country were to consider a given item as sensitive, it would be necessarily excluded from the list. If other developed countries were also to do likewise and exclude items which they regard as sensitive, the cumulative effect would be considerably to reduce the product coverage.

78. An entirely opposite method would be to abandon the endeavor to arrive at a common positive list and to leave it to each country to decide the items on which it would wish to grant preferences. This method would inevitably be unsatisfactory for it might lead to few effective preferences being granted, and this would also create problems from the burden-sharing point of view. It is true that an analogous method was employed in the Kennedy Round, because there was no common determination *a priori* of the list of products that would be subject to the linear cut. Yet, these negotiations were based on the principle of reciprocity, so that the equalization of the burdens of each country was allowed for by means of balancing the concessions granted. It was, therefore, unnecessary to ensure that the list of exceptions was more or less mutually equivalent. Clearly, the granting of preferences to developing countries cannot be based on the principle of reciprocity. Therefore, if some provision cannot be made for each developed country to exert a more or less equivalent effort as regards preferences, some developed countries might wish to grant preferences only on a restricted range of goods.

79. An intermediate method might consist in adopting a common definition of what are manufactures and semi-manufactures. but at the same time permitting each developed country to except certain items from the extension of preferences. An upper limit for such exclusions would have to be provided for (e.g. in terms of a percentage of each country's total imports of manufactures and semi-manufactures) to take account of the comparable contribution aspect dealt with under paragraph 78 above. This method might take it possible to arrive in principle at a reasonably wide product coverage; at the same time each country could within definite limits eliminate such items it regarded as sensitive, while other countries could nevertheless include them in the preferential sector. Provision for individual countries to exclude selected items would probably also tend to facilitate agreement on a common definition. It might then be possible to consider taking as a basis the rather extensive list of semi-manufactures and manufactures submitted by the UNCTAD secretariat in document TD/B/C.2/3.

80. It will in any case be necessary to provide for criteria regarding the origin of the products that would benefit from the preferential system. Consideration might be given to the practicability of adopting the rules of origin envisaged by Australia in respect of its preferential system for imports of manufactures and semi-manufactures from developing countries. Under such a system, a product would qualify for entry at the preferential rate of 50 percent or more if the labour and material cost of the product was chargeable in a developing country and if final processing before export took place in the exporting developing country. Here again. a complaint and review procedure would have to be provided for to ensure that the developed countries follow this generally-agreed guide-line.

(3) THE QUESTION OF SPECIAL ACTION REGARDING EXCLUDED ITEMS

81. As soon as the need for a list of individual country exclusions is admitted, the fact must be faced that the items which developed countries will wish to exclude would often be those which developing countries would be able to export at the present time. Many countries, for instance, may want to exclude cotton and other textiles. Other countries may exclude leather and similar products, but there will also be cases where only very few countries will utilize the opportunity of making an exclusion, while other countries would be ready to grant preferences on them. Some exclusions might even be motivated by an importing developed country's desire to maintain trade relations with other developed countries.

82. If the risk of such exclusions could be accepted, this should not imply that the mere maintenance of a *status quo* in their respect. On the contrary, it may be possible to lay down some guide-lines and fix certain specific targets for future negotiations regarding these products. Developed countries might wish, for instance, to consider declaring formally that they would between now and the third session of UNCTAD prepare a scheme to ensure that the protection granted to domestic producers should be adjusted in such a way as to enable developing countries to compete for any increase in the consumption of these goods. Alternatively, they might propose that each developed country should individually adopt trade policy measures (regarding tariffs and quantitative