

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Multilateral Trade Negotiations

GROUP 3(c) - THE SECTOR APPROACH

Draft Report to the Trade Negotiations Committee

1. In conformity with the decision taken by the Trade Negotiations Committee at its July 1974 meeting, Group 3(c) met on 7, 8 and 9 October 1974 to examine the methodology for the sector approach (MTN/P/3, paragraph 26). In this respect, it was noted that the Tokyo Declaration provides for an examination of the possibilities for the co-ordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique.
2. The Group had before it a report by the Committee on Trade Industrial Products (L/3886) containing, inter alia, a summary of a previous discussion on the sector approach and a note on the sector approach as a technique for multilateral trade liberalization submitted by the delegation of Canada in June 1973 (COM.IND/W/109).
3. One delegation¹ supported by some other delegations stated that in its view the sector approach, which called for all factors affecting trade, including tariff and non-tariff measures, to be dealt with together within particular product groups, could make an important contribution to trade liberalization. These delegations considered that the sector approach would have the following advantages: it would deal with all trade barriers, including tariffs and non-tariff measures, within a sector; it would deal with problems of tariff escalation, effective protection and tariff disparities, by including all stages of production in a particular sector; it would achieve a more efficient international allocation of resources; and it would permit maximum progress towards trade liberalization, in respect of products included in each sector.

¹The text of the Canadian statement is being circulated as MTN/3C/W/3.

4. Some of these delegations proposed that the secretariat might prepare one or two pilot sector studies by drawing from the information contained in the tariff study and the NTB inventory. These studies would need to take account of possible criteria for defining sectors and include data with respect to production, consumption, imports, exports, tariffs, including tariff escalation, and non-tariff measures. Such studies could provide a basis making it possible to define meaningful and manageable sectors and to demonstrate whatever merits the approach might have.

5. There was general agreement that the sector approach should be regarded as a complementary technique for the negotiations and that the purpose of utilizing this approach should be to achieve the maximum degree of trade liberalization.

6. Some delegations, while acknowledging that the sector approach might have some advantages, noted that this technique had been used only to a limited extent in earlier negotiations. They considered it premature to try to single out possible sectors for negotiations without first determining what the general objectives of the negotiations would be with respect to tariffs and non-tariff measures. Sectors chosen too early might not only become exceptions to general tariff cuts, but may also slow down the negotiations as governments tried to preserve their bargaining power. They noted that in so far as developing countries were concerned, the problem of tariff escalation had been reduced, at least to some extent, by the implementation of the GSP. These delegations considered that the sector approach might be relevant to problems of raw materials as it would permit a certain degree of reciprocity between producers and consumers. It was suggested in this respect that industrial raw materials as a whole might constitute a sector for negotiation.

7. One delegation suggested that further consideration of the sector approach might be deferred until such time as the general approaches to the negotiations had been agreed upon, as sectoral negotiations were to be considered as a complementary technique.

8. Delegations from developing countries in supporting the use of the sector approach as a complementary technique in the trade negotiations said that it would make it possible to deal with problems such as tariff escalation and effective protection which affected their exports. These delegations stated that no sector which developing countries considered essential and which in their view lent itself to the sector approach should be excluded from the negotiations. Sectors should include all relevant products whatever their degree of processing might be. They considered that differentiated treatment in favour of developing countries, as referred to in paragraph 5 of the Tokyo Declaration, should be applied to the sector approach. For example, sectors of special importance to developing countries should be negotiated on a priority basis and products of interest to them should be subject to maximum liberalization. It was suggested that any methodology for the sector approach should be sufficiently flexible to take into account preferential margins provided to developing countries by the GSP. These delegations proposed that the secretariat prepare a note identifying possible product sectors or areas of interest to developing countries and suitable for sectoral negotiations. The note might include data on tariffs and non-tariff measures, tariff escalation, effective protection, GSP, trade figures and indicate the main suppliers in each sector.

9. Some delegations suggested that it might be desirable to agree on some general principles and procedures for the use of the sector approach and criteria for identifying product sectors. It would also be desirable to develop some economic criteria to determine when the use of the sector approach might achieve significant trade liberalization. In their view no specific sectors should be singled out for examination or discussion without reaching a consensus on the criteria to be used for determining sectors.

10. With respect to criteria, one delegation suggested the following for use in the selection of sectors for negotiation: the sector should be significant in terms of international trade; the sector should be broad enough to be meaningful in trade terms; the sector should be one in which economies of scale and intensive capital investment are important factors in the development of internationally competitive industries; the sector should be one in which trade barriers, particularly tariff escalation and non-tariff measures, are a major constraint to the realization of internationally competitive industries; and the sector should lend itself to substantial reduction or elimination of all barriers to trade.

11. Some delegations, while agreeing in principle with the basic criteria for selecting sectors for negotiations mentioned above, expressed reservations on certain points. In their view the existence of economies of scale, for example, and the need for intensive capital investment were not essential criteria. These delegations suggested two additional criteria which might be taken into account:

(i) the selection of sectors where tariff reductions alone would not lead to a

significant liberalization of trade because of the existence of other factors such as tariff escalation, subsidies, activities of multinational enterprises, etc.

(ii) in selecting sectors, situations of oligopoly control which arise and lead to distortions of international trade flows should be borne in mind.

12. Referring to possible criteria for selecting sectors, representatives of some developing countries stated that in their view sectors should not be constituted only of groups of products significant in terms of world trade as this criteria would leave out many products of interest to developing countries. One delegation from a developing country supported by some other delegations of developing countries suggested the following criteria for selecting sectors of interest to developing countries: existence of tariff and non-tariff barriers; existence of tariff escalation; and the value of the trade of developing countries with respect to specific product groups.

13. One delegation listed a number of questions¹ concerning basic principles and procedures relating to the sector approach. These questions referred, inter alia, to the purpose of sector negotiations, circumstances in which the sector technique might be utilized and the relevance of general negotiating formulae to the sector approach, the use of this approach as a complementary technique for securing additional benefits for the trade of developing countries, reciprocity, product coverage of each sector, participation in and timing of sectoral negotiations, application of the results of sector negotiations and the degree of flexibility in staging concessions.

¹Issued as MTN/3C/W/2

14. In offering some preliminary comments on the questions raised concerning the sector approach, one delegation expressed support for the notion of equivalence of access. The sector approach could make it possible to go beyond the scope of any general formulae for the reduction of tariffs and non-tariff barriers. Furthermore, in the view of this delegation, the sector approach could secure additional benefits for the trade of developing countries if sectors selected for negotiation included those of significant export interest to these countries. Reciprocity would generally not be expected within specific sectors; however reciprocity might conceivably be achieved depending upon the definition of sectors, the elements constituting sectors and the participants in specific sector negotiations. Referring to the product coverage and the scope of sector negotiations, this delegation said that they would not be the same for all sectors, but would depend on the characteristics of each sector. Only the examination of some specific examples would provide answers to such questions. The participation of various countries in each sector negotiation should be a matter for the TNC in the light of an assessment by each country of its interest. The guiding principle for the application of concessions resulting from sector negotiations should be the Tokyo Declaration which, inter alia, provides in paragraphs 5 and 9 for the observation of the most-favoured-nation rule. Finally, this delegation considered that flexibility was inherent to the sector approach; the sector approach would make it possible to take into account the specific problems and characteristics of each sector in connexion with any staging of concessions.

15. In the light of the various suggestions made relating to further work, the Group agreed that the secretariat should prepare a background note covering the following elements: (i) the use of the sector approach in previous

negotiations; (ii) the main features of a sector approach as suggested by delegations in Group 3(c) and in earlier discussions on the subject; (iii) objectives, principles and procedures for the sector approach drawing on the Tokyo Declaration as well as the criteria suggested and questions raised in the meeting of Group 3(c); (iv) a technical examination of the possibilities of identifying products subject to different stages of processing within a sector for negotiating purposes using tariff study and other relevant data; (v) identification of the main sectors of interest to developing countries, and (vi) the availability of basic data suggested by delegations at the present meeting as being necessary for the purposes of a sector negotiation.

16. The Group noted that governments may wish to have time to reflect on the ~~matters~~ discussed and to come back to them at an appropriate stage.