DRAFT REPORT OF THE WORKING PARTY ON TRADE ARRANGEMENTS 
BETWEEN INDIA, THE UNITED ARAB REPUBLIC AND YUGOSLAVIA

1. The Working Party was established by the Council at its meeting on 10 September 1969 with the following terms of reference:

(i) to consult with India, the United Arab Republic and Yugoslavia, as provided for under paragraph 1(b) of the Decision of 14 November 1968, with respect to the Protocol of 16 July 1969, amending the Trade Expansion and Economic Co-operation Agreement of 23 December 1967, and to report to the Council; and

(ii) to carry out the review of the Decision of 14 November 1968 as provided in paragraph 1(c) of the Decision, and to report to the Council with a recommendation as to its extension, modification or termination.


4. In an opening statement on behalf of Yugoslavia, referred to his statement to the Council at its meeting on 10 September 1969, in which he had explained that, by signing the new Protocol, the participating countries had agreed to reduce, as between themselves, existing most-favoured-nation rates for a further fifty-seven tariff headings and sub-headings on products originating in the three countries. The new Protocol, which was to enter into force on 1 October 1969, would become part of the initial Agreement and would consequently remain in force during the period of operation of the Agreement. The same considerations which had guided the participating States in concluding the Agreement had motivated them to extend its scope. In their view, the extension of the Agreement would contribute to the expansion of international trade. The treatment accorded to the added tariff headings corresponded to that of the seventy-seven tariff items which were covered by the initial Agreement. He confirmed that the signatories would be willing to

---

1 See document C/M/57, page 4.
consider the integration of the mutual concessions into a wider arrangement that might be set up through the agreement which was now under discussion in the Trade Negotiations Committee of developing countries.

5. During the discussion certain members of the Working Party stated, with reference to paragraph 1(b) of the Decision of 14 November 1968, that they regarded the new Protocol as a substantial modification of the initial Agreement. In some cases a relatively large volume of trade was involved. The additional Protocol thus constituted an important extension of the Agreement. These members of the Working Party considered that the three countries should have given more time for consultation before the Protocol came into force.

6. In reply, the representative of the participating States pointed out that in his opinion the modification of the Agreement could not be regarded as being of a substantial nature. This was evident from the statistics indicating the trade involved in the new items. Furthermore, they had notified the Protocol to the CONTRACTING PARTIES on 6 August 1969, which subsequently had been subject to a discussion in the Council, and as directed by the Council the examination in the Working Party had started before the Protocol came into force.

7. Other members of the Working Party welcomed the idea of working out new techniques of co-operation among developing countries. In their opinion the Agreement and its extension by the new Protocol could be regarded as a further step in the process of improving the economies of the countries concerned. The attention of the Working Party was drawn to the fact that the intra-trade in the fifty-seven added tariff items did not exceed 0.8 per cent of total imports, as could be seen in Table 1 of document Spec(69)117. The proposed additions to the commodity list therefore seemed to correspond to the pre-condition that the goods, subject to preferences, should be of a non-traditional nature.

8. In reply to the question as to the basis on which the fifty-seven items were added to the Common List, the representative of the participating States explained that the same reasons had guided them in selecting the fifty-seven items which had determined the choice in the case of the initial seventy-seven items. The purpose of the extension was to create new and additional trade exchanges between the three countries while at the same time care had been taken to avoid undue injury to the trading interest of third countries, particularly developing countries. As would be seen from document Spec(69)117, none of the important export products had been considered for inclusion in the extended Common List.

9. Members of the Working Party from developing countries, while supporting fully the initial Agreement and the new Protocol, emphasized that suitable techniques will have to be found by which the benefits of these arrangements could be shared with other developing countries. One of these members further pointed out that, in his view, in the course of the current negotiations between developing countries, the concessions embodied in the Agreement and the new Protocol should automatically and without compensation be extended to all developing countries.
10. In reply the three participating States made reference to paragraph 10 of the statement, the representative of Yugoslavia had made to the Council on 27 March 1968, which reads as follows:

"The Agreement embodies the results of a more intensive effort on their part to complete the negotiations which had been started a long time ago in the GATT. In fact, these negotiations were based on request lists which had been exchanged in the Kennedy Round of negotiations."

They repeated their willingness to share with other developing countries the advantages of the Agreement as amended by the new Protocol and to consider incorporating it into any wider international arrangement which might emerge out of the current negotiations in the Trade Negotiations Committee of Developing Countries. Their intention to consider extending the Agreement to other developing countries was evident from the fact that they were actively participating in the work of that Committee. They felt, however, that it would be premature to indicate at this stage the way in which the Agreement could be incorporated into such a wider arrangement, since the Committee was still discussing ground rules for trade negotiations and only a small number of countries had exchanged final request lists. They therefore found it necessary to await the outcome of the discussion in the Trade Negotiations Committee and they hoped that the actual negotiations would progress rapidly.

11. With regard to the operation of the initial Agreement, the representative of India, speaking on behalf of the participating States, referred to the report the three countries had submitted to the CONTRACTING PARTIES.² He pointed out that in the view of the three countries, the results of the operation of the Agreement were modest, but encouraging, especially as the Agreement was experimental in nature. In their view it was too early to assess its full impact on the economies concerned, particularly in regard to such aspects as its potential for creating new trade and establishing additional productive capacities accompanied by economies of scale. As developing countries they had faced many administrative and other practical problems during the initial period of implementation of the Agreement. When it had been in operation for a longer time, the participating States would gain sufficient experience in regard to its implementation and the contracting parties would be in a better position to judge it from the several aspects referred to above. It would therefore be desirable that any further decision of the CONTRACTING PARTIES should cover fully the remaining period of validity of the Agreement, i.e. until 31 March 1973. The three governments were ready to submit to the CONTRACTING PARTIES annual reports on the operation of the Agreement. If any contracting party considered it necessary, they were also prepared to make the operation of the Agreement subject to examination by a new Working Party. They stood ready further to enter into immediate consultation

¹See document L/3032, page 12.
²Circulated in document L/3235.
with any contracting party which experienced difficulties in regard to the operation of the Agreement, as amended by the new Protocol. They had already held between the two meetings of the Working Party with the interested delegations informal consultations regarding the new Protocol and the operation of the initial Agreement and they had found such consultations useful.

12. The Working Party took note of additional statistical information provided by the participating States at the request of members of the Working Party and of replies made by them to questions put forward during the discussions. The representative of the participating States pointed out that as the Agreement had been in force for only a short time it was not possible to make significant statistical comparisons between the period 1968/69 and 1969/70 since the statistical information for 1970 was not yet available. It was evident, however, from the figures available that no trade diversion had taken place. He further explained that no special sourcing requirements were employed to use up balances under bilateral trading arrangements. Annual plans of an indicative nature were drawn up and arrangements made to take care of temporary trade imbalances through the provision of swing credits. Regarding the proportion of trade among the participating States on items falling in the common list and handled by State enterprises, the representative of India stated that rock phosphate was the only item which was dealt with by a State-trading agency in his country and that this related primarily to trade with State-trading countries, especially the UAR. Furthermore the duty on this product was zero. The representative of Yugoslavia said that there were no State enterprises in Yugoslavia and the status of the self-managed foreign trade enterprises was clearly described in detail in paragraphs 9 and 10 of document L/2562. The representative of the UAR said that in his country there was no distinction between imports whether or not they were items falling within the common list and that the majority of imports were traded on the same footing through publicly-owned commercial enterprises on a purely commercial basis. In the recent balance-of-payments consultations with the UAR a full explanation had been given of the trading system in that country. The representative of the participating States confirmed that a more favourable performance of common list items had not been accomplished by diverting foreign exchange normally used to obtain non-preferential items. He further explained that it had been decided to expand the trade coverage of the Agreement by including fifty-seven items in the new Protocol so that the items satisfying the criteria of non-traditional products and thus unlikely to cause injury to its trading partners could be more adequately covered and thus contribute to a more fruitful implementation of the arrangements, taking into account the objectives of the Agreement.

13. Some members of the Working Party welcomed the extension of the Agreement to cover other products since in their view the limitation of the Agreement to a narrow range of products could have certain restrictive trade effects. They felt that the Agreement was an interesting experiment and hoped that the efforts of the participants to promote trade expansion and economic co-operation would be successful. Some other members in welcoming the new developments under the Agreement reiterated the hope expressed by them on past occasions that the Agreement would not result in discrimination among developing countries.
14. In reply to a question, the representatives of the participating States referred to the statement made by them in paragraph 5 of the previous report of the Working Party (BISD, Sixteenth Supplement, page 84) and confirmed that it was still their intention to integrate the concessions of the present Agreement with the outcome of the negotiations in the Trade Negotiations Committee of Developing Countries. Certain members recalled the views expressed by them regarding the legal and other aspects of the matter in paragraphs 12 and 16 of the previous report of the Working Party (BISD, Sixteenth Supplement, pages 87 and 88). The representative of the participating States also recalled the relevant statement made by the three countries with regard to these views. (Paragraph 13, BISD, Sixteenth Supplement, page 87).

15. There was a general feeling in the Working Party that it was too early to make a final judgment on the operation and on the effects of the Agreement, taking into account the fact that the addition of fifty-seven items to the common list had only recently been made and that the negotiations among developing countries were still going on. Some members suggested that for these reasons the extension of the Decision of 14 November 1968 for a further period of one year would have been appropriate. Most members were prepared in the circumstances to support a recommendation for the extension of the Decision for a period of three years as requested by the participating States.

16. In the light of its discussions the Working Party agreed to recommend an extension of the Decision of 14 November 1968 for a further period of years and prepared the text of a draft Decision in the annex to this report for consideration by the CONTRACTING PARTIES. In this connexion some members suggested that in order to avoid the creation of new machinery to carry out any examination and review provided for in the Decision, the present Working Party might be asked to undertake such work whenever it was considered necessary.