1. Following the request to the CONTRACTING PARTIES by the Governments of the Union of South Africa and the Federation of Rhodesia and Nyasaland, the Working Party examined the question of the special commercial relationships between the two countries with a view to clearly defining the position of the CONTRACTING PARTIES in this regard. The request of the two Governments arose from the fact that, with the termination on 30 June 1960, of the Trade Agreement of 28 June 1955, between them which was examined by the CONTRACTING PARTIES at the tenth session and to which the Decision of 3 December 1955, is related, the inclusion of the two fundamental principles of the 1955 Agreement is regarded as essential to the negotiation of any new agreement. These two principles are: (a) the duty-free admission, or admission at special preferential rates of duty, of a number of the Federation's products into the Union, and (b) the reciprocal exemption of each other's exports from balance-of-payments import restrictions.

2. In support of the contention of the two Governments that the maintenance of these two principles was vital to the special trade relations and to the interdependence of economic interests which had developed between the Union and the Federation under the exceptional arrangements which had governed...
the interchange of products between them for more than half a century, the South African delegation described to the Working Party the various preferential customs and trade agreements which had existed between South Africa and Northern and Southern Rhodesia prior to the conclusion, after the establishment of the Federation, of the 1955 Agreement now regulating the commercial relations between South Africa and the Federation as a whole. The South African delegation pointed out that the principle of free trade between South Africa and the two Rhodesias had, with variations differing in extent from time to time, been embodied in these special preferential customs and trade agreements, and that the Federation, because of its need for accelerated industrial development, now found it necessary to secure duty-free access, or access at special preferential rates of duty, to the Union market on a wider range of products than was provided for in the 1955 Agreement. At the same time the Federation desired to grant increased protection to its own industries against South African and other external competition, and therefore desired to revise the special preferential tariff treatment accorded to South African goods under the 1955 Agreement.

3. The South African delegation explained South Africa's particular interest in the economic strength and prosperity of the Federation, and the reasons for the South African Government's willingness to make certain important sacrifices in order to assist in the transformation of the Federation from a predominantly primary producing country into a country with a more diversified and less vulnerable economy. They suggested that the matter should be judged not solely by a strict reference to the legal rules of the General Agreement, but should be viewed in its wider implications
and as one which was closely related to the basic philosophy to which most contracting parties subscribe, namely, the urgent need for assistance to less-developed countries to diversify their economies and to introduce a greater measure of stability in their export earnings. The South African delegation pointed out that although South Africa itself was still a developing country and its ability to assist less-developed countries was, therefore, limited, the Union Government considered that, because of its geographical proximity to the Federation and its traditionally close economic ties with that country, it was in a better position than most other countries to help the Federation in achieving a greater degree of industrial development and more stable economic conditions.

4. The South Africa delegation's statement was supplemented by the Federal delegation's explanation of their country's need to provide increased and more rewarding employment opportunities for its people through more rapid industrial advancement. The Federal delegation stressed that since the domestic market, although expanding, would still be inadequate in the immediate future to absorb the products of Federal manufacturing industries in quantities which would permit of economic operation, it was essential for the success of these industrial undertakings to have access to the much larger South African market on terms generally equivalent to those enjoyed by South African manufacturers themselves. The Federal delegation explained that, because of geographical and other factors, Federal manufacturers had little prospect of exporting their goods to countries other than the Union in quantities which would ensure their economic operation and expansion. The Federation also could not sell its manufactured products in the Union unless it could count on
obtaining unrestricted access to the Union's market without having to face the hurdles of tariffs and quantitative restrictions. It was stressed that the Federation was likewise unable to sell its manufactured goods in South Africa under the same tariff and other conditions which apply to imports from industrially advanced nations.

5. In considering the statements of the two delegations, the Working Party noted that, in substance, the two Governments desired the CONTRACTING PARTIES to agree that the Union may go beyond the terms of the 1955 Agreement insofar as permissible tariff preferences are concerned, not only by increasing preferences on products specified in the Agreement but by introducing new preferences, as the need arises, on products not so specified nor specified in any new trade agreement between them, and that, in addition, they desired the CONTRACTING PARTIES to sanction the maintenance of the principle embodied in the 1955 Agreement in terms of which the two countries grant to each other's products exemption from their balance-of-payments import restrictions.