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.

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

restrictions) designed to prevent domestic industries from expanding their production beyond a fair share of the increase of consumption. In particular, with regard to the so-called residual quantitative restrictions, on which consultations have taken place over a great many years, it should now have become possible to aim at establishing a specific programme providing for their elimination within a reasonable period of time. With respect to the sensitive products, the developing countries may consider accepting the principle of an orderly expansion of markets. Action along the lines envisaged in this paragraph would at any rate have the advantage of emphasizing that the exclusion of products from preferences would not imply that there would be no obligations regarding them.

C. The Countries That Would Be Prepared To Grant Preferences

(1) THE OBJECTIVE

83. For a variety of reasons, the aim should be that all developed countries can come to participate in the preferential system. First, the greater the number of such countries participating, the larger will be the diversification opportunities for the industrial exports. Secondly, each developed country could afford to grant better conditions of access in proportion to the involvement of the developed countries as a whole: in relation to the possible adverse impact of imports from developing countries on the domestic producers of a particular developed country, the effect would be inversely proportional to the number of developed countries participating in the system. Thirdly, the more numerous the developed countries that participate, the more a general preferential system can function as a fully equivalent substitute for the existing systems. The non-participation of one of the important developed markets would make more difficult any suspension of the existing preferential systems.

84. On the other hand, of course, there may be some developed countries in which the process of decision-making with regard to preferences may be more protracted than in others. This need not be a reason why the other countries should hesitate to proceed independently, since past experience shows that trade liberalization action by some countries has in many cases had a catalytic effect on the action adopted by other countries. It would, however, be desirable if the system could enter into force at about the same time among all participating countries; for in deciding on the extent to which the various available safeguards can be applied and how the existing preferential systems are to be dealt with, each developed country will need to know which other developed countries will be associated in the same decisions.

(2) THE DEFINITION

85. There is no agreed definition concerning which countries are to be regarded as developed. For very many countries that may be classified in this category there is, however, no dispute about their eligibility. On the other hand, there are some countries which, while usually regarded as developed, may themselves feel that they have not yet advanced far enough in their own industrialization and still depend to a large extent upon exports of primary products. Such countries, for instance, in contrast to other developed countries, have been unwilling to offer linear reductions in the Kennedy Round. It must be considered whether similar considerations would apply not only in negotiations mainly with economically stronger countries (as in the Kennedy Round), but also in connexion with a preferential system in favour of weaker countries. At any rate, it would appear that the problems of these countries could be taken into account in a manner that would still enable them to participate in a general system of preferences. Consideration might perhaps be given to granting such countries a longer period in which to reach the target of duty abolition or reduction. Provision might also be made for them to make initial exclusions for a larger percentage of their imports.

(3) THE SAME SYSTEM APPLIED BY ALL DEVELOPED COUNTRIES?

86. To arrive at a system of preferences of which the detailed features and mechanisms would be identical for all developed countries would be no easy task. Yet, if the various developed countries were to apply different systems, it would be very difficult to ensure the undertaking of comparable efforts by all countries, to decide on how to deal with existing systems, or to review the operation of the

system. Arbitrary considerations might also prevail with respect to the selection of the beneficiary countries. Moreover, in order to enable developing countries and "third countries" to gain a clear picture of what they could count on in the future, the essential features of the preferential system applied by the various developed countries should be uniform.

87. Certain differences are, of course, unavoidable and have in fact been considered in the present report as a means for facilitating the acceptability of the system. Thus, in the event that provision is made for initial exclusions, the items excluded by the various countries may be different. There will also be differences as regards the extent to which the various developed countries may extend, on an m.f.n. basis, the tariff cuts granted to the developing countries. At any rate, as long as differences in the application of the preferential systems are marginal and do not compromise certain fundamental principles, it would appear that they would not be incompatible with the general system.

88. Another question arises in connexion with the participation of the socialist countries of eastern Europe in a system of preferences. The socialist countries applying customs tariffs have already taken tariff action in favour of the developing countries. Bulgaria and the USSR have abolished, through preferential action, customs duties on all goods imported from and originating in the developing countries, while Czechoslovakia has suspended on an m.f.n. basis, duties on products of export interest of the developing countries. Though customs duties play an increasingly important role in various socialist countries, in particular in connexion with current changes in the management system, it remains open to question whether tariff concessions granted by socialist countries have effects that can be regarded as equivalent to the establishment of a preferential system by market-economy countries. It may therefore be appropriate to consider additional means for increasing industrial exports from the developing countries to the socialist countries.

89. In order to obtain results that are comparable to those achieved by the market-economy countries in connexion with the establishment of a preferential system, the socialist countries might consider matching the rates of growth of imports from developing countries which the market-economy countries would attain by applying the preferential system. Another approach might consist in a declaration of intent to the effect that the socialist countries would be ready to take an increasing share of manufactures and semi-manufactures in their imports from the developing countries. Socialist countries may also consider aiming at other similar quantitative targets. They may agree to apply the trade policy instruments appropriate to their systems in a way that would achieve such results. Bearing in mind the growing importance of indirect instruments of management of foreign trade in some socialist countries, they might also consider applying these instruments in a way that would create preferential access to imports from the developing countries. Socialist countries might also wish to consider accepting international review of the efficacy of the methods suggested above after a reasonable period of time has elapsed.

D. The Countries That Would Be Eligible for the Benefits of the Preferential System

90. The notion of a preferential system for the developing countries implies that there would be some cut-off point beyond which a country will be considered as developed and therefore not qualifying for enjoyment of the benefits in question. It would, therefore, be ideal if it were possible to agree on objective economic criteria to determining which developing countries should benefit from the system. For reasons further examined below, it is however hardly practicable to arrive at an agreement on such criteria. Procedural solutions may therefore have to be considered as a means to determine the beneficiaries of the preferential system.

91. One possible method might be to take as the point of departure the fact that for a very large majority of potential beneficiaries of the preferential system, there is no dispute as to their belonging to the category of developing countries. The question is, indeed, not whether these countries are themselves developing, but whether other countries should not be added to the group. One might accordingly agree that the group of countries which in their mutual relationships regard themselves as developing should make an initial proposal for the list of beneficiaries and that the developed countries would have an opportunity of adding

certain countries which in their view belong also to the category of developing countries. If the developed countries cannot agree on which countries to add, there might be some differences in the list of beneficiaries, but this would, however, be marginal because the bulk of the beneficiaries would not be subject to any difference of opinion. While this method would have the disadvantage that non-economic criteria might enter into account when establishing the initial list, there would be a corrective in the form of the possible additions.

92. In approaching this matter, it may be recalled that there are only relatively few countries in respect of which their categorization as developing or not would be likely to raise any questions. But many of these potential borderline countries would seem to have a particularly important stake in being included or excluded from a preferential system. Indeed, they often produce goods that are generally furnished by developing countries. Therefore, if these countries are included among the beneficiaries of the system, they would be likely to gain considerable advantages, in particular since they are often geographically close to the developed countries' markets and sometimes already possess substantial industries. At the same time, if these countries were not included in the system, the similarity of their production lines with those in developing countries benefiting from the system might often lead to their suffering particularly from the resulting trade diversion. Solutions might be looked for in the following directions: if these countries were excluded from the system, the question of guarantees against trade diversion would be very important to them (see paragraphs 37, 48 and 60 above); special guarantees might even have to be envisaged for them in such an eventuality. On the other hand, to substantiate their desire to be included in the system, these countries might consider offering to the developing countries special guarantees with regard to control of their exports in cases where they would otherwise tend to take up a major share of preferential imports from developing countries. Taking into account such practical considerations, it should be possible to find mutually satisfactory solutions along pragmatic lines.

93. Some thought might also have to be given to what extent the participation of some borderline countries in integration schemes with developed countries could be reconciled with others benefiting from a preferential system for developing countries. On the one hand, they may possess, compared to the developing countries as a whole, considerable advantages on a multi-national market, but on the other hand they would have to share some of these advantages with the developing countries if a general preferential system were established. The considerations evoked with regard to the question of the suspension of existing preferential systems for manufactures and semi-manufactures (see Section G below) may have some bearing upon this problem. Similar questions will arise in connection with the non-independent territories of various developed countries which are often treated on a preferential basis or as if they belonged to the home market of the developed country concerned.

E. Provisions for the Less-Advanced Among the Developing Countries

(1) GENERAL CONSIDERATIONS

94. When attempting to evaluate the potential benefits of a preferential system for developing countries' industrial exports, there is the striking fact that at present some seventy-nine developing countries contributed only about 6 per cent of the over-all exports of manufactures from the developing countries. It would, therefore, appear that the establishment of a preferential system would, at least in the initial stages, bring immediate benefits only to a small minority of developing countries. These would be the countries that have already an industrial base and that may already be carrying out such exports to the developed world. The preoccupation with industrialization is, however, not only of concern to these few developing countries. The industrially less-advanced developing countries have a special need to escape from the consequences of an over-dependence on exports of primary goods and to avoid the risks of an industrialization process that would be based only on import substitution. The group of the developing countries has, therefore, put forward the idea that special measures should be envisaged to ensure that relatively less advanced developing countries can participate effectively in the expected benefits of a general system of preferences.

95. Before examining the special measures that might be adopted in this connexion, it is necessary to recall that the high present concentration of industrial

exports in a few developing countries in no way means that less-advanced developing countries could not take advantage of a preferential system if one were established. Certain industrial exports for instance in the field of further processing of raw materials (such as ores, bauxite, crude oil, woods), could take place from countries regardless of whether or not they have a broad industrial base. Similarly, canning industries, further processing of fishery products and even the production of certain chemical specialities may be located in less-advanced countries. Some may even find opportunities by importing the raw materials needed and processing it. Such possibilities may exist particularly for those less-advanced countries that are geographically close to developed countries or to transport routes toward them. Quite generally the less-advanced countries have a longer-term interest in building up a sound industrial pattern on the basis of the most effective utilization of their resources, which in turn requires an open access to the world markets. For such reasons it would be a mistake to believe in a general manner that the less-advanced countries have a lesser interest in the establishment of a preferential system than the more advanced ones.

(2) PITFALLS TO AVOID

96. While the need is evident for making a maximum effort in favour of the less-advanced developed countries in connexion with the setting up of a preferential system, the ways and means for doing so deserve special attention.

97. Particular care should be taken to ensure that the means chosen would not be such as to damage the usefulness of a preferential system for the developing world as a whole. A typically inadequate method would, for instance, consist in generally providing preferential free entry only to the imports from the less-advanced countries, and refusing it to the more-advanced developing countries. This might in fact mean that those developing countries that would have goods to export would not be able to compete on equal terms with domestic producers, whereas those which would be granted this equality of treatment would for some time have few goods to export.

98. Care should also be taken that the special measures for the less-advanced developing countries should not create considerable administrative complications in the developed countries. In the present period where the trend in some developed countries is toward a simplification of the formalities, unduly complicated mechanisms might increase the objections against the setting up of a system of preferences. The introduction of a three-column-tariff (one for m.f.n. treatment, one for the preferences for the more-advanced and one for the less-advanced countries) or the setting up of special quotas for the less-advanced and other quotas for the more-advanced countries might be regarded as such undesirable complications. Largely for practical reasons there seems to be an understanding in developed countries that trade policy measures, in contrast to financial aid which can be better directed, are instruments which by nature do not allow excessive differentiation between countries.

99. Lastly, the approach chosen for dealing with the question of the less-advanced countries should not be such as to complicate and delay the establishment of a system of preferences. This would probably be the case if there was an attempt to reach agreement on a definition or list of these countries. Of course, it would be ideal if objective criteria for determining which are the less-advanced developing countries could be established. One such criterion in defining developing countries might evidently be the level of *per capita* income. However, reliable data on national income are not available for a good number of countries. Moreover, the use of exchange rates to convert national accounts estimates frequently biases inter-country comparisons. Such limitations apart, it is clear that *per capita* income can hardly be the sole criterion of the level of development. In some cases high *per capita* income coincides with what might be considered a relatively low level of development, as measured by other indicators. Accordingly, *per capita* income would have to be combined with other indicators of development, such as the size of the manufacturing sector, the degree of export diversification, the level of infra-structure, etc. However, once several indicators are to be taken into account, weights have to be assigned to each, which is a far from easy task. In all cases a decision has to be taken as to the cut-off point in each indicator below which the country would qualify as developing. It would also be difficult to decide whether the more advanced category should include only those relatively few countries that presently account for the bulk of industrial exports from developing countries or whether it should include all countries,

with the exception only of those that, judged by every possible development indicator, come towards the very end of the list. Since there are arguments in favour of every possible categorization and since negotiating agreed definitions would considerably delay the setting-up of a system, it would be preferable to provide for special measures for the less-advanced developing countries without trying to define different categories. In the following paragraphs, measures are examined that do not presuppose such a definition.

(3) LIMITING THE PERIOD DURING WHICH PREFERENCES CAN BE ENJOYED ON A PARTICULAR ITEM

100. One measure that would turn out to favour the less-advanced countries could be based on the idea that no developing country should be able to take advantage of preferences with regard to a particular product for more than a certain pre-defined period: a ten-year entitlement is most often mentioned in this connexion. There are, however, some problems in implementing this idea of ensuring rotation in favour of the latecomers to industralization. For instance, it would be necessary with respect to every item to establish the date when a particular developing country has made its first significant export to a particular developed country. With regard to each item and developed country, one would soon have a different list of developing countries that would be entitled to preferences. This would complicate the task of the customs authorities and might also create problems with respect to the control of origin. It might, moreover, induce the exporting countries to take measures to ensure that exports take place only when there is a certainty that a steady stream of exports would be possible; otherwise, the exports by one plant might be the starting point for the calculaion of the ten-year period even if this plant produced only relatively insignificant exports.

101. Such disadvantages may, however, be overcome to a large extent if the verification of whether a particular export has been taking place for ten years is not carried out annually but only after a longer period of operation of the preferential system. In this case, the customs authorities would not have to change their lists with respect to the various items so frequently. Since the working of the preferential system will in any case be reviewed after a certain number of years (see Section F below) provision could be made as one of the guidelines for the review that the interests of the less-advanced developing countries are taken into account and that at the time of the review, counries will stop benefiting from preferential treatment on all those items for which exports have taken place over a ten-year period. For this method to be useful for the less-advanced developing countries, it would of course have to provide that the preferential system as such would not be terminated altogether after ten years.

(4) SUITABLE ADAPTATION OF THE CRITERIA FOR APPLYING THE ESCAPE CLAUSE OR THE TARIFF QUOTA

102. Advantageous results for the less-advanced developing countries can also be achieved in connexion with the application of the escape clause or the tariff quota, depending on which safeguard mechanism is provided for in the preferential system envisaged. When an escape clause or a tariff quota is being applied, the reason for doing so would usually not be the competition resulting from imports from all developing countries, but from some only. Accordingly, one could provide that the m.f.n. tariff that would be reimposed would apply only to the imports from those developing countries which are the most competitive with regard to the item concerned. Such a method would frequently be likely to result in granting more advantageous treatment for the less-advanced developing countries because in the majority of cases they can be presumed to be less competitive than the more advanced ones. This method would, however, have to be applied in a different manner in an escape-clause system on the one hand and in a tariff-quota system on the other. This question will be examined below.

103. In the case of an escape-clause system, it would simply have to be provided that the developed country would only suspend the preferential treatment for the imports from that country or those countries which are the cause of the injury. This would have to be made a mandatory guideline for the application of the escape clause and would be reviewed as part of the institutional framework of the system. This suspension of imports would work to the advantage of the less-advanced developing countries.

104. In case of a tariff-quota system, the effect on less-advanced countries would be different depending on the mode of operation chosen. (See paragraphs 39–43 above.) According to the variant examined under paragraphs 40 and 41 above, the country that would take up more than a certain uniform percentage of the tariff quota would be excluded from it, as soon as the tariff quota was filled. Since presumably for many items the less-advanced countries are unlikely to reach this percentage share of the tariff quota, this exclusion procedure might constitute an advantage for them. But the real question would be whether they could exploit this advantage by starting production lines with a view to exports. The automatic exclusion procedure presents, however, a particular problem because less-advanced developing countries usually have only very few potential industrial export products. Precisely these few industrial exports would risk exclusion, whereas countries with a broader industrial base could benefit from the quotas existing with respect to their other products. Automatic exclusion, even in the absence of a serious injury, when the tariff quota is reached, might therefore damage the interests of these developing countries which for some time to come will have to concentrate their export efforts upon a few products.

105. For these reasons, it may in actual fact be more advantageous to the less-advanced developing countries if the variants of the tariff quota system listed under paragraphs 42 and 43 above were considered. Provision that a certain percentage of the tariff quota would always be reserved for newcomers would ensure that the traditional suppliers do not take up the whole quota. This safeguard may be combined with the review procedure mentioned below.

(5) A PERMANENT MECHANISM FOR REVIEWING THE WORKING OF THE SYSTEM FROM THE POINT OF VIEW OF EQUITABLE SHARING OF BENEFITS

106. Provision may also be made for a permanent mechanism that would follow and review the workings of the preferential system and assess at regular intervals whether the system is yielding advantages to all developing countries or only to a few. The existence of such a permanent mechanism would ensure the less-advanced countries which would not have benefited from the system that their interests will not be lost sight of. It could constitute an instrument for adapting the system in accordance with the needs that may arise. In particular it could be provided that within UNCTAD the developed and developing countries would arrange for special measures to be taken in favour of those countries which after a given period of time would not have been able to take advantage of the preferential system for starting or intensifying industrial exports. These special measures should preferably consist in promoting and financing investments in the countries concerned (see paragraph 109 below).

(6) THE QUESTION OF PREFERENCES BY THE MORE-ADVANCED COUNTRIES FOR THE LESS-ADVANCED

107. The question also arises whether the responsibility for taking action in favour of the less-advanced countries should rest only on the developed countries or whether the more-advanced developing countries should also contribute to the benefits of the less-advanced ones in connexion with the scheme of preferences.

108. Among the forms of action that more-advanced countries might want to envisage would be to declare their willingess to grant preferences to less-advanced developing countries. In favour of such a declaration it may be argued that the more-advanced developing countries are likely to gain more from a system of preferences set up by the developed countries; by opening their own markets to the less-advanced countries, they might, however, help in attaining a more effective participation of the less-advanced countries in the benefits emerging as a result of the establishment of a preferential system. Moreover, it may be considered that in the case of some products, at least the less-advanced developing countries might have better chances of penetrating into the relatively less competitive markets of the more-advanced developing countries than into the markets of the developed world.

109. The practical implementation of this idea would, however, not be easy. The developing countries would have to face the difficult task of identifying the less advanced ones among them. Such an agreement may, however, be reached more

easily within the various regions than on a world scale, and the willingness to grant preferences may accordingly be limited to the less advanced countries of the same region. Moreover, the more advanced developing countries are very often in balance of payments' difficulties and may for this reason have considerable difficulties in granting preferences to their less advanced partners on a non-reciprocal and across-the-board basis. Their industries are often also still in a formative stage so that they may be hesitant to expose them to outside competition, even if it were to come from a less advanced country of the same region.

110. For these reasons, if the more advanced developing countries want to consider granting preferences to less advanced ones, these would probably have to be of a selective nature and might need to be complemented with provisions regarding licensing procedures. To allow for the balance of payments' considerations, it would furthermore, be advisable to put the preferential access which the more advanced countries would grant to their less advanced partners into some relation with the increase of the exports that they will have been able to achieve on the basis of the preferences that would be granted by the developed countries. The more additional sales these more advanced countries would be able to make in the developed countries, the more they might be expected to open their markets to the less advanced developing countries. If the problem could be approached in this way, the more advanced developing countries would not immediately grant preferences to the less advanced partners but only once their exports to the developed countries will have expanded in connexion with the preferential system. The more advanced countries might consider subscribing to a declaration of their intent to act accordingly in their trade relationships with less advanced countries. The action taken on the basis of this declaration might be reviewed in connexion with the review of the operation of the preferential system from the point of view of the less advanced developing countries. If the more advanced developing countries, by that time, would have failed to act accordingly, this may be a reason for taking additional special measures in favour of the less advanced countries.

(7) SPECIAL FINANCIAL AND TECHNICAL ASSISTANCE MEASURES

111. After examing the various trade policy methods for enabling the less-advanced countries to take better advantage of a general preferential system for manufactures and semi-manufactures, it must be recalled that measures of financial and technical assistance may even be more important for achieving results in this respect. Indeed, these countries have often not yet installed any productive capacity in goods that could be sold in the developed countries' markets. To make up for this handicap, these countries would need priority access to funds for undertaking feasibility studies, for training personnel, and eventually for financing such industries. Afterwards, a special effort would have to be made to assist these countries to improve the efficiency and quality of their production. In all these actions, the United Nations Industrial Development Organization and international and regional banking institutions would have to play an important role. For these institutions to give special attention to the problems of the industrially less-advanced countries in connection with a preferential system, the setting up of specific guidelines would be desirable. The less-advanced countries also suffer often from particular insufficiencies with respect to their infrastructure taken in the largest sense of the term, and it would, therefore, be necessary that the international institutions dealing with the various elements of infrastructure should pay particular attention to their needs so that these countries can become attractive for investments.

112. Lastly, the less-advanced developing countries are often those which possess a rather small domestic market. Yet, an internal market of sufficient size, has, in many cases, been a particularly useful and necessary basis of departure for industrialization efforts and particularly for subsequently undertaking exports to the developed world. A systematic effort towards the establishment of multinational markets would, therefore, appear to be of particular interest for the many small less-advanced developing countries. In this respect, a report (TD/B/85) has been submitted to the Trade and Development Board, in which it is suggested that the developing countries' own efforts in enlarging their markets might be supplemented by an international support policy for integration among developing countries. Such a support policy would be designed to assist the

developing countries and particularly the less-advanced of these in overcoming the many special difficulties which they face when undertaking trade liberalization and integration efforts. If it were possible to agree with some precision on a certain number of elements of such a support policy, the smaller and less-advanced developing countries would be the main beneficiaries of it. Specific provisions for the less-advanced developing countries that might be incorporated into a preferential system, together with other measures in their favour envisaged in the field of commodity trade, financial and technical assistance, support for integration, etc., would form a consistent programme facilitating the industrially less-advanced developing countries to start or intensify industrial exports.

F. The Duration of the Preferential System

(1) THE ARGUMENTS FOR LIMITING THE DURATION

113. Some of the arguments that can be put forward in favour of a limitation of the system are discussed below.

114. When a country ceases to be considered as a developing country, for instance, because it has succeeded in building up a diversified external trade and in achieving self-sustained growth, there would no longer be justification for it to enjoy special advantages as against exports from developed countries to other developed countries' markets.

115. When an industry in a particular developing country has become competitive in the markets of the developed world, it may be argued that it no longer needs advantages against similar industries in third developed countries. An industry can become competitive even if the country concerned must still be regarded as a developing country.

116. If they are able to benefit from preferences for an unlimited duration, producers in a developing country may be insufficiently induced to increase their efficiency and may thus acquire a vested interest against a further liberalization of world trade on an m.f.n. basis.

117. A preferential system such as the one envisaged in this report will need to be reviewed from the standpoint of whether it fulfils the expectations placed in it and whether the doubts raised before its establishment have been eliminated. The review could be carried out in a particularly effective way if the duration of the system were limited, and this might, therefore, increase the chances of ensuring a broad participation of developed countries in the system.

(2) ALTERNATIVE WAYS OF DEALING WITH THE PROBLEM OF DURATION

118. Some of these arguments in favour of a limited duration have already been taken care of in connexion with the provisions for limiting the impact of the system upon producers in developed countries and regarding the less-advanced countries. The question which will have to be considered in the present section is whether the duration of the system as a whole is to be limited in time and to what extent the various arguments in favour of limitation could be resolved by other means. The following means for ensuring the temporariness of the system may deserve further consideration.

119. One way to ensure the temporariness of the system would be to provide that the preferences granted to the developing countries would have to be extended on an m.f.n. basis to all countries after a certain period of time. This would mean linking the establishment of preferences in favour of developing countries with a formal undertaking to reduce or abolish duties on a world-wide basis. The preferences would then be merely in anticipation of already agreed future world-wide tariff concessions. This method would have the disadvantage that the preferences would in all likelihood be rather small because it is improbable that after the great effort of the Kennedy Round, the developed countries would be ready to commit themselves firmly to an elimination or new substantial reductions of tariffs on a world-wide basis. To ensure the temporariness of the system in this way would in actual fact mean that a preferential system of very limited scope would be set up and that the other purposes connected with it would be sacrificed to that of ensuring its temporariness.

120. On the other hand, while preferences should not be linked to the willingness of developed countries to grant the same concessions at a later stage on an m.f.n. basis, nothing should prevent the extension to the developed countries of the preferences granted to the developing countries (see paragraph 15 above).

The duration of the preferential treatment for the developing countries would therefore be the briefer the sooner the developed countries take the same action on an m.f.n. basis. If such a development could be counted on, there would be no need to fix rules as to the duration because indeed the system of preferences would automatically be phased out.

1221. Another method would be to provide from the beginning that the preferential system as a whole would be terminated after a number of years determined in advance. It would not be easy to choose an appropriate period to meet the various considerations arising from the need to limit the duration of the system. A period of ten years for the duration of the whole scheme would, for instance, be too short, particularly in the less advanced developing countries, to allow the building-up of new production capacity for exports and to permit the industries concerned to maintain themselves in foreign markets under m.f.n. conditions. Many developing countries might then never be able to enjoy the advantages of the system to any substantial extent. Industries established in the second part of the ten-year period would enjoy the benefits of the system for a few years only. On the other hand, to decide at once that the system as a whole would remain in force for a longer period might increase resistance against its adoption. Yet, if the objective is to build up diversified trade for all developing countries, the scheme of preferences would have to continue till most countries were able to effect significant changes in their trading patterns.

122. In order to take into account these partly conflicting considerations, an intermediate solution might deserve special consideration. Thus, provision might be made for review of the preferential system at the end of a ten-year period. Certain guidelines applicable to the review could be established at once. One of these could be to determine whether the beneficiary countries could continue to be regarded as belonging to the category of developing countries and whether the products benefiting from the preferences were still in need of them. The guidelines could also provide that the question of excluding the more advanced developing countries, or at least some of their sufficiently competitive products, would be considered. A developed country not satisfied with the results of the review could if it wished withdraw from the system. Its withdrawal would, however, have to be subject to certain conditions so as to ensure that no undue injury was suffered by newcomers among developing countries and to take into account the interests of those less-advanced developing countries that would have been unable to benefit from the system. It may, for instance, be provided that preferences which have been taken advantage of before the end of the ten-year period would continue in force for a certain additional period. This would facilitate the planning of investments in developing countries and would grant them a sufficient period during which they could count on free access to the developed world. At any rate, the longer the period for which the developed countries are ready to apply a preferential system, the greater advantages can be derived by the less-advanced developing countries, particularly if at the end of the ten-year period an effective review procedure is provided for.

G. The Relationship of a New Preferential System to the Preferential Arrangements Now Existing Between Some Developed and Some Developing Countries

(1) THE OBJECTIVE

123. It is generally recognized that when establishing a system of preferences for manufactures and semi-manufactures for all developing countries, account must be taken of the advantages which some developing countries already enjoy, with regard to these products, in certain developed countries. These latter developing countries can hardly be expected to consent to give up their advantages if the new preferential system does not grant them at least equivalent advantages compared to those which they presently possess. Any loss of trade in existing markets of manufactures and semi-manufactures would have to be outweighed or at least matched by the possible gains to be made from preferential entry into other markets. These considerations are of particular importance for the developing countries belonging to the Commonwealth preferential system, since they export substantial amounts of manufactures under preferential conditions. As to the countries associated with the European Economic Community, particularly under the Yaoundé and Lagos Conventions, the share of semi-manufactures and manufactures in the preferential imports of the Community is much smaller, but

they are still important for some countries, particularly if a wide definition of semi-manufactures and manufactures is adopted. If the existing preferential arrangements are to be suspended or absorbed as far as manufactures and semi-manufactures are concerned, special care would have to be taken that the new preferential system provides for equivalent advantages.

124. The same question of equivalent advantages may also play a role for those developing countries that presently do not benefit from any existing special preferential system. Some of these countries have indeed expressed an interest in obtaining such special preferences in some developed countries, including those that presently are not part of a preferential system with particular groups of developing countries. The establishment of a general system of preferences has the advantage of stopping the trend towards a proliferation of such preferential arrangements between some developed and some developing countries. The interest in such arrangements will, however, abate only if the general system is able to provide countries hitherto not enjoying preferences with advantages equivalent to those which they could hope to obtain under preferential arrangements with some developed countries only.

(2) THE PROBLEM OF MEASURING EQUIVALENCE

125. The appraisal of whether a new system brings equivalent advantages will depend on the number of developed countries that will participate in the system, on the products that will be covered by it, on the preferential margins that will result, and on the duration of the new system as compared with that of the old ones. The more numerous are the participating developed countries, the greater are the opportunities for compensation on other developed countries' markets for any losses that might occur in those developed countries which hitherto alone granted preferences. The more the products presently exported under existing preferential arrangements would be excluded by other countries from the benefits of a preferential scheme, the less likely would it be that the new system could grant equivalent advantages. It must also be considered that some of the existing systems are formally limited in time and have to be re-negotiated shortly (e.g. Yaoundé and Lagos Conventions), whereas other existing arrangements might be unfavourably affected by policy changes in the developed country concerned (e.g. the effects on Commonwealth arrangements in the case of an entry of the United Kingdom into the European Common Market). Such uncertainties with respect to the existing systems would also have to be duly weighed and compared to the duration of the new system.

126. Any appraisal of the new system as compared to the old ones would thus have to take into account a great many variables. Yet, it is indispensable to make such an approximate appraisal. For countries already enjoying preferences would want to share the advantages of the existing systems with other countries only if they conclude that there is a very fair chance of at least equivalent opportunities. In this situation, it appears that the most suitable method would be to make at the outset a *prima facie* judgement about the opportunities the new system with all its special provisions offers and to provide that after a number of years a review will take place with a view to checking whether the estimates have been confirmed. This means that one would have to accept that the initial appraisal would be based on rather rough indicators. For instance, if a developing country benefited in the past from exclusive preferences on a market of say 200 million developed country consumers, it might be questioned whether it would enjoy equivalent advantages if developed countries with only 90 million consumers were added to those already granting preferences. It would largely be a matter for each developing country concerned to judge what weight to attach to the variables mentioned above. This judgment will be easier once all the technical features of the new system are known, for instance, the types of safeguards regarding the volume of preferential imports. While the question of whether a new preferential system grants equivalent advantages would presumably be kept in mind by the countries during the discussions on each element of the new system, it would probably have to be taken up as a whole toward the end of the discussions and negotiations leading up to the scheme.

127. A further consequence of the difficulties in making an advance appraisal would appear to be that the entry into force of the new preferential system for manufactures and semi-manufactures could not be made conditional on the formal abolition of the parts of the existing preferential systems that relate to manu-

factures and semi-manufactures. All that could be expected is the suspension of the relevant parts of these systems or, as the case may be, their adaptation with a view to eliminating features that would be incompatible with the new system. In other terms, it may be necessary that for some time the new and the existing systems would have to co-exist and that some rules for this purpose might have to be evolved. An examination is made below of how the relationship between the new system and the existing systems would present itself in the case of an escape-clause system and in the case of a tariff-quota system.[1]

(3) THE ESCAPE-CLAUSE SYSTEM IN RELATIONSHIP TO EXISTING SYSTEMS

128. Since the existing systems do not generally provide for an advance limitation of the volume of goods admissible at preferential rates, a new general system based on the escape clause would have the appearance of being equivalent to the old. It would not even be necessary to suspend formally the old systems with regard to manufactures and semi-manufactures. Problems arising from the replacement of the old system by the new one would be few: the main problem would probably concern the manufactured and semi-manufactured products which enjoyed preferences under the old systems but would be excluded by other developed countries under the new system. It may appear to be equitable to provide that for such products the beneficiaries of the existing systems would continue to enjoy exclusive preferential access to the developed countries concerned. Thus, the broader the product coverage of the new system can be, the more it will be possible to absorb the existing systems.

(4) THE TARIFF-QUOTA SYSTEM IN RELATIONSHIP TO EXISTING SYSTEMS

129. If the new preferential system were to provide for general limitations by means of tariff quotas, it would be more difficult to state that the new system is equivalent to the old ones. The suspension of the existing systems, as proposed by the developing countries and assumed in the working hypothesis at the first session of the Group of Preferences, would kconsequently also present greater diffi? culties. Since the existing systems do not provide for an advance limitation of volume, a new system that would provide only for tariff quotas expressed in terms of a small percentage of consumption, production or total imports, would, at least at first sight, appear not to provide equivalent advantages. On the other hand, it can be argued that such quotas in a great many developed countries would be worth more than theoretically unlimited access to the markets of a few developed countries. Similarly, the ten-year duration at least of the new system compares favourably with the existing preference systems that have to be renegotiated at short intervals or may even be discontinued altogether quite independently from the establishment of any new system of preferences. If, however, countries should come to the conclusion that the comparative disadvantages of the new system weigh more heavily in the balance than the stated advantages, the following rules regarding the co-existence of the new and the old systems might be considered.

130. Provision may be made that tariff quotas for industrial products would be reserved for those developing countries that do not belong to the existing system with the developed country concerned. The previously benefiting developing countries would, however, continue to enjoy the right of unlimited access. It might conceivably be argued in favour of this solution that these previously benefiting developing countries would only obtain tariff quotas in the other developed countries and that therefore they could not be expected to share with the other developing countries a part of their previously exclusive developed-country market that would be greater than these same tariff quotas.

131. A more equitable solution might consist in distinguishing between products that have in the past not been exported on the basis of existing preferences and those other products that have already been exported under preferences. With respect to industrial products that have not been exported, the beneficiaries of old preferences would be treated in the same way as the beneficiaries of the new system. This would mean that one tariff quota—if it were applied by a particular

[1] The relationship of a reduced duty system to the old systems is not further examined because it would appear to be particularly difficult to argue that such a system would be equivalent to the old systems, which very often provide for duty-free entry. The problem presents itself, however, in similar terms to that of the relationship of a tariff-quota system to the existing systems.

developed country—would be imposed on imports from both the old and the new beneficiaries. The argument in favour of such a solution would be that advantages which have not yet materialized in the form of new trade currents would hardly have to be compensated. As to industrial products which have already been exported on the basis of the old systems, one might provide that, as before, they should continue to enjoy preferential access for a volume of exports corresponding to the year in which they had reached the peak. Any imports beyond the peak year of the past would be treated like the imports from the beneficiaries of the new preferential system, i.e. the tariff quota would be applicable to both the new and the old beneficiaries from preferences. Of course, also in this system such countries should be able to maintain exclusive and unlimited preferential advantages on those items which other developed countries would have completely excluded from the preferential scheme.

132. Inasmuch as in the case of a tariff-quota system the beneficiaries under the old system might continue to enjoy special advantages not extended to the other developing countries, the pressure for setting up new exclusive preferential systems between some developed and some developing countries may well continue after the entry into force of the new general system. In particular, developing countries that have nowhere enjoyed preferences in the past might want to insist that they too should, at least in some developed countries, receive the privilege of unlimited free access. It might be argued in favour of this point of view that it should be immaterial to the other developing countries if some developing countries succeed after the establishment of a general preferential system, in getting even better conditions of access from some developed countries than those provided for in the general system of preferences. On the other hand, the fact that the pressure for exclusive preferential systems might continue, would impair one of the most important advantages of the establishment of a general system of preferences, namely, of stopping the proliferation of exclusive systems. One solution might be to agree on a temporary standstill on the negotiation of new exclusive preferences for industrial products. This might, for instance, last for a period of five years or even of ten years, at the end of which it would be necessary anyway to re-examine whether the new system has in actual fact yielded equivalent advantages. Such a stop-gap measure would prevent the question of how to deal with existing systems for industrial products from becoming more complicated in the meantime.

(5) THE REVIEW OF THE EQUIVALENCE OF ADVANTAGES

133. Regardless of whether the new system is based on an escape clause or on tariff quotas, it may be necessary to provide for a review of the question of whether or not it brings equivalent advantages. In view of the fact that it always takes time for new trade currents to be established or old ones to be affected, the appropriate moment for this examination might be at the end of the ten-year period. If the appraisal of the equivalence were made, for instance, after five years and if as a consequence some countries found themselves able to withdraw from the general system, the system might not have the stability necessary for its success. However, it might be laid down that after five years a first review would be made and if this review shows that equivalence is not achieved, special measures would be taken for the beneficiaries under the previous systems. Such measures might include those of a financial nature (see paragraphs 109 and 110 above). This would take into account the situation of some of the less-advanced developing countries that are highly dependent on the existing preferential markets for the few manufactured products they export. Such a review clause would be a means for taking care of such problems, should they arise.

(6) THE PROBLEM OF RECIPROCAL PREFERENCES

134. In the previous paragraphs, only one aspect of the existing preferential systems has been examined in connexion with the establishment of a new general preferential system, namely, the way to deal with the advantages which the existing systems grant to some developing countries and which are not extended to other developing countries. The problem of the compatibility and possible adjustments of existing systems might, however, also arise in connexion with the reciprocal advantages which many developing countries participating in such systems grant to the developed countries concerned and which are not extended to other developed or developing countries. These reciprocal or reverse pref-

erences present the following problems in connexion with the setting up of a new general preferential system:

(a) In a new preferential system, all developed countries would be expected to grant preferences to all developing countries on a basis of non-reciprocity. It might be difficult to obtain such a decision if some developed countries continued to obtain reciprocal advantages for the preferences which they grant. If developed countries are expected to treat all developing countries alike in trade matters, the developing countries should in turn be expected to treat all developed countries in an equal manner.

(b) It may appear incongruous to stop discriminating against some developing countries in the developed countries, but to continue discriminating against them in favour of developed countries in the markets of developing countries. If there is a case for equality of treatment with producers of the developed world in the domestic markets of the developed countries, there is an at least equally strong case for equal treatment with these same producers in the markets of other developing countries.

(c) The establishment of a general system of preferences would form a proper framework for the elimination of the existing reverse preferences. The developing countries granting such special advantages to developed countries may regard it in their interest no longer to place limits upon their freedom of choosing the most favourable sources of supply in the developed world. Inasmuch as all developed countries in the new system would accept a part of the burden of granting preferences to developing countries, this might be taken as an argument for treating all developed supplying countries alike in the future.

135. In considering the relationship of reverse preferences to a new general preferential system, account must, however, also be taken of arguments that might be put forward against dealing with them at this juncture:

(a) It may be pointed out that the normal trend of events in the last decade has already led to a reduction in reverse preferences. For instance, the existension of the Franc-Zone preferences and licensing procedures to the EEC as a whole is sometimes interpreted as reducing the scope of the problem, and the general whittling down of Commonwealth preferences as indicating that the scope of the problem is diminishing automatically.

(b) It might conceivably also be argued that the developed countries which enjoy such preferences not only grant preferences on industrial products to the developing countries concerned, but also on primary commodities and that they also provide considerable financial assistance. Reverse preferences might be interpreted as constituting counterparts for these special measures.

136. If the conclusion were reached that the problem of reverse preferences bears some relationship to the establishment of a new preferential system, the following solutions may deserve consideration:

(a) It might be stipulated that the reverse preferences and other special advantages would be eliminated or gradually phased out according to a pre-established timetable. Just as within the EEC and EFTA the producers hitherto enjoying protected domestic markets were able to face increased competition partly because a sufficient transitional period was provided for, it may be expected that a similar procedure would yield equally satisfactory results in connexion with the protected markets which some developed country producers enjoy in some developing countries. Moreover, the manifold traditional special links that do not relate to trade barriers would in any case continue and protect the interests of the developed-country producers concerned.

(b) Furthermore, a problem might arise not so much with the continuation of existing reciprocal preferences but on account of the possibility that after the establishment of a general system of preferences, some developing countries might feel induced to grant to some developed countries new reciprocal preferences. At a stage where the developed countries would, by accepting a general preferential system, have taken an important step towards non-discrimination among developing countries, it may appear incongruous if some developing countries were to make moves in the other direction. Accordingly, steps might be taken to declare that no new reverse preferences would be granted and that contrary action would be inconsistent with the continued participation of the developing country concerned in the general system of preferences.

H. The Question of Possible Parallel Obligations on the Part of the Developing Countries

137. While it is generally agreed that developing countries should not have to grant reciprocal concessions in favour of the developed countries in connexion with establishment by the latter of a general system of preferences, it has been suggested that such a new preferential system would be of little use to many developing countries if they themselves were not to take some action on their part. In particular, it has been stated that exports of industrial products to the developed world can hardly be successful if a developing country feels that it continues to need very high protection against the outside, and particularly other developing countries. Secondly, it has been pointed out that many features of the governmental policies and practices of many developing countries make it unlikely or impossible to increase industrial exports to the developed world, even if a system of preferences were established. Accordingly, it may be said that if UNCTAD action is to lead to an effective increase of industrial exports to the developed world, both the developing and the developed countries would have to assume their respective responsibilities.

138. It cannot be denied that various developing countries are already undertaking action to expand trade among themselves and to adapt their governmental policies to the need for increased exports. It may consequently be considered that the developing countries will quite naturally take additional autonomous action in this direction. On the other hand, it may also be considered that the likelihood of such action occurring in the near future would increase if the developing countries were to undertake, towards the international community, formal pledges to this effect. This might have the additional advantage of showing public opinion that the establishment of a preferential system is part of a joint effort to improve the developing countries' opportunities for increased external earnings.

139. With respect to the creation of better conditions for trade expansion among developing countries, the need for some parallel action on the part of the developing countries has already been recognized in resolution 32 (IV), adopted at the fourth session of the Trade and Development Board. This envisages that countries would "define the action programmes that might be adopted by the time of the Second Conference". Since the conditions in the various regions of the developing world are different, such action programmes would have to take this into account and might profitably base themselves on what is already undertaken by various groups of countries. Conceivably, however, developing countries might want to consider including in such action programmes certain measures that might be applicable to all the regions. An example of such an undertaking might be to reduce the protection level towards other countries of the same region to a certain ceiling on all those products which a particular developing country succeeded in exporting to the developed world in substantial quantities. If a developing country is able to stand competition on the markets of the developed world, it would indeed no longer need excessive protection against other developing countries. There are, however, certain problems in implementing this idea which have been examined in another context (see TD/B/85, Chapter V, paragraphs 48 to 51). Another undertaking of a more general nature as regards trade expansion among developing countries might consist in a declaration of willingness on the part of the more-advanced developing countries to grant preferences to the less-advanced ones.

140. With respect to the elimination of features of national policies that are detrimental to exports, it might be possible to envisage laying down a certain number of guidelines as to what constitute sound policies for the export of industrial products. Formal action might be envisaged for the establishment of agreed guidelines or a kind of code which would list the various practices which developing countries should avoid in their export policies as well as the positive measures which would have to be taken for a successful policy of export promotion. Of course, some of these guidelines may not have the same binding force as the measures which the developed countries undertake in establishing a system of preferences. Nevertheless, such policy guidelines might form the basis for a review procedure in which the developing countries might report on what they have done to implement them. Such procedures have, for instance, been practised successfully in the past in other contexts and by providing for them in the framework of UNCTAD, they might increase the chances that the establishment of a preferential system would actually lead to a substantial

increase of industrial exports from developing countries. To provide for such parallel undertakings in connection with the Second Conference on Trade and Development would underscore the fact that convergent action by both developed and developing countries is necessary to fulfill the objectives of UNCTAD.

I. Institutional Arrangements

141. The preparation and implementation of a general preferential system would require adequate institutional arrangements. For, in the preparatory stage, it would be necessary to create suitable conditions for the harmonization of the differences that may exist on various aspects of the matter and, with regard to the operation of the scheme, the need for proper institutional mechanisms and procedures has emerged in connection with several of the elements which have been discussed in this report.[1]

142. Consultations and negotiations on the specific content of the system would have to be undertaken within a framework which would provide equal opportunities to all countries to discuss the technical features of the system. To ensure the proper operation of the scheme, institutional arrangements would be necessary for following the application of the rules and guidelines agreed upon by the governments, for instance in connection with the escape clause or the tariff quotas. Moreover, adequate reviewing procedures would have to be provided for in connection with, *inter alia*, the special measures in favor of the less-advanced developing countries, the appraisal of the equivalence of the new and existing systems and the duration of preferences, and, as the case may be, with respect to the parallel policy guidelines which developing countries might accept. All these are matters of direct concern to all the countries participating in the preferential system, and the universal character of UNCTAD would thus make it possible for them to work together in the operation of the system.

K. Summary of the Main Features of a Preferential System

143. For facilitating the discussion, the main features of the possible systems analyzed in the previous chapters are listed below in summary form:

(a) *Safeguards regarding the volume.* One solution would be to provide that each country would be able to resort to an escape clause provided certain agreed-upon criteria are respected, among which the fixing of a minimum of imports which should not be subject to an escape clause. An alternative solution would be to introduce uniform tariff quotas expressed in terms of a precentage of consumption, production or total imports.

(b) *Extent of tariff reduction.* The tariff reduction would be to zero, but this target might have to be reached only gradually over a number of years. Each developed country would, however, be free to extend these reductions on a most-favored-nation basis to all other countries.

(c) *Product coverage.* It would be desirable to arrive at a wide common definition of semi-manufactures and manufactures applicable to all developed countries but each developed country should be able to except initially items corresponding to a small percentage of imports. If a tariff-quota system were adopted, it might be possible to avoid providing for such exceptions. With respect to the excepted products, developed countries might declare their willingness to work out, within a sepcified period of time, a programme for the orderly expansion of the possibilities of access to their markets.

(d) *Countries granting preferences.* All countries that are usually considered to be in the category of the developed countries would take part in the system. Those of these countries which cannot be considered to be fully developed would be granted the opportunity of following a slower pace of duty reductions and of initially excepting a larger number of products.

(e) *Countries obtaining preferences.* For defining which countries are eligible to obtain the benefits of the preferential system, a procedural solution would be envisaged. If the group of countries that regard themselves as

---

[1] Another matter which would arise at the time of adopting a preferential scheme is that the countries which are also Contracting Parties to GATT would require a waiver under the terms of the General Agreement.

developing is to make the initial proposal, the developed countries should be able to make certain additions.

(f) *Less-advanced developing countries.* Special provisions for the less-advanced developing countries would be incorporated into the system, but no attempt would be made to define in advance which these countries are. After the preferential system has operated for ten years, a particular country which would have exported a particular product for the whole period would no longer enjoy preferences for that product. Secondly, in connexion with an escape clause or with the tariff-quota procedures, one might exclude from the benefits of the system the products of those countries which had proved competitive, for instance, by being the cause of the serious injury or by taking up a large share of the tariff quota. Thirdly, a permanent review mechanism would be established to check whether all developing countries gain advantages from the preferential system and to suggest additional measures in favour of those countries that would not have benefited from it. Fourthly, the more-advanced developing countries would declare their willingness to grant preferences to the less-advanced developing countries. Lastly, the international institutions concerned would decide to give priority attention to the building up of productive capacity and to infrastructural improvements in the less-advanced developing countries.

(g) *Duration.* The preferential system would remain in force for at least ten years. At the end of this period, the functioning of the system would be reviewed and certain countries and/or products could be excluded from it. If the review is not satisfactory to a particular developed country, it would be able to withdraw from it. But even if such a country withdraws, it would have to continue to grant preferences for a certain period on all those items for which a particular developing country had begun exports before the end of the ten-year period.

(h) *Existing preferential systems.* Existing preferential arrangements, insofar as they apply to manufacturers and semi-manufacturers would, in the case of a general system based on an escape clause, be suspended or absorbed, except for the products which would not have been granted preferences in important developed-country markets. In the case of a system based on tariff quotas, a distinction would be made between the products exported in the past and those not exported by the beneficiaries of earlier preferences. For the products that have not been exported in the past, the old system would be suspended. For the products that have been exported in the past, the beneficiaries of existing preferences would still continue to enjoy at least that access which they had in the past while the imports from the beneficiaries of the new system could be subject to the tariff quota. The question of whether the new system had granted equivalent advantages would be considered by the developing countries concerned during the preparation of the scheme and would be reviewed after a certain number of years. As for the reciprocal or reverse preferences, the beneficiaries of the developed countries might agree to their elimination or phasing out over a period of years. Another solution would be to ban the setting-up of new reverse preferences.

(i) *Parallel obligations.* It would be understood that at the second session of the United Nations Conference on Trade and Development, parallel obligations of developing countries would be defined, particularly with respect to trade among developing countries and with respect to policy guidelines for sound export policies.

(j) *Institutional arrangements.* All developing and all developed countries would be able to take part in the general and detailed consultations and negotiations leading to the setting-up of the preferential system, as well as in the operation of the system and its review, and this would be facilitated by the universal character of UNCTAD.

O