

an element of protection for the agricultural component of the finished product and an element for protecting the industrial transformation process for the developing countries concerned. To eliminate only that part of the protection which covers the industrial transformation process would ensure for the imports of processed goods from developing countries equality of treatment as against domestically-produced processed goods. In cases where the protection of the processing industry is high, the resulting benefits for developing countries may not be negligible. On the other hand, whenever the agricultural inputs account for a high proportion of the value of the finished product, the full use of export potential of the developing countries for such products might still be severely inhibited if a part of the duty were allowed to remain.¹

75. Questions might also arise on how to deal with products now under quantitative restrictions. When quantitative restrictions are imposed on imports of a product from all sources (developed and developing countries alike), the granting of preferences on such products might allow the developing countries to increase their exports and to obtain a larger share of the total imports within the quota. Where, however, quantitative restrictions are imposed only on imports from all or some developing countries, either in the form of global, bilateral or unilateral quotas, the granting of preferences might have only a limited positive effect on export earnings within the limits of the quota. Yet consideration must also be given to the possibility that if tariff preferences are granted on items under quantitative restrictions, domestic producers might experience additional pressure and thus be led to adduce additional arguments in favour of maintaining quantitative restrictions. Since a quantitative restriction is in most cases a much more effective barrier to imports than any tariff, it can be argued that nothing should be done that might in fact delay the relaxation or abolition of such restrictions. Accordingly, a relaxation of the restrictions might merit priority treatment, because even if the relaxation were only gradual, it would probably yield greater benefits than would an expansion within the quota of exports from developing countries.

(2) METHODS FOR DEFINING THE PRODUCTS SUBJECT TO PREFERENCES

76. The determination of the industrial products on which preferences should be granted presents difficulties also on account of the fact that there exists no internationally accepted definition of manufactures and semi-manufactures. Some treaties (e.g. in the case of EEC and EFTA) contain definitions of what may be regarded as agricultural products, so that they may be governed by different rules from those applicable to industrial products. But in the Kennedy Round negotiations, it was left to each country to draw a more or less clear line between mostly non-agricultural, i.e., industrial, products subject to the linear cut and agricultural products for which special arrangements were sought. From the formal and informal lists thus established, it emerges that there are products which are always regarded as industrial (particularly in Chapters 25 to 99 of the Brussels Tariff Nomenclature), others which are always regarded as agricultural (particularly in Chapters 1 to 24), while others again are treated by some groups or countries as industrial and by others as agricultural. Where attempts have been made to agree on a common list (as in EEC and EFTA), the negotiations have always been very difficult. These experiences have to be taken into account when defining semi-manufactures and manufactures for the purposes of drawing up a preferential system. Among the ways for solving the problem the following would appear to deserve special consideration.

77. One method would be to establish a common positive list of manufactures and semi-manufactures for which all developed countries would grant preferences without exclusions. Accordingly, no attempt would be made to agree on a definition of what are industrial products. The approach would rather be merely to pick out all items on which all developed countries could agree to grant preferences. However, this method is hardly to be recommended since even if one

¹ The calculation of the element of industrial protection may sometime cause problems. These problems are, however, soluble, as has been shown by the experience in EFTA, where countries were obliged to eliminate the protective element embodied in fiscal duties. In EEC also, a distinction is made between the variable levy corresponding to the protection of the agricultural input and the additional fixed tariff corresponding to the protection of the industrial transformation process. For implementing a rule under which the element of industrial protection would be eliminated some provision for a review procedure would have to be allowed for.