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

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

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

   These commodities were selected for priority treatment as it was felt that the problems in respect of these commodities were more urgent and affected a large number of less-developed countries. It was understood that the examination of other products would be undertaken as soon as the Committee found this to be feasible.

3. At its third meeting, Committee III 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, revenue duties and other internal charges, State trading, quota imports and other measures affecting the trade in the eleven selected commodities. It had also before it a pilot study prepared by the secretariat on the cotton manufacturing industry (document COM.III/8).

4. 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 exports of less-developed countries.

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5. GUIDING CONSIDERATIONS

The Committee had in mind the following considerations:

(i) There is a serious and growing imbalance in the development of export earnings of the less-developed countries as compared with those of the industrialized countries, and urgent need therefore for rapid and sustained expansion in the export earnings of the less-developed countries if their development is to proceed at the necessary pace.

(ii) Growth of export earnings of less-developed countries through economic development will promote and not 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.

(iii) The objective is not only to reduce or eliminate trade barriers that are specially restrictive of the export trade of less-developed countries, but to take positive action to guard against wide fluctuations in those export earnings. Such fluctuations are damaging to the trade of both the less-developed and the industrialized countries.

(iv) Although international aid is essential for the development of many countries, aid can be no substitute for trade expansion. In any case, loan aid is dependent on the credit worthiness of the borrower for whom therefore expanded trade is of vital importance.

(v) The gravity of the problems of the expansion of trade of the less-developed countries should be taken account of in tariff negotiations and should be kept under urgent review in Committee II, as well as in Committee III.

6. EXAMINATION OF OBSTACLES TO TRADE

The Committee examined the report of its Working Party (document COM.II/12 and COM.III/12 Corr.) and reviewed the main obstacles to the expansion of the export by the less-developed countries of the selected commodities. The obstacles were classified under the headings of:

- Tariffs
- Quantitative Restrictions
- Revenue and Internal fiscal charges
- State trading
- Other measures
In relation to each category of obstacles, the following points emerged from the preliminary examination of the Committee:

A. **TARIFFS**

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

(ii) **Differential tariff rates for raw materials and processed products.** In the case of lead, oil seeds and vegetable oils, copper and cocoa, several industrialized countries apply protective tariffs that tend to favour the entry of the primary product, with the effect of discouraging processing industries in the less-developed countries.

(iii) **Preferences according to origin.** There are two types of preferences affecting exports from less-developed countries: (a) those preferences recognized at the inception of the GATT and (b) new preferences being established within the European Economic Community for cocoa, coffee, wrought copper, tea and tobacco, in favour of the associated overseas territories.

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

In addition to tariffs, high revenue duties and other internal charges greatly increase the total tax incidence on certain commodities, often constituting an obstacle to the expansion of exports from the less-developed countries. The internal charges are of two distinct types: (a) in the case of cotton and jute manufactures, oil seeds 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. The incidence of revenue duties on coffee and tea is particularly heavy in Germany, France and Italy.

C. **QUANTITATIVE RESTRICTIONS AND QUOTA IMPORTS**

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

D. STATE TRADING

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

E. OTHER MEASURES

A possible loss of trade opportunities for the 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 importing countries. Support measures in the case of copper create difficulties in production and marketing. 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 prior consultation with the interested parties is desirable.

7. CONCLUSIONS

Neither the material nor its examination has been exhaustive. There are aspects of these difficulties and obstacles which require further study. Nevertheless, the Committee feels that the 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 the less-developed countries. Such examination would be appropriate as the CONTRACTING PARTIES recognized at their thirteenth session the need for urgent action to assist the less-developed countries.

8. The Committee noted that, for both fiscal and developmental reasons, the less-developed countries cannot rely solely on the traditional methods of negotiation involving exchange of concessions, etc. The Committee recommends that contracting parties, particularly industrialized countries, should examine these problems against this background and consider the feasibility of giving relief through unilateral action independently of the next round of multilateral tariff negotiations.

9. The Committee also recommends urgent action in the field of revenue duties and internal taxes. The question of the negotiability of revenue duties and internal taxes was referred to Committee I by the CONTRACTING PARTIES at their fourteenth session. Inevitably, however, the problem arose in the course of the work of Committee III. In the context of expansion of trade for less-developed countries, the Committee recommends that revenue duties and internal
taxes 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'. The Committee noted in this connexion the previous observations in regard to the capacity of the less-developed countries for exchanging concessions.

10. The Committee recommends that the CONTRACTING PARTIES should examine whether early consultations under the auspices of the CONTRACTING PARTIES between the Western European countries concerned and affected less-developed countries as a group would be a practical means of securing progress in the fields referred to in paras. 8 and 9.

11. Some of the less-developed countries have the investment and the technological resources for the processing of raw materials and some were 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 instituting, where feasible, policies which will promote the import of such goods by less-developed countries, even in competition with domestic products.

12. The Committee recommends that contracting parties, particularly the 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 the less-developed countries. This will make them less dependent on external aid, strengthen their economies and accelerate their development. They noted the request of the less-developed countries that a newer and more dynamic approach to the problems of the less-developed countries is required because of the nature and urgency of these problems.

13. As regards Section II.2 of its work programme, the Committee decided that a start should be made now by inviting the 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/8 and elsewhere. The Committee requested the secretariat to avail itself to the fullest possible extent of the work of other international organizations including Regional Commissions of the United Nations and to prepare pilot studies on jute manufactures and oilseeds crushing and processing.

14. In regard to Section II.3 of the Work Programme.

15. The Committee decided that during the fifteenth session of the CONTRACTING PARTIES it will, under Section II.4 of the Work Programme, review the report of the GATT Working Party on Commodities.
16. The Committee proposed to continue examination of the problems to the expansion of trade of the less-developed countries at a meeting to be held in the early part of 1960. At this meeting it will examine the obstacles affecting the international trade in products other than those listed in paragraph 2 and will proceed with a study of 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.