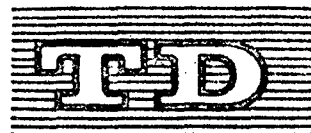




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Agenda item 9

DRAFT REPORT OF THE SPECIAL COMMITTEE ON PREFERENCES
ON ITS ELEVENTH SESSION

held at the Palais des Nations, Geneva,
from 3 to ... May 1982

Rapporteur: Mr. A.-A. Al-Duaij (Kuwait)

ADDENDUM

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Chapter I

REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND
UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 3)

A. General review of the generalized system of preferences

Group B

1. The spokesman for Group B stated that, ever since the inception of the GSP, significant progress had been made towards realizing the objectives set out in Conference resolution 21 (II). The GSP had demonstrated its effectiveness as a dynamic instrument to help developing countries to expand their exports, in particular of industrial products, and thus to speed up their rate of economic growth. This was shown by the fact that not merely did GSP imports into OECD preference-giving countries reach \$25 billion in 1980 but that imports accorded GSP treatment had generally registered faster growth than non-oil imports not covered by the GSP or than total OECD imports from the world.
2. He noted that the GSP had evolved considerably since its inception. The preference-giving countries of Group B had continually attempted to expand their schemes and improve their operation, so that a large proportion of those countries' imports from developing countries were now either eligible for preferential treatment or were admitted duty-free at MFN rates. This proportion was about 86 per cent of imports other than of petroleum products. To reach this point, individual schemes had been expanded considerably over the past decade with respect to product coverage, beneficiary lists, preferential margins, levels of tariff ceilings, quotas or competitive need limits.
3. He recalled that, at the ninth session of the Special Committee, it had been agreed that the GSP had not yet fully met the objectives set out in Conference resolution 21 (II) and that the system should therefore be continued beyond its initial period. Accordingly, the preference-giving countries of Group B had been reviewing their respective schemes as they reached the end of the first decade of operation, examining, among other things, their application and their apparent trade and economic impact, with a view to renewing for a second decade those schemes which had a specific time-limit. Several preference-giving countries had renewed their schemes in 1981, while others had done so early in 1982. Still others would be considering the extension of their schemes later in the 1980s, depending on their date of entry into the system.

4. He added that despite the improvements made in the GSP over the past decade, the preference-giving countries of Group B were aware that additional modifications, refinements and improvements might be called for in the future. Those countries remained committed to the concept of continually improving the GSP in the light of experience so as to contribute to the attainment of its objectives with respect to all developing countries.

5. As had been observed in the past, although some developing countries had used the GSP extensively, others had made little use of the system. There was still scope for both preference-giving and preference-receiving countries to join in efforts to ensure a more effective and broader utilization of the GSP. In recent years, preference-giving countries had been paying particular attention to the inclusion of provisions of special interest to the least developed countries. Five OECD schemes now provided special benefits solely for those countries, while in two others similar measures were expected to be introduced shortly. In the remaining OECD schemes, efforts had generally been made to add products of particular interest to least developed countries. In addition, the OECD preference-giving countries continued to devote resources to information and technical assistance activities in order to help developing countries to make better use of the system. The prolongation of the UNCTAD/UNDP technical assistance project on the GSP was, in the view of his Group, an important contribution to those efforts.

6. In the context of the autonomous and non-contractual nature of the GSP, the preference-giving countries of his Group remained willing to listen to the experience of developing countries and to consider any problems that might have arisen. They would take careful account of the views of developing countries when working toward practical solutions to such problems or when attempting to improve their schemes, and were prepared to discuss their schemes in detail in the plurilateral and bilateral consultations held parallel to the plenary meetings of the Special Committee, as well as in bilateral contacts that might be made outside the framework of UNCTAD.

Group of 77

7. The spokesman for the Group of 77 stated that, when the GSP was first introduced, his Group had hailed it as a landmark in the economic relations between the developed and developing countries and, above all, as an important instrument for assisting the developing countries in increasing their export earnings, promoting their industrial development and accelerating their rate of economic growth. Unfortunately, as subsequent studies had shown, its objectives were very far from being achieved, and there was clearly a need for basic changes in the system.

8. At the last session of the Special Committee, his Group had presented a series of specific proposals for improvements in the schemes of preferences, taking into account the special needs and problems of the least developed countries and of the developing countries enjoying special preferences. These proposals, which were contained in annex II of the report on the tenth session of the Committee (TD/B/C.5(X)/Misc.2) remained valid, and his Group attached great importance to their consideration at the present session. His Group was very disappointed that the preference-giving countries had not been in a position to consider the important issues involved at the last session, and hoped that a dialogue on the proposals would take place on the present occasion and lead to meaningful results.
9. His Group had noted with particular interest the statements made by many preference-giving countries that the GSP was a dynamic element in the economic growth of the developing countries, which it helped to accelerate by improving their access to the markets of the preference-giving countries. It also welcomed some of the improvements made by the preference-giving countries in their respective schemes.
10. UNCTAD secretariat studies had shown, however, that of the amount of about \$114 billion for MFN dutiable imports by OECD countries in 1980, only \$56 billion, or 49 per cent, had been covered by the schemes of preferences. Of the sum of \$56 billion, only one quarter actually benefited from preferences.
11. His Group was of the view that the very slow progress made in achieving the objectives of the GSP was mainly due to the fact that the existing schemes did not reflect the basic principles of the GSP, as stated in Conference resolution 21(II), namely, generalization, non-discrimination and non-reciprocity. Various restrictive measures, such as quantitative limitations or ceilings, competitive need exclusions and, more recently, graduation, had been introduced into many schemes, substantially adding to their instability and uncertainty. His Group had the following proposals to make, in addition to, or in elaboration of, those it had presented at the last session of the Committee, in the hope that those deficiencies would be considered and remedied at the present session.

12. From its inception, the GSP, because of its unilateral and non-contractual character, had been viewed by preference-giving countries as operating outside the rules governing world trade. From the very beginning, therefore, the Special Committee had conducted its review of the operation and effects of the GSP in isolation from the international trading system. In his Group's opinion, the GSP should be viewed as an integral part of the world trading system, which was not only affected by developments in the various schemes but had its own repercussions on those schemes as well.

13. His Group proposed the urgent elimination of all restrictive or discriminatory elements in the GSP, such as, inter alia, quantitative limitations or ceilings, and competitive need or country exclusions. It was essential that all existing graduation measures be eliminated and that preference-giving countries refrain from the application of such measures under the GSP. Graduation was contrary to the basic principle of non-discrimination, to which the Enabling Clause had given legitimacy. Moreover, graduation was, in effect, another form of protectionism since it served to protect non-competitive domestic sectors in preference-giving countries, and thus benefitted domestic suppliers as well as suppliers in other developed countries.

14. The aims and objectives of the GSP implied that appropriate structural adjustments would need to be made as the process of industrialization and economic growth, including the expansion and diversification of preference-receiving countries' exports, continued as a result of, or assisted by, the GSP. The preference-giving countries should therefore take steps to accommodate increasing GSP imports by making progressive structural adjustments in their domestic economies.

15. The concept of graduation was impossible to apply not only because it had no legal foundation but also because it could not be formulated into an operative criterion for application in the international trading system. Moreover, it was unnecessary, because the process of political and economic negotiations in various economic fora had already led to different shades of burden among the commercial parties concerned. Furthermore, as a concept, graduation was negative in that it implied the absence of positive elements leading to fuller participation of all developing countries in the world trading system.

16. Preference-giving countries should adhere strictly to the Enabling Clause agreed upon in the MTN, which provided that the GSP should be generalized, non-reciprocal and non-discriminatory, and that any modifications in it should respond positively to the development, financial and trade needs of the developing countries.
17. The introduction of restrictive or discriminatory elements, including graduation and other safeguard measures, could be avoided if a common safeguard mechanism were established on the basis of well-defined objective economic criteria as regards the notion of injury or market disruption. It was also essential that a multilateral consultation machinery be set up to implement and review such safeguard measures. The introduction of such mechanisms in the GSP would substantially reduce the instability and uncertainty inherent in the system and would also give predictability as regards safeguard action.
18. His Group was deeply concerned over the unilateral, arbitrary and discriminatory manner in which some preference-giving countries operated or reviewed their schemes. For instance, there was a tendency, in revising quotas or ceilings, to reduce the benefits of the GSP. Pending the final elimination of such quantitative restrictions, the annual revisions of quotas or ceilings should take into account the effects of inflation and of the sharp fluctuations in exchange rates.
19. As was pointed out in the UNCTAD secretariat studies, in spite of MFN reductions, tariffs had remained high and continued to be a major barrier to trade in products of particular export interest to developing countries. In some developed market-economy countries, the tariffs facing imports from developing countries were much higher than the average for imports from the world as a whole. To redress this discriminatory treatment and the tariff disparities, all dutiable imports from developing preference-receiving countries should be included in the GSP and tariffs on such products should be reduced either to zero or to a substantial degree. In that connection, he suggested that the UNCTAD secretariat undertake a study on the trade implications for the developing countries of the non-inclusion in the GSP of MFN dutiable imports by preference-giving countries as well as of the products not covered in the Tokyo Round.

20. He added that many preference-receiving countries had experienced practical difficulties in taking advantage of the GSP concessions, in view of the complex tariff classification of products eligible for preferential treatment. Exporters in preference-receiving countries were also uncertain as to the eligibility of their exports. This problem could be avoided or mitigated if tariff classification of products had a common basis. Moreover, in view of their importance to developing countries, all handicrafts products should be accorded GSP treatment. It would also be useful if statistical data on products imported under the GSP were made available to preference-receiving countries on an up-to-date and regular basis.
21. His Group urged all preference-giving countries to adopt special measures for the least developed countries so that products from those countries could benefit fully from the GSP.
22. His Group considered that the Working Group on Rules of Origin had made a valuable contribution towards the simplification, harmonization and liberalization of the rules. However, much still remained to be done to improve and liberalize them, in particular through the wider application of cumulative treatment. Moreover, process criterion countries should improve their rules by the application of a uniform percentage as regards the share of imported raw materials of products in List A and by increasing the share of raw materials or intermediate inputs in products under List B.
23. His Group recognized the importance of technical assistance in helping to overcome many of the practical problems faced by preference-receiving countries in making fuller use of the schemes of preferences. It welcomed the extension of the GSP Project for another two years and strongly urged that financial support for the Project by UNDP and by the preference-giving countries, as well as by other countries in a position to give such support, be continued as long as it was needed by preference-receiving countries.
24. His Group fully endorsed the introductory statement by the representative of the Secretary-General, and in particular his suggestions on how to enable the GSP to achieve its avowed objectives. His Group suggested that the statement be fully reflected in the Special Committee's report.

In summary, his Group had the following recommendations to make:

- (1) The GSP should be viewed as an integral part of the world trading system;
- (2) Urgent elimination or progressive phasing out of all restrictive or discriminatory elements in the GSP;

- (3) Removal of all existing graduation measures in the GSP. Preference-giving countries should refrain from applying such measures in the GSP;
- (4) Preference-giving countries should adhere strictly to the Enabling Clause agreed in the MTN, which provided that the GSP should be generalized, non-reciprocal and non-discriminatory and that any modifications should respond positively to the development, financial and trade needs of developing countries;
- (5) Establishment of a common safeguard mechanism in the GSP governed by well-defined objective economic criteria as regards the notion of injury or market disruption;
- (6) A multilateral consultations machinery should be entrusted with the implementation and review of safeguard or other restrictive measures;
- (7) Pending the final elimination of quantitative limitations in the GSP, annual revisions of quotas or ceilings should take into account the effects of inflation and exchange rate fluctuations;
- (8) All dutiable imports from developing countries should be included in the GSP. Tariffs on such products should be reduced to zero or be substantially reduced;
- (9) Preference-giving countries should take steps to accommodate increasing imports from preference-receiving countries by making progressive structural adjustment in their domestic economies;
- (10) Tariff classification of products covered by the GSP should be simplified;
- (11) Special measures should be adopted to ensure that products from the least developed countries could benefit fully from the GSP;
- (12) The rules of origin should be further improved, simplified, harmonized and liberalized;
- (13) The GSP Technical Assistance Project should be extended as long as assistance was needed by preference-receiving countries for the fuller utilization of its benefits.

25. He hoped that the Group's proposals would be given due consideration and that the Group would be able to hold a dialogue with preference-giving countries with a view to solving the urgent problems facing preference-receiving countries in regard to the GSP. The resolution of such issues would help to speed up the realization of the agreed aims and objectives of the GSP.

Group D

26. The spokesman for Group D said that the countries of his Group considered the generalized system of preferences to be one of the essential attainments in UNCTAD's activities for the benefit of developing countries, and thought that the system was improving. The socialist countries had always assessed the GSP in terms of the extent to which it assisted the strengthening of the economic independence of developing countries, helped to accelerate economic development in leading branches of those countries' national economies and contributed to the achievement of the aims defined in Conference resolution 21 (II).

27. The schemes of preferences of the socialist countries covered all categories of goods and established no quantitative limits or ceilings. Much work had been done in those countries over the past few years on the harmonization of rules of origin, and the unified rules had been brought into force in 1981 in all five preference-giving socialist countries. As a result, a single value added criterion, which allowed an import content of up to 50 per cent of the export price of goods on an f.o.b. basis, was in force in all the preference-giving countries of Group D and a cumulative approach to value added in several developing countries was permitted. An agreement signed by the foreign trade ministers of the five socialist countries which had adopted the harmonized rules of origin provided for a duty-free import régime for all goods from the least developed countries. To simplify the work of the export authorities of developing countries, the socialist countries did not require notification of specimen stamps and signatures from authorities empowered to issue certificates of origin.

28. The countries of Group D shared the UNCTAD secretariat's concern at the intensification of certain unfavourable trends in the development of international trade, principally owing to the recent spread of protectionist and discriminatory measures in a number of developed market-economy countries, which did not take into account the interests of other trade partners, including countries beneficiaries of generalized tariff preferences. The socialist countries considered that counteracting the spread of protectionist and discriminatory measures, and thereby raising the effectiveness of the GSP, should become one of the most important spheres of activity of UNCTAD, and were prepared to make further efforts towards that end together with other interested countries.

29. The socialist countries also expressed regret at the fact that certain GSP donors among developed market-economy countries were depriving a number of developing countries, including the least developed among them, of generalized tariff preferences for political motives or by way of reprisals. Such actions ran counter to the spirit and letter of documents adopted in UNCTAD concerning the establishment and operation of the GSP and were therefore completely inadmissible.

China

30. The representative of China stated that the last ten-year operation of the GSP had given positive results in promoting the export of manufactures by the developing countries and in strengthening international economic co-operation. In view of the serious recession prevailing in the world economy and the slow-down in the growth of world trade, it was indeed necessary to explore ways of further improving the schemes. Although some developed countries had made efforts to improve their respective schemes and to promote co-operation with the developing countries, the implementation of the GSP in the past few years had failed to achieve all the objectives stipulated in Conference resolution 21 (II).

31. He added that the benefits of GSP schemes had been reduced as a result of the Multilateral Trade Negotiations, and that many products of export interest to developing countries were still excluded from preferences. The protectionist measures adopted by developed countries had further complicated the efforts of developing countries to promote the export of manufactures through the GSP. A few major developed countries had taken measures to reduce or gradually phase out the GSP treatment for products from some preference-receiving countries. That was contrary to generally agreed GSP principles and objectives and to the commitments made by the preference-giving countries. His delegation fully supported the suggestions put forward by the developing countries for the improvement of the GSP. Also, priority attention should be given to the problems encountered by the least developed countries in applying the GSP.

32. The UNCTAD GSP Project had done a great deal to help the developing countries to make full use of the benefits of GSP. In that connection, he expressed appreciation for the technical assistance provided to his country by the GSP Project and by developed countries. The continued existence of the UNCTAD GSP Project was not only useful in helping the developing countries to utilize the GSP fully, but played a positive role in strengthening international economic co-operation.

B. Statements by preference-giving countries

Austria

33. The representative of Austria thanked the secretariat for the documentation. He stated that his delegation had noted with interest the introductory statement by the representative of the Secretary-General of UNCTAD which, in view of its length, required further reflection.

33A. Fully supporting the statement made on behalf of the preference-giving countries of Group B, he described briefly the development of his country's scheme since the tenth session of the Special Committee, noting that it had entered a new phase on 1 January 1982 with the adoption of the Customs Preference Act, 1982.

That Act extended the validity of the scheme for a second 10-year period until the end of 1991. Details of the Act, in particular the changes as compared with the Customs Preference Act, 1972, had been notified to the UNCTAD secretariat for circulation to member States.

34. Commenting on the main changes introduced, he said that the scheme now provided additional benefits for all the least developed countries recognized by the United Nations. Thus, for industrial products originating in a least developed country and falling within CCCN chapters 25-99, duty-free treatment was granted across-the-board, except with respect to textiles, for which a 50 per cent tariff cut was applied. For agricultural products included in the scheme, duty-free treatment was applied for products originating in the least developed countries in most instances, and in many other cases a substantial reduction of the preferential rate of duty had been made.

35. He added that, up to 1981, preferential imports from Turkey had been subject to less favourable treatment than imports from most other preference-receiving countries, and that country had, in particular, been excluded from preferences with respect to cotton textiles. As from 1982, Turkey enjoyed the same preferential treatment as all other beneficiaries, except for the least developed countries.

36. He also indicated that some agricultural products had been added to the list, in particular walnuts falling within CCCN 08.05, thus taking into account consultations held with some preference-receiving countries in recent years. For a few other agricultural products, including dates (CCCN 08.01), preferential tariff treatment had been improved.

37. As regards rules of origin, Lists A and B had undergone no change. Improvements had, however, been made in certain procedural matters which could be summarized as follows:

- The procedure for the recognition of transit certificates issued by countries members of EFTA or EEC had been completely harmonized with those of EEC;
- the value limits for private consignments of small value, including travellers' personal luggage, and for postal consignments had been increased by 100 per cent;
- certificates of origin Form A issued by non-governmental bodies would be recognized also without a formal bilateral agreement on the basis of a notification, bilateral or via the UNCTAD secretariat, from the preference-receiving country concerned as to the authorization of the respective body and the procedure to be followed in case of verification.

38. With those changes in the scheme, all the improvements announced at the last session of the Special Committee had been fully implemented. He hoped that the details of the scheme, as notified to the UNCTAD secretariat, would soon be published as an official document of UNCTAD in order to inform preference-receiving countries of the new opportunities offered to them. He felt obliged to refer to this question because on several occasions in the past there had been considerable delay in circulating to governments the notifications to the UNCTAD secretariat concerning the Austrian scheme.

39. He added that his Government continued to be convinced of the importance and usefulness of the efforts devoted to improving information on the GSP among preference-receiving countries and of the technical assistance provided to that effect. His country had given ample evidence of its willingness to participate actively in such efforts. As indicated in the secretariat report TD/B/C.5/82, and the corresponding report of the previous year, Austria continued to be among the major contributors to the UNCTAD/UNDP project on the GSP. While noting that the activities of the project had been reduced during 1981, he hoped that the situation would improve in the future, and gave an assurance that his country was in principle prepared to continue its assistance to the project.

Canada

40. The representative of Canada recalled the safeguard procedures introduced by his country to deal with requests by domestic producers for reinstatement of the most-favoured-nation rates of duty on the grounds that imports at GSP rates were causing or threatening to cause them injury. Under these new procedures, the Canadian Tariff Board had reviewed requests, and, after holding public hearings at which all interested parties including exporters and beneficiary country representatives were free to appear and state their case, had made appropriate recommendations to the Canadian Government. These new procedures had been designed to ensure that safeguard actions under the scheme would be taken only when absolutely necessary and then only to the extent necessary to remedy the specific injury. His Government believed that the new procedures would provide complete transparency with respect to possible safeguard actions and that they would provide greater security of access to the Canadian market for beneficiary countries.

41. He indicated that, since the introduction of these new procedures, the Canadian Tariff Board had received seven requests for safeguard action. Of these, one request had been rejected without a formal enquiry because a prima facie case of injury had not been made; four others had been the subject of formal enquiries and the Board had submitted its report on each of these; the Board had recommended that no safeguard action be taken in two cases and that the GSP rates be withdrawn, in one case for three years and in the other case for two years. His Government had taken action on the first of the two recommendations and was still considering whether action should be taken on the second.

42. Experience clearly showed, therefore, that access to the Canadian market under the GSP was well protected and beneficiary countries could feel quite confident that this access would not be arbitrarily impaired.

43. He added that the Tariff Board was also currently reviewing the two safeguard actions which had been taken earlier by the Canadian Government, involving rubber footwear in one case and colour television receiving sets in the other. All interested parties, including beneficiary countries, could present their case before the Tariff Board on the two safeguard actions. The Board's reports on the two reviews were to be made no later than 1 November 1982.

44. He further indicated that the Trade Facilitation Office established in 1980 had become fully operational. In 1981 it had held three information seminars in Ottawa

for representatives of developing countries stationed there. In January 1982, it had organized and financed a meeting between Canadian fruit and vegetable wholesalers and Caribbean exporters. In early March another information seminar had been held for private sector importers in Canada interested in importing from developing countries. An importers' directory would also be completed in 1982 which would be provided to developing country representatives in Canada free of charge. In 1981, his country had also participated in GSP seminars in China, Barbados and Costa Rica. In the case of Barbados and Costa Rica, the Director of the Canadian Trade Facilitation Office had taken part.

45. He indicated that the report by the Tariff Board on possible improvement of the Canadian scheme had been published and that it had recommended substantial improvements in both the product coverage and the preferential rates. His Government had already taken action on the recommendations and such improvements, covering 56 million dollars' worth of trade from beneficiaries in 1979, had been in effect since 13 November 1981. A further report would be released shortly which would probably again recommend further improvements in rates and coverage.

46. He recalled his Government's announcement in Paris, at the Conference on the Least Developed Countries, that it intended to provide duty-free entry for all goods currently eligible for GSP treatment when imported from the least developed of the developing countries. His Government had also announced on the same occasion that the rules of origin would be substantially relaxed for those countries. Legislation to give effect to these measures had been introduced in Parliament but would not come into effect until it received Parliamentary approval.

47. He was also pleased to announce that the Canadian Government had formally decided to extend its scheme of generalized preferences for a further 10-year period and that legislation to give effect to this decision would be introduced in Parliament at the earliest occasion. Furthermore, his Government had formally agreed that global cumulation should be allowed under the scheme and that legislation to give effect to this decision would also be introduced at the earliest opportunity. In concluding, he emphasized that, since its establishment in 1974, the Canadian scheme had been constantly improved, and with the announcement that the Canadian scheme would be extended for a second decade, the Canadian authorities were in a position to consider further improvements.

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