Committee III - Expansion of Trade

DRAFT REPORT OF COMMITTEE III ON THE MEETING
21 TO 28 MARCH 1961

1. In accordance with the decision taken by the Committee during the seventeenth session (COM.III/38) the Committee met from 21 to 28 March 1961 to consider in detail its future work programme and the best ways of implementing this programme.

2. During its meeting the Committee examined a report by the secretariat (COM.II/40) on the progress made by individual contracting parties since its last meeting in carrying out the recommendations of the Committee, as contained in its second, third and fourth reports (see document L/1063, L/1162 and L/1321 respectively). Further progress, reported during the meeting by several delegations, is contained in document COM.II/40/Add.1. The Committee welcomed the measures taken but expressed disappointment at the very limited progress achieved. The measures taken were largely confined to the removal of quantitative restrictions; the Committee noted that in a number of cases the removal of quantitative restrictions applied only to the raw material while the products processed from the material remained subject to restriction.

3. The Committee decided to postpone the drawing up of a report on progress to the CONTRACTING PARTIES until after the forthcoming general round of tariff negotiations which, it was felt, would provide an important opportunity for the removal of many of the barriers confronting the exports of less-developed countries. The Committee decided that, in addition to a review of progress, an autumn meeting of the Committee would provide an opportunity for the Committee to undertake a full review of its
work in the light of the results of the Tariff Conference. The Committee, therefore, renewed its appeal to industrialized countries to examine speedily and sympathetically the problem of removing or reducing the obstacles to the trade of less-developed countries and to inform the secretariat of measures introduced by them with regard to the products which have been examined by the Committee.

Participation of less-developed countries in the general round of tariff negotiations

4. The Committee noted that less-developed countries had made little use of the possibilities which were open to them in the forthcoming tariff negotiations to request tariff and other concessions on the products examined by the Committee. Some less-developed countries referred to the difficulties which they envisaged in participating in the negotiations. They were, in the first place, rarely principal suppliers of the products on which they would seek concessions. Secondly, if such products became subject to negotiation they felt that the present system, based as it was on reciprocity, required them to grant tariff reductions in exchange, which for developmental and fiscal reasons they could ill afford. In addition, a large part of the import outlays of less-developed countries was often for capital goods for which duties were in any case low or negligible.

5. The Committee noted, however, that there were a number of ways in which less-developed countries may participate in tariff negotiations with a view to securing advantageous concessions. They are, generally, dealt with in the reports of Committee I to the CONTRACTING PARTIES (BISD, 8th Supp., pages 101 et seq.).

6. The Committee noted, for example, that a country which is not a large supplier of a commodity might feel that any request it may make for concessions on that commodity will be turned down on the grounds that it is not the principal supplier. In such cases it should join forces with other suppliers so as to achieve a total of trade which will enable the
group so formed to enter into joint negotiations in which they will, collectively, negotiate as principal suppliers. It should also be borne in mind that the "principal supplier rule" is usually applied by importing countries with some elasticity. Another advantage of such grouping is that it tends to reduce the amount of compensation that has to be paid in return for a concession by the members of the group.

7. Past tariff negotiations have seen the successful use of "triangular" techniques where A grants a concession to B; B to C and C to A. Similarly there have been cases where the main exporters of a product have joined forces to seek tariff reductions on that product from the main importers.

8. With respect to the multilateral techniques described in paragraphs 6 and 7 above, the Committee referred to rule VI (c) of the Rules and Procedures for the Tariff Conference which provides that the Tariff Negotiations Committee "shall be at the disposal of any country or group of countries to arrange for negotiations on a triangular or multilateral basis to improve the scope of concessions". The Committee felt that less-developed countries should make full use of the assistance of the Tariff Negotiations Committee for this purpose.

9. Less-developed countries should not feel that the possibility of receiving concessions from industrialized countries without having to give equal concessions in return is at all excluded. In this connexion less-developed countries should also not lose sight of the provisions of Article XXVIII bis:3(b) according to which negotiations are conducted so as to enable account to be taken of "the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes". It is appropriate here to refer to the remarks of the representative of the European Economic Community at the last meeting of the Tariff Negotiations Committee (TN.60/SR.8, page 14) to the
effect that the Community is not considering requesting complete reciprocity from less-developed countries during the forthcoming general round of tariff negotiations since the Community's offer of a linear reduction of 20 per cent is more particularly directed towards industrialized countries. The hope was expressed that other industrialized contracting parties would also indicate their readiness to enter into negotiations with less-developed countries on a basis not requiring full reciprocity. The hope was also expressed that in cases where less-developed countries jointly claimed principal supplier status, industrialized countries would not demand full reciprocity from the less-developed countries.

10. Where the major obstacle to their trade is not the tariff but a non-tariff barrier such as those enumerated in Section II:b(ii) of the Rules and Regulations for the Tariff Conference (BISD, 8th Supp., page 116), less-developed countries should give serious consideration to requesting concessions on these measures. Attention is called in particular to the possibility of obtaining concessions on the operation of import monopolies, on subsidies, and on internal taxes. In this regard the Committee noted that although a number of developed countries had expressed reservations concerning their position with respect to the negotiability of certain of these measures (BISD, 8th Supp., page 113), the CONTRACTING PARTIES had explicitly recognized the negotiability of these measures. Members of the Committee felt that it should, therefore, be possible for useful results to be negotiated.

11. In view of the provisions referred to above for meeting the difficulties envisaged by less-developed countries in participating in the negotiations, the Committee urged the less-developed countries to avail themselves of the opportunities offered by the negotiation procedures for obtaining reductions in the barriers confronting their exports by submitting request lists of items of interest to them.
12. The Committee felt that because of the technical difficulties which had again been voiced by less-developed countries concerning their ability to participate in the forthcoming negotiations, the attention of the Tariff Negotiations Committee should again be directed to this problem. The Committee, therefore, recommended that the Tariff Negotiations Committee seek solutions to these problems so as to enable all contracting parties to participate effectively in the forthcoming tariff negotiations.

Secretariat document on barriers to the expansion of exports of less-developed countries

13. At its meeting during the seventeenth session, the Committee had requested the secretariat to prepare a working document which would indicate and illustrate the findings of the Committee with respect to the various types of barriers imposed by contracting parties, particularly industrialized countries, which affected exports from less-developed countries of the products which had so far been examined by the Committee. This document (COM.III/W.14) was prepared on the basis of the reports of the Committee, the commodity information prepared for the Committee, and on the basis of recent GATT documents such as reports on import restrictions and liberalization communiqués. Generally, it was agreed by the Committee that the measures described in this paper did affect the earnings of less-developed countries; however, it was recognized that, for the sake of brevity, certain important reservations which had been expressed in the Committee's reports regarding the Committee's findings, were not reproduced in this paper. The Committee felt, however, that the secretariat document would prove useful to individual contracting parties in connexion with the forthcoming tariff negotiations as well as in other work of the CONTRACTING PARTIES. In order to ensure that the information contained in this document is accurate and up to date, contracting parties are invited to submit any factual amendments required as requested in paragraph 4 of the document.
Third list of products

14. The Committee, recognizing that certain less-developed countries, particularly those which have more recently acceded to the General Agreement or associated themselves with the work of the CONTRACTING PARTIES, might wish the Committee to undertake an examination of the difficulties confronting certain products not yet examined by the Committee, had invited less-developed countries to submit additional requests for a third list of products. On the basis of the requests received the Committee decided to establish a third list of the following products: copper rollings and ferro-alloys; (ii) cement; (iii) phosphates; (iv) steel furniture; and (v) coir manufactures. The Committee requested the secretariat to prepare draft summary schedules showing details on tariffs, quantitative restrictions, revenue duties and internal fiscal charges, State-trading and other measures in force in relation to imports of these products. The Committee agreed that these draft summary schedules should be submitted to individual contracting parties for comment in sufficient time for the final versions to be made available for the autumn meeting of the Committee.

Channelling of expansion or establishment of industries by less-developed countries

15. The Committee undertook a discussion of section II/2 of its basic work programme which calls for a "study of the possibility of channelling expansion of existing industries by less-developed countries into directions where such countries will be economically efficient producers". It will be recalled that the Committee had invited contracting parties to furnish information on any plans which they might have for the development of their industries, on export targets for various products, and on their estimated overall foreign currency requirements and exchange receipts from exports. In response to this request a number of governments have submitted development plans.
16. The Committee examined suggestions which had been put forward by the secretariat (COM.III/43) with a view to defining and establishing the programme of studies which would be undertaken by the Committee under its terms of reference. The Committee agreed to examine first, as a test case, the Indian Third Five Year Plan, the draft outline of which had been distributed to all contracting parties in December 1960. The approved programme for the Committee's study of development plans is set out in Annex I.

17. The Committee felt that the commodity studies carried out so far would provide very useful documentation for the detailed examination of national development plans which the Committee had decided to undertake.

18. On the question of timing ...
ARRANGEMENTS FOR STUDYING DEVELOPMENT PLANS

(A) Programme and Timing

1. Section II/2 of the basic work programme of Committee III (COM.III/1) calls for a "study of the possibility of channelling expansion of existing industries or starting of new industries by less-developed countries into directions where such countries will be economically efficient producers". For this purpose the Committee invited contracting parties to furnish supporting information on any plans which they might have adopted for the development of their industries, on export targets for various products and on their estimated overall foreign currency requirements and exchange receipts from exports. The secretariat was requested to prepare, in consultation with less-developed countries, the necessary background information for circulation in due course (COM.III/38, paragraph 5).

2. In response to this, some contracting parties have forwarded their current economic development plans or have indicated that such plans would be supplied shortly. In December 1960, there was circulated to members of the Committee a "Draft Outline of the Third Five-Year Plan", published by the Indian Planning Commission, covering the period 1961/66.

3. The Committee has considered the scope and timing for the study of the Indian Plan and any other plans which may have been supplied by contracting parties. The Committee has agreed that the Indian Plan should be studied first and that the study of any other plans submitted by contracting parties should follow in the light of that experience. The secretariat should put in hand an analysis of the Indian Plan, and later, of other plans available. As far as the study of the Indian Plan is concerned the Indian delegation has agreed to give the necessary assistance in the collection of the material and other supplementary information required.

4. On the question of timing, it is envisaged that this work could be commenced as soon as meetings could be arranged for the Committee in the light of the general programme of the CONTRACTING PARTIES, due time being allowed for the secretariat to complete the preparatory work.

(B) Scope and Contents of Study

5. As regards the scope of the examination, the Committee felt that it should not lose sight of its primary purposes as defined by its terms of reference which relate to the maintenance and expansion of export earnings of the less-developed countries and the importance of this to the development and diversification of their economies. Plans of economic development are of necessity...
complex and comprehensive. While it is true that no single aspect, such as the expansion of exports, of a development plan could be considered in isolation from other aspects, the Committee may find it profitable to concentrate its attention on matters of direct relevance to the questions of export industries and export earnings. Any discussion of the political, social and institutional aspects of the economy, where inevitable, would have to be strictly limited.

6. All development plans must of course take due account of the limitations placed on the rate of growth by the available investment resources. The lack of adequate foreign exchange constitutes a limiting factor which can be remedied only by additional inflows of capital and, in time, by expanded exports. Assumptions regarding the rate at which aggregate exports can be expanded are therefore an important determinant in a development plan of a more or less long-term nature. In studying the Indian Plan and any other plans, a convenient starting point would seem to be a comparison of the expected export earnings with the foreign exchange resources required during the period of the Plan. In the case of India, for example, the Government has estimated the total export earnings during the period of the Third Five-Year Plan to be Rs.34.5 thousand million, while total foreign exchange outlay is estimated at about Rs.66.5 thousand million. The exports are only 12 per cent higher than the total expected to be realized in the preceding five-year period. The estimate seems to reflect a number of assumptions regarding India's capabilities in export production and trade possibilities in foreign markets, on which the Committee may wish to invite comments from the Indian delegation and discuss the possibility of improvement in India's productive capacity and export markets.

7. The Indian authorities are clearly aware that a higher level of exchange — a greater volume of imports of goods which could have been produced locally but which could be imported at a lower real cost to the economy and a greater volume of exports which India could produce at relatively lower costs — would be beneficial to the overall economic utilization of resources and hence contribute to a higher rate of growth and development. Hence the external sector of the Plan can be taken to reflect India's present estimates of the maximum extent to which increased export goods can be produced and marketed. The relevant questions would therefore seem to be:

   (i) whether any export products could be economically produced in the country in greater quantities; and

   (ii) whether the increased production not required for domestic consumption could be sold abroad at appropriate prices.
8. Any discussion of these questions should not only cover the products whose expanded production and export have already been specifically indicated in the development plan, but also any other products which may, in the course of discussion, be found to be exports with expansion potentialities.

9. With regard to export production the Indian Third Plan, for example, sets targets for a number of traditionally exported products and certain other new products. For some of these, increased outputs are envisaged, but for others, expectation of increased production has been discouraged by the disappointing realization in the preceding plan period. The Committee may wish to pick out the export products which, on the basis of the available natural resources, the climatic and other conditions of the country and other factors relevant to a consideration of the efficiency and costs of production, the Indian authorities consider can best be developed with competitive advantage and examine in relation to them the magnitude of, and accessibility to, foreign markets.

10. Obstacles to the exports of less-developed countries are the concern of the Committee and should, of course, be the principal subject of its attention in the examination of a development plan. In the case of the Indian Plan, the estimates of export earnings seem to reflect certain limiting assumptions regarding the export markets. Account is clearly taken of the customs tariff and import restrictions in other countries which affect India's exports, and it appears that the fixing of the export targets for certain products have been influenced by assessments of the absorption capacity in other countries and conditions of competition. The Committee may wish to examine the contribution which a reduction in obstacles to the various Indian exports, or action taken by other governments in enabling their economies to absorb these imports, will make to the expansion of India's export earnings.

11. Any such improved prospects would facilitate the efforts of the Indian authorities to develop economic and efficient industries where, on the basis of natural resources and factors of production, cost advantages are highest. This will lead to a higher level of international trade which will not only be beneficial to the Indian economy, but will also be of value to other countries having an interest in seeing an expansion in the Indian market.

12. For the purpose of this discussion, the factual paper to be prepared by the secretariat will set out the planned production and export targets for the more important export products mentioned in the Plan, for which additional information, as mentioned in paragraph 3 above, will be sought from the Indian authorities. The industrialized countries, for their part, should be requested, in so far as possible, to supply information on their import capacities, both actual and potential, for such products or for products which have not been mentioned by the Indian authorities.