1. The terms of reference of the Working Party are "to study the following proposals and report to the CONTRACTING PARTIES at their twenty-first session:

   (a) the granting of preferences on selected products by industrialized countries to less-developed countries as a whole; and
   
   (b) the granting of preferences on selected products by less-developed countries to all other less-developed countries".

It may be recalled that the proposals before the Working Party derived from paragraph 24 of the Conclusions of Ministers (MIN(63)7) in which Ministers "agreed that contracting parties should give urgent consideration to the adoption of other appropriate measures (i.e. measures other than those proposed in points (1) to (vii) of the Programme of Action) which would facilitate the efforts of less-developed countries to diversify their economies, strengthen their export capacity and increase their earnings from overseas sales. In this connexion it was suggested that one of the measures which should be studied promptly would be the accordance of preferential treatment to the semi-manufactured and manufactured goods exported by less-developed countries".

2. The Working Party has held three meetings, from 7 to 11 October 1963, from 11 to 18 December 1963, and again during the present session.

3. During the first of these meetings the Working Party addressed itself in the main to the first of the proposals before the Working Party. At this meeting most members spoke as experts without committing their governments and a useful preliminary discussion of possible ways in which preferences might be granted was held. A summary of points raised at that meeting is contained in L/2073.
4. During the December meeting, when members were no longer speaking as experts, the Working Party had some further discussion of technical points connected with the granting of preferences by industrialized countries. This discussion revealed that there were considerable divergencies of opinion between members of the Working Party, developed and less-developed, on the procedures which might govern any such preferential arrangements. A summary of proposals at present before the Working Party is contained in Annex A. The position of the Brazilian delegation is set out more fully in Annex B.

5. During the meeting representatives of the less-developed countries on the Working Party again stated that in their opinion most-favoured-nation tariff reductions on products of interest to the less-developed countries, and particularly on their new export products, might result in rather limiting gains for the less-developed countries, as products produced in the industrialized countries and based on advanced technology and abundant capital resources, whether these products were highly sophisticated manufactures or simple manufactures and processed primary products, were in general more competitive than similar products produced in less-developed countries. In the view of the less-developed countries on the Working Party, the granting of preferences, especially by industrialized countries, would increase the competitiveness of their products and would be an important contribution to the objectives set out by Ministers. The importance of the proposals before the Working Party was illustrated by the considerable amount of work which was being undertaken by national governments, within the GATT and elsewhere. During the discussions in the Working Party less-developed countries have re-emphasized this point, and the sense of urgency which they feel should be imparted to the consideration of the proposals before the Working Party. These countries expressed their disappointment that divergencies of opinion continued to exist. They stated that, in their opinion, there would be little point in continuing a discussion of technical points, or of the terms and procedures which might govern any such preferential arrangements, unless the industrialized countries could indicate that they agreed in principle to the granting of preferences.
6. A proposal for inserting a new Article as Article I(a) in Part 1 of the General Agreement was also made, the text of which is reproduced in Annex C. As only a preliminary exchange of views has taken place, it has not been possible for the Working Party as a whole to arrive at any conclusions on this proposal.

7. Other members pointed out that its terms of reference directed the Working Party to study certain proposals and indicated that in their opinion it would not be for the Working Party to attempt at that stage to draw up a declaration of agreement in principle to those proposals.

8. The representative of the European Economic Community welcomed on behalf of the governments of those countries the idea of tariff preferences to be granted by developed countries on certain products with a view to stimulating industrialization in less-developed countries. He pointed out that a certain amount of co-operation from other developed countries would be necessary if this idea was to yield concrete and effective results. On the second proposal in the terms of reference he said that the governments in whose name he spoke were also favourably disposed towards the idea of tariff preferences between less-developed countries.

9. The representative of the United States said that his Government subscribed fully to the objective of providing greater opportunities for the developing countries to increase their export earnings and standards of living. He hoped that in the forthcoming Kennedy Round of trade negotiations a near 50 per cent linear reduction in tariffs would be achieved. Less-developed countries would benefit from this reduction without being expected to offer full reciprocity. He questioned whether commitments to accord tariff preferences to less-developed countries might not lead participants in the linear tariff reduction plan to reduce the scope of their general concessions. Moreover, as regards industrial products in which less-developed countries have natural economic advantages, the need was to work at the erosion and elimination of high tariffs, restrictive
non-tariff measures and discrimination. In his view the adoption of new tariff preferences was likely to make this task more difficult. Furthermore, he feared that in practice any new preference system would perpetuate, complicate and extend on an unequal basis existing arrangements between developed and developing countries so that the anticipated benefits, if any, would remain with only a portion of the less-developed countries. In any event existing United States legislation provided no authority to grant preferences. Furthermore, after careful consideration of the evidence before it, and in view of the anticipated adverse effects on the liberalization and expansion of trade and attempts to establish new preferences, it was the judgment of his Government that the trade of less-developed countries would derive more immediate as well as greater ultimate benefit from the non-discriminatory reduction of tariffs and the elimination of non-tariff barriers than from a programme involving the extension of new tariff preferences by developed to developing countries.

10. The representative of the United Kingdom said that the preferences should not result in increases in most-favoured-nation rates or impede progress in the general reduction in most-favoured-nation tariffs. She stated, however, that, provided that preferences were put into effect by the governments of the major industrialized countries acting in parallel, that countries already enjoying contractual preferences on its market would be prepared to waive their existing rights on the products concerned and provided that preferences were regarded as advance reductions in most-favoured-nation rates rather than as margins her Government was prepared in principle to accept this proposal. However it was at present difficult to see how the proposal could be put into effect. The fact that many divergencies of opinion on this had emerged illustrated the great scope and complexity of the subject.
11. The representative of Japan said that preferences should be put into effect by all industrialized countries alike in respect of selected products but that they should not be extended to competitive industries. He further stated that the new preferences should be of a temporary nature and should gradually absorb the existing preferential arrangements.

12. The representatives of certain other industrialized countries said that, while they recognized the great importance attached to this question by the less-developed countries and while it seemed likely that the granting of new preferences could make a positive contribution to the aims laid down by Ministers, it would be necessary to get a clear picture of what exactly was proposed before a judgment could be made as to whether the advantages which the preferences might bring to the less-developed countries were real enough to justify a breach of the most-favoured-nation rule. Several countries emphasized that the granting of new preferences should not interfere with the general movement towards the reduction of barriers to trade on a most-favoured-nation basis, although the granting of new preferences might be regarded as a means of securing a more rapid reduction in trade barriers against the less-developed countries than might for the time being be possible between the industrialized countries.

13. Some other countries, not themselves highly industrialized, stated that they supported efforts to find new techniques to enable the less-developed countries to increase their export earnings and that they agreed that a system of preferences regulated by the GATT might provide one possible answer. Although they recognized that problems might be involved, they did not regard these as necessarily insurmountable. These countries were fully prepared to explore the whole question seriously and with open minds in the hope that a workable and equitable formula would result.

14. Certain less-developed countries represented on the Working Party, referring to the emphasis placed on the most-favoured-nation reduction of duties by some developed countries, said that negotiations for new preferences
might be merged with the Kennedy Round negotiations and appealed for help in assessing the value to the less-developed countries of the linear reduction in duties which it seemed likely would be made during these negotiations.

15. Problems relating to the exchange of preferences among less-developed countries could not be discussed in detail. The value of the exchange of such preferences in increasing the foreign exchange earnings of less-developed countries and in diversifying their economies was widely recognized. In this connexion, certain suggestions were made by a group of countries. These suggestions are included in Annex D.

16. At the conclusion of the December meeting it was agreed that further consideration of the proposals before the Working Party should be based on concrete proposals from governments of industrialized as well as less-developed countries.

17. When the Working Party reconvened during the present session, it had before it, in addition to the proposals which it had already itself received, proposals relating to its terms of reference which had been referred to it by the Committee on the Legal and Institutional Framework. It was agreed that the secretariat should provide a paper which would summarize these proposals and give references to the documents containing the definitive statement of the proposals. This paper is contained in Annex A.

18. The Working Party took cognizance of certain proposals which had been placed before it but which, while dealing with the possible establishment of new preferences, did not appear to fall directly within the present terms of reference of the Working Party. The text of one such proposal, which has been submitted by the delegation of the United States and which deals with preferences which might be extended on a regional basis, is contained in Annex E.
19. The Working Party was not therefore in a position to draw up a set of agreed conclusions. It is of the opinion that the large number of practical suggestions which have been placed before it both reflect the complexity and importance of the problems involved and the large measure of interest in these problems which governments have demonstrated. While many, but not all, delegations are in principle in favour of the granting of preferences, there have been differences of opinion on the terms, conditions and procedures which might govern any preferential arrangements. There was, however, a general measure of agreement in favour of further careful consideration being given to matters on which divergencies persist and of the desirability of holding further meetings at an opportune moment. The Working Party also wishes to draw the attention of the CONTRACTING PARTIES to the fact that the need for establishing some connexion between the concept of preferences and the forthcoming trade negotiations has been emphasized and certain proposals have been advanced which do not fall precisely within its existing terms of reference but which the CONTRACTING PARTIES may also feel merit detailed examination. The Working Party therefore wishes to place this progress report before the CONTRACTING PARTIES and to seek guidance and instructions on its future work.