of cotton and jute manufactures, oilseeds and vegetable oils, they apply equally to home-produced and imported goods; (b) in regard to coffee, tea and cocoa, the taxes impinge exclusively on imports from the less-developed countries as there is no domestic production in the country imposing the taxes. The incidence of revenue duties on coffee and tea is particularly heavy in some West European countries.

C. **QUANTITATIVE RESTRICTIONS INCLUDING IMPORT QUOTAS**

There is a widespread application of quantitative restrictions, in varying degrees and forms, on practically all the selected products. The Committee did not consider the extent to which certain of these restrictions, imposed to safeguard balance of payments, were of a temporary nature nor, of course, did it consider whether particular restrictions were in accord with the General Agreement. Nevertheless, the following aspects of quantitative restrictions were noted.

(i) **Discrimination according to origin.** Imports from some less-developed countries are affected by quota limitations imposed on a discriminatory basis, e.g., cotton and jute manufactures, vegetable seeds and oil, cocoa, coffee and copper;
Differentiation according to stage of processing: More liberal treatment is accorded to the raw product than to the processed product, e.g. in the case of vegetable oils, cocoa, lead and copper.

D. STATE TRADING

In the case of coffee, cocoa, tea and tobacco, the prices charged by some State monopolies, whether in countries with centrally planned economies or in others, involve an implicit heavy taxation on imports. The protective and other elements of the activities of State-controlled agencies in relation to jute manufactures, tobacco and vegetable oils, also inhibit imports.

E. OTHER MEASURES

A possible loss of trade opportunities for less-developed countries arises from the operation of price support schemes and surplus disposal operations in relation to raw cotton and tobacco. Tobacco is affected also by mixing regulations in some importing countries. Support measures in some countries create difficulties for other countries in the production and marketing of copper. The rate and timing of release of copper and lead from stockpiles built up by the industrialized countries could adversely affect the trade of less-developed countries and the Committee took note of the desirability of prior consultations with the interested parties.

CONCLUSIONS

8. Neither the material nor its examination has been exhaustive. While further study is required, the Committee nevertheless feels that the apparent obstacles and difficulties noted above should be examined urgently by contracting parties, especially industrialized countries, with a view to taking action, where feasible, to afford rapid relief to less-developed countries. Such examination would be appropriate as the CONTRACTING PARTIES recognized at their thirteenth session the need for urgent action to assist less-developed countries.

9. The Committee noted that, for both fiscal and developmental reasons, less-developed countries cannot rely solely on the traditional methods of tariff negotiation involving exchange of concessions. The Committee recommends that contracting parties, particularly industrialized countries, should examine this problem and consider the feasibility of giving relief through unilateral action, independently of the next round of multilateral tariff negotiations.
The less-developed countries stressed their conviction that the total level of taxation on certain important primary products, such as coffee and tea, which were subject to high revenue duties in certain West European countries, was such as to act as a major restraint on consumption and import demand, thus representing an obstacle to the development of the export earnings of less-developed countries exporting these products. A substantial contribution could be made by these West European countries, through the alleviation of these revenue duties, to give to less-developed countries better access to the West European markets concerned and therefore assist less-developed countries in securing larger export proceeds to finance the import requirements of their development programmes. Less-developed countries urged the Committee to recommend to the CONTRACTING PARTIES that revenue duties and internal fiscal charges imposed on products of which there is no substantial domestic production, be recognized as negotiable in the rules and procedures for the forthcoming tariff negotiations, in the sense of the interpretative note to Article 17 of the Havana Charter. These taxes were no less effective than customs duties in restraining imports and should accordingly be subject to the same negotiating procedures, as was the practice before the 1956 negotiation rules. They argued that tariff concessions on tropical products such as coffee, cocoa and tea may be of little practical value in cases where the major part of the total tax incidence is in the form of fiscal charges. Moreover, the value of tariff reductions or bindings might be impaired by re-adjustment of these revenue duties and internal fiscal charges. Less-developed countries also urged that the CONTRACTING PARTIES should examine whether early consultations under the auspices of the CONTRACTING PARTIES between the West European countries concerned and affected less-developed countries as a group would be a practical means of securing progress in the field of fiscal duties. In the absence of action in this field, the new round of tariff negotiations, in the opinion of many less-developed countries, was not likely to lead to fruitful results.

It was pointed out by some delegates that internal taxes which apply to a very large range of goods and which are levied both on home production and on imports of these goods are not necessarily detrimental to expansion of trade. In any case the CONTRACTING PARTIES should not pass judgment on the internal fiscal policies of member contracting parties.

As regards fiscal duties on imported tropical products, the same delegates pointed out that the factors affecting consumption of certain tropical products are not only the price but also the level of income and the habits of consumers. Even when fiscally possible, the reduction or removal of these duties would not necessarily lead to an increase in the export earnings of less-developed countries. The question of negotiability of these duties, they noted, had been referred by the CONTRACTING PARTIES at their fourteenth session to Committee I which decided that consideration by the CONTRACTING PARTIES at their fifteenth session was required.

Finally, these delegates stated that imbalance between production and demand, caused by excessive supply, is likely to have detrimental effects on the earning capacity of the less-developed countries and that this fact may be of considerably greater importance than the level of fiscal taxes.
12. The Committee did not reach agreement on the several aspects of the problem of revenue duties and internal fiscal charges within its terms of reference and refers these questions to the CONTRACTING PARTIES for decision.

13. The Committee noted that some less-developed countries have the investment and the technological resources for the processing of raw materials and are able to produce efficiently some manufactured goods. The Committee recommends that contracting parties, particularly industrialized countries, should urgently consider lowering barriers to the development of the export of such goods and should in their economic policies take into account the urgent need of less-developed countries to increase their export earnings and should so far as possible avoid hindrances to the import of such goods from such countries.

14. In summary, in regard to the first phase of its work, the Committee recommends that contracting parties, particularly industrialized countries, should examine tariffs, revenue duties and internal charges, quantitative restrictions and other measures applied by them with a view to facilitating an early expansion of the export earnings of less-developed countries. This will make the latter countries less dependent on external aid, strengthen their economies and accelerate their development. The Committee noted the request of less-developed countries that there should be a new and more dynamic approach to their problems because of the nature and urgency of these problems.

FURTHER WORK

15. As regards Section II.2 of its work programme, the Committee decided that a start should be made now by inviting less-developed countries to list and furnish information in regard to manufactured products which should, in their opinion, be dealt with on a basis of priority. Some information in this regard is already available in the pilot study document COM.III/6 and elsewhere. The Committee requested the secretariat to avail itself to the fullest possible extent of the work of other international organizations, including Regional Economic Commissions of the United Nations, and to prepare pilot studies on jute manufactures and oilseeds crushing and processing.

16. In regard to Section II.3 of its work programme, the Committee invited members of the Committee to submit information and analytical comments on their experience in the matters referred to which might assist the Committee in its further work.

17. The Committee proposes to continue examination of the problems of expansion of the trade of less-developed countries at a meeting to be held in the early part of 1960. At this meeting it will examine the position regarding the obstacles affecting international trade in products other than those listed in paragraph 2 and the other sections of the Committee's work programme as set out in document COM.III/1. It will also give further attention to the matters discussed in this report. The Committee contemplates a brief meeting during the fifteenth session at which its future work would be planned.
Footnote to paragraph 7 refers

The following comments on specific aspects of the Working Party Report (document COM.III/12/Rev.1) were made in the Committee.

1. Paragraph 8 COTTON MANUFACTURES

The representative of Belgium said that, as regards the matter referred to in paragraph 8, it had been alleged by the representative of the United Kingdom who had raised the matter on behalf of Hong Kong, that Belgian Congo regulations required that cotton manufactures coming from Hong Kong must have a minimum content of 50 per cent of value attributable to materials originating in or work done in Hong Kong. In fact, the Belgian Congo regulations required a certificate testifying that imported cotton had been submitted to an increase in value of not less than 50 per cent. In his view, this requirement did not influence the level of imports into the Belgian Congo and could not be considered as an obstacle to the development of exports of less-developed countries.

2. Paragraph 17 OIL SEEDS AND VEGETABLE OILS

The representative of the Netherlands said that the restriction described in this paragraph should be noted against the background that, apart from this minor item, Benelux maintained no import restrictions on any of the eleven groups of products covered in the Report.

3. Paragraph 22 JUTE MANUFACTURES

The representative of Sweden pointed out that Sweden maintained quantitative restrictions for jute manufactures, other than yarn and thread, when imported from the dollar area. These restrictions did not, therefore, seem to be detrimental to less-developed exporting countries.

4. Paragraph 37 COFFEE

The representative of Czechoslovakia said that in his view the statement in paragraph 37 could not be proved in relation to his country from the material available. He stated that, if average levels of wages, the general level of taxation, and the average level of income and purchasing power were taken into account, the retail price of coffee in Czechoslovakia was not high and had not inhibited imports.