

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Trade in Industrial Products

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## TARIFF STUDY

### Proposal by the United States

The following communication has been received from the Government of the United States (cf. document COM.IND/16 paragraph 3).

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The United States - and we assume this is true of the other participants in this exercise - has not prejudged the nature of future trade and tariff negotiations. Indeed, to do so without a fuller understanding than the CONTRACTING PARTIES now have of the problems involved would be shortsighted. The need for fuller understanding is reflected by the great number of studies going forward in international and academic centres of the effects on trade flows of tariff and other structural economic changes. As the institution principally responsible for the conduct of trade negotiations and expansion of world trade, the GATT should be in the forefront of these efforts. The work already begun by the Committee on Trade in Industrial Products will provide the basis for exercising this leadership. A major purpose of efforts, directed by the Committee on Trade in Industrial Products, must be to develop basic information to assist in the formulation of future negotiating plans and to provide a better understanding of the effects of past trade and tariff negotiations.

Since few, if any, major trading countries are in a position to undertake comprehensive trade and tariff negotiations in the immediate future, time is available to do the necessary preparatory work. The Kennedy Round tariff reductions will not be fully implemented until 1972, and their effects on trade will not be fully reflected until even later.

The United States believes this time should be used to maximum advantage. It believes that future trade and tariff negotiations can be conducted with better information and with greater understanding of their economic effects than is now possible. The available information can be improved and processed to provide a more meaningful approach to future negotiations. The potentials can be realized through the following steps:

(a) The potentials of the present Tariff Study documentation have not yet been exhausted. Further refinement and analysis, suggested later, should begin immediately.

(b) The present data base should be augmented with trade and tariff data for additional years and with other readily available economic information.

(c) On the basis of (a) and (b) better insights can then be developed of the effects of tariffs and tariff changes upon trade flows. These insights, possibly in combination with results of other studies, could then be applied to the development and analysis of various possible negotiating plans.

The results of this broader examination of available information would be of immeasurable help to each of the contracting parties in its own preparations for and assessment of future trade negotiations even if this work were not to lead to generally accepted conclusions.

The specific work that should be done under each of the above proposals is of course a matter for a working party to determine. The United States believes the following illustrative examples should be considered.

I. Under (a), using the present documentation:

1. Prepare summary tables, graphs, and charts of the trade and tariff data developed thus far, illustrating more clearly the trade and tariff profiles of participating countries. These summary tables, graphs and charts would necessarily be much more useful if they could be linked with the information developed on non-tariff barriers because by themselves they cannot provide the full picture of existing trade barriers.

2. Prepare estimates of the c.i.f.-based averages for countries using the f.o.b. basis for tariff valuation and trade statistics. The adjustment to a c.i.f. basis is necessary to ensure comparability.

3. Study the effects of various tariff average weighting schemes, including, for example, the effects of the c.i.f. adjustment. Make a statistical analysis of the results obtained by using the four weighting methods now in the basic documentation, and analyze the divergent results of each weighting method for each participant.

4. Develop the information in summary Table No. 2 on an SITC basis, preferably at the four-digit level. This significant addition would permit the existing tariff data to be related to a time series of comprehensive world trade statistics. It would also permit an extended time-series analysis.

II. To augment the present data base as proposed in (b) above, the working party should determine the relevance and availability of additional types of economic information necessary to carry out the proposals under (c) and the contracting parties should then undertake to provide such information. Illustrative examples include:

1. Countries not now participating in the Tariff Study should be requested to provide trade and tariff data to the secretariat. Participation by additional countries would greatly enhance the value of the Study for future trade and tariff negotiations.

2. Participating countries should provide trade statistics for additional years to create a basis for a time-series analysis in terms of the three summary tables. The existing OECD trade tapes for 1961-1969 would provide much of this information.

3. As a further useful expansion of the data base, countries should provide the tariff rates actually in effect each year, from 1964 onward. They should then be related to the comparable trade statistics.

4. Participating governments should supply price information and input-output tables at the most detailed level available. A substantial body of price information, in both index and absolute terms, is now available but has not previously been assembled on an international basis nor related to trade flows or tariff changes.

III. Regarding proposal (c) above, an examination of effects on trade flows of tariffs and tariff changes (including the impact of price inflation on the incidence of specific duties), the proposed enlarged data base would make possible new insights in an area where little has been developed previously. Questions basic to preparing for future negotiations, such as the following, could then be examined:

1. How does international trade in fact respond to changes in tariff rates?
2. What are the effects of changes in tariffs on relative prices?
3. What is the significance of existing variations in tariff rates between and within product categories and between countries?
4. What is the effect on trade flows of tariff escalation, especially as concerns the trade interests of developing countries?
5. What is the effect of preferential tariff rates on international trade? What would be the effect of a relative reduction in most-favoured-nation rates as compared with preferential rates?

IV. Illustrative of the work which could then be undertaken would be:

1. A meaningful analysis of tariff differentials between and within commodity categories and between countries, taking full account of the trade flows associated with the differential rate structures. Such a study would be a useful first step in an analysis of the issue of tariff disparities.

2. An analysis of differentials in tariff rates with respect to the degree of processing of products taking trade flows at each differential rate fully into account. Among several possible applications, this study could be the first step in a comprehensive analysis of the problem of tariff escalation. Input-output analyses should also be employed in this study.

3. An analysis of inter-country price differentials and their changes in the augmented tariff data. Where tariffs are only part of the protective system, a full understanding will require recognition of the existence of non-tariff barriers.

4. Finally, the Working Party should seek to develop means of identifying the effects of tariffs and tariff changes as reflected in price levels and price changes on trade flows. A large body of literature already exists on this subject. The data developed in the work programme outlined above will provide an important addition to basic knowledge. Both should be examined with the purpose of improving understanding of the varying possible effects of tariffs on trade. A seminar similar to that now scheduled on effective protection might be one vehicle for providing governments and the secretariat with a deeper understanding of this fundamental issue.

V. The information developed above could provide a proper basis for individual contracting parties or the GATT to analyze various possible negotiating plans and objectives, including: item by item; linear, various sectoral approaches including sectoral free trade; various tariff harmonization plans; reduction of tariff differentials based on the degree of processing; and any other techniques which might be developed.

An examination of either a selected or a comprehensive set of negotiating objectives at this time on the basis of only the present documentation, would serve little useful purpose. The results would provide limited insights at best. To responsibly fulfil the mandate of an "objective analysis" the United States Government strongly believes the present documentation must be expanded and certain additional studies conducted. At the same time, some useful analysis can be proceeding on the basis of the present documentation.