DRAFT REPORT OF THE GROUP

1. The Group was established by the Committee on Trade and Development in March 1965 and was instructed to examine problems involved in the expansion of trade among less-developed countries with particular reference to the rôle of preferences in this regard, and to perform certain related tasks. The full terms of reference and the membership of the Group are given in Annex I to this report.

2. The Group held its first meeting in June 1965 and the discussion at that meeting was summarized in a secretariat note (COM.TD/D/2) which was transmitted to the Committee and discussed at its meetings in July and December 1965 (COM.TD/10 and 12). The comments made by the Committee on these occasions have served as further guidance for the Group in the pursuance of the tasks entrusted to it.

3. The Group had before it certain documents specially prepared for it, including a background note on past discussions of the subject (COM.TD/D/W/2) and a general review of trade among developing countries (COM.TD/D/W/3), as well as a pilot study as referred to in paragraph 3 of the Group's terms of reference (COM.TD/D/W/1).

Preferences

4. In discussing the rôle of preferences among developing countries in promoting their mutual trade, the Group had before it two proposals which had been submitted to the Committee on the Legal and Institutional Framework and remitted to the Committee on Trade and Development. The first of the proposals, submitted by the United Arab Republic, envisaged the establishment of general preferences among less-developed countries and the other, submitted by the United States, related to regional arrangements among countries with contiguous territories.
These proposals provided a starting point for the Group's deliberations and the questions raised on them, and answers provided by the proposing delegations, as well as certain general and specific comments on their various elements are summarized in the notes annexed hereto (see Annex II).

5. The Group was aware that the value of the exchange of preferences among less-developed countries in increasing the foreign exchange earnings of these countries and in diversifying their economies had been widely recognized in past discussions in GATT. There had also been a large measure of agreement on the principle involved in the granting of such preferences, even though views on the precise conditions and criteria to be adopted had tended to differ. The discussion in the Group has led it to the unanimous conclusion that the establishment of preferences among less-developed countries, appropriately administered and subject to the necessary safeguards, can make an important contribution to the expansion of trade among less-developed countries and to the attainment of the objectives of the General Agreement. The general view of the less-developed countries, as reflected in the discussions in the Group, is that such preferences should be granted and applied on a non-discriminatory basis and that less-developed countries should be in a position to exchange preferences with other less-developed countries in general and not only in the context of regional schemes of integration.

6. It was also the general view that the establishment of such preferences should most appropriately be the subject of negotiations between developing countries. In such exchange of reciprocal preferences due account would, where necessary, be taken of the different stages of economic development of the negotiating partners. The preferences would, therefore, be selective in regard to products.

7. The Group further noted that, while the negotiation of any preferential arrangements among less-developed countries must be the responsibility of the less-developed countries themselves, in order to ensure that the interests of the other contracting parties were not unnecessarily damaged, sufficient opportunity must be given for consultation and discussion in respect of the arrangements proposed.

8. The Group felt that it was necessary first to see what concrete proposals for exchange of preferences between less-developed countries were negotiated rather than to attempt to draw up specific legal provisions or formulae at this stage. The Group
recommends to the Committee that arrangements should be made for the examination of such proposals when they were received.

Other measures

9. While discussion in the Group was concentrated on the proposals on preferences, a number of other aspects of the problem of trade expansion among less-developed countries were also taken up. In this regard the Group again was guided by past discussions in GATT. In particular the Committee on Trade and Development had at its meeting in July 1965 referred to a number of measures other than preferences and had focussed its attention on the trade and payments aspects of the problem, particularly:

   (a) the dismantling of quantitative restrictions affecting intra-trade;
   (b) non-tariff arrangements to overcome payments limitations;
   (c) avoidance of tied loans.

It had also been suggested in the Committee that a specific programme of action aimed at trade expansion among developing countries, limited in scope at the beginning but capable of subsequent expansion, might be drawn up.

10. At the meeting in January-February 1966, the Group took up these points and heard certain specific suggestions from the Indian representative. These suggestions related to a number of measures aimed at giving greater flexibility to less-developed countries in the planning and implementation of their commercial policies and at directly increasing the imports of less-developed countries from other less-developed countries. They included the following:

   (a) A target rate be adopted for the expansion of trade among less-developed countries. This might be set at between 15 and 20 per cent per year.
   (b) Less-developed countries should try to identify, from their lists of products notified as being of export interest to them, those items the export of which to other less-developed countries appear to be capable of expansion. The products thus identified should be notified to the CONTRACTING PARTIES together with any relevant data on trade, production,
production plans, etc. Such notifications should be collated and circulated for the information of all contracting parties. Less-developed countries should then be asked to supply data concerning their present and future import capacity for these products.

(c) Less-developed countries should be asked to indicate what special measures they consider should be taken by importing countries, or by international organizations, for the expansion of this trade.

(d) In addition to the exchange of tariff preferences, such measures as the exchange of import quotas might be resorted to by less-developed countries in order to enable them to obtain imports over and above that which could be effected on the basis of their overall foreign exchange availabilities.

(e) Where imports were made by governments or State agencies, rules might be evolved to ensure that a specified proportion of the purchases were made from sources in less-developed countries.

(f) Guidelines or rules might be adopted to ensure that aid given to less-developed countries by developed countries or by international institutions were untied, or at least that a part of the foreign exchange thus made available was usable for payments for imports from other less-developed countries.

(g) A fund be set up, within the framework of the appropriate international financial institution, for the provision of loans needed to finance imports by less-developed countries from less-developed countries.

(h) The exchange, on a regular basis, of information about their development plans and import requirements, so as to maximize imports.

(i) Measures should be taken to prevent the operation of licencing and similar arrangements entered into by firms in less-developed countries with foreign firms, from operating in such a way as adversely to affect trade among less-developed countries.

(j) Measures should be taken to solve any transport and marketing difficulties which might be limiting the expansion of trade among less-developed countries.
11. These points were presented by the Indian delegation as suggestions to facilitate discussion in the Group and not as official proposals by the Indian Government. In view of the lack of time, the Group did not enter into any detailed discussion of the merits of, or the technicalities involved in, the suggested measures. Some members of the Group, however, did take the opportunity to engage in a preliminary exchange of views on some of the points. Members representing less-developed countries stressed the importance which they attached to such measures as the provision of untied loans, the earmarking of governmental purchases and the exchange of import quotas, which, in their view, would make a significant contribution to the expansion of trade among developing countries. Some members of the Group, while agreeing that these suggestions warranted careful study, did not feel that the GATT, being an organization having primary competence in the field of commercial policy, was an appropriate forum for the discussion of problems which lay in the field of finance and payments. Other members considered, however, that the GATT, precisely because of its responsibility in the field of international trade, could not disassociate itself from problems relating to international financial relations.

12. Members of the Group suggested that it would be useful for the less-developed countries, in considering ways and means of expanding trade among themselves, including the reduction of tariffs and other barriers to trade on a most-favoured-nation basis, to have available to them statistical data relating to imports and exports of particular commodities and information on some of the points mentioned by the Indian representative. This information would be of particular value in the immediate context of the Kennedy Round. The Group agreed that such statistical data would have to be supplied largely by the less-developed countries themselves. The secretariat was asked to provide appropriate assistance in the collection and the co-ordination of such material.