

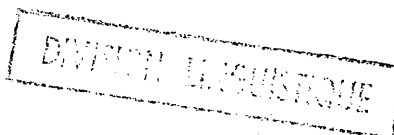
# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

TN.64/14\*

9 April 1964

Special Distribution



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## Trade Negotiations Committee

### DRAFT REPORT OF THE SUB-COMMITTEE ON THE TARIFF NEGOTIATING PLAN

1. In November 1963 the Sub-Committee submitted a report (TN.64/11/Rev.1) which among other things set out certain points on which agreement had been reached. Since then it has held a series of meetings to consider further the criteria for determining significant disparities in tariff levels and the special rules applicable for tariff reductions in these cases.

2. Three meetings have been held, from 27-30 January 1964, on 26 February 1964 and from 24-25 March 1964. Summaries of points raised at the first two meetings are contained in TN.64/NP/6 and TN.64/NP/7 respectively. The Sub-Committee held a final meeting on 6 April to approve its report to the Trade Negotiations Committee.

#### I. PROPOSALS BY THE EUROPEAN ECONOMIC COMMUNITY

3. At the meeting of 27-30 January, the representative of the European Economic Community put forward the following proposals:

(a) Prima facie identification of disparities (the "double-écart" formula)

The representative of the Community recalled that his delegation had always expressed reservations as to the principle involved in the use of a "seuil" or minimum level below which rates of duty could be disregarded in the context of the disparity rules. Disparities could in their view be significant whatever the absolute level of the higher tariff, and any "seuil" would be entirely arbitrary. Accordingly, the Community now suggested as a possible compromise solution, that disparities should be regarded as existing wherever:

(i) the high rate was at least double the low rate; and

(ii) in the case of primary products and finished products, there was a gap between the two rates of at least ten percentage points. (This would not apply to semi-processed products, as defined in terms of the Classification Statistique et Tarifaire. The value added on these products was, in most cases, very small; this meant that the protective incidence of the rates on this added value was greater than in the case of other products, and that a disparity of a few percentage points could, therefore, be significant.)

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\* This is a provisional text. The final text will be circulated as TN.64/14/Rev.1.

(b) Key countries

Subject to the right to return to this question at a later date if necessary, the Community could agree that, for the purpose of establishing significant disparities, the identification of high rates should be confined to the three main tariffs, namely those of the United States, the European Economic Community, and the United Kingdom only.

(c) Additional criteria

While the Community considered that appropriate arithmetic criteria were in themselves adequate for the identification of significant disparities, they were prepared to accept that disparities provisionally identified by the arithmetic criteria in (a) would not be regarded as significant where:

(i) there were no, or only negligible, imports into the country with the low rate, provided that the absence of imports or their low level was not due to the existence of quantitative restrictions or measures with equivalent effect;

(ii) there was no production, and no short-term plan for production in the country with the low rate.

(d) Additional principles regarding the invocation of disparities

(i) Notwithstanding the existence of significant disparities in cases which satisfied the arithmetic and qualitative criteria in (a) and (b), the Community would be prepared to discuss with the high rate country the possibility of not invoking the disparity rule where that country imported substantial amounts from the Community, taking into account all the relevant factors, such as the proportion of imports in domestic consumption. It would be for the high rate country to submit a list of the cases where they felt this applied.

(ii) The Community would also be prepared to deal in a pragmatic way with cases where the application of the disparity rule might create a problem for the trade of exporting third countries, and the Community would hold discussions with the countries particularly affected with a view to reaching mutually satisfactory solutions. The Community has declared itself ready to begin these discussions very soon so as to permit, as far as possible, their conclusions before the formal opening of negotiations on 4 May, though clearly no undertaking could be given on this point.

(e) Rules for tariff reductions

The rules for tariff reductions in cases where significant disparities were identified should be based on the high rate being reduced by 50 per cent and rates on the same product below this being reduced in accordance with a sliding scale. This scale would be linked to the absolute level of the lower rates and independent of the height of the high rate. The Community did not have a precise formula, but felt that the average of the reductions to be effected on the lower rate entitled to the application of the special rule should be about 25 per cent. The spread of the reductions covered by the scale would run from something well above 25 per cent to something well below. There should be special provision for any cases where a country with a high rate in respect of which a disparity was claimed put the product concerned on its exceptions list; in such cases, no tariff reduction at all should be required of the country with the low rate, since any reduction would inevitably increase the disparity.

II. COUNTER PROPOSALS AND AMENDMENTS BY THE UNITED STATES

4. At the meeting of 26 February the representative of the United States said that after considerable reflection, his delegation continued greatly to prefer a solution based on the concept of a "seuil" or cut-off rate, such as had been described in the Sub-Committee's last report to the Trade Negotiations Committee (TN.64/11/Rev.1). They would, therefore, propose a formula of this type which they regarded as an important compromise. If this proved unacceptable they would, however, be prepared, though reluctantly, to accept the double-écart formula proposed by the European Economic Community subject to certain modifications and with additional qualitative criteria. The representative of the United States, therefore, submitted the following two alternative proposals relating to the identification of significant disparities:

Proposal (a)

- (i) prima facie disparities should be regarded as existing wherever the high rate was above 40 per cent ad valorem and where there was a gap between the two rates of at least ten percentage points;
- (ii) in addition, the two criteria accepted by the European Economic Community should be used to identify those of the disparities which met the criterion in (i) which should be regarded as significant. The criterion relating to cases where there were no, or negligible, imports into the country with the low rate should, however, apply even if this situation was due to the existence of quantitative restrictions.

Proposal (b)

- (i) The double-écart formula suggested by the European Economic Community should be used for the prima facie identification of disparities subject to the modification that the gap of ten percentage points would apply to all products and not only basic materials and manufactured goods; (without this modification, the disparity rules would automatically involve a reduction of less than 50 per cent in the tariffs of some of the major developed countries on certain semi-processed products of particular interest to less-developed countries).
- (ii) this arithmetic formula should be qualified by the two additional criteria referred to in proposal (a)(ii) above, and by two further additional automatic criteria. The first of these would be based on a reformulation of the first "principle" suggested by the European Economic Community and would provide that disparities should not be regarded as existing whenever there was a substantial volume of **imports** into the country with the high duty from any regular supplying country (and not just the country with the low duty), it being understood that it might be necessary to exclude cases in which imports took place under special circumstances, for example, under preferential arrangements. The second criterion would be designed to exclude from the disparity rules cases where third countries had the main trade interest and should provide that, where a country other than the high rate country was the principle supplier of the low rate country, the low rate country could only invoke a disparity after securing the agreement of its principal supplier.

5. The delegation of the United States has provided a paper giving figures for the possible coverage of these two proposals in respect of disparity cases which the European Economic Community could invoke against either the United States or the United Kingdom and of those cases which the United States could invoke against the European Economic Community. This paper is contained in Annex A.

6. As regards the rules for tariff reductions to apply where significant disparities are identified, the average reduction made by countries in cases where they invoked disparities should, in the view of the United States, be larger than 25 per cent.

### III. ENSUING POSITION

#### A. Prima facie identification of disparities

##### (i) General

7. The delegations of Japan, Norway, Sweden, the United Kingdom and the United States continue to prefer a solution based on a cut-off, in particular because this would keep the coverage of the disparity rules within defined limits and prevent it being open ended; they are, however, prepared to accept the double-écart formula as a basis for discussion.

8. The delegation of Austria is prepared to accept the double-écart formula as a basis for discussion.

9. The delegation of the Community considers that the modifications which the United States proposal based on the concept of a cut-off rate would imply are too substantial to permit its adoption as a working basis in preparing for the negotiations; it would be preferable to base the discussion on the double-écart formula already proposed by the Community.

10. The delegation of Norway and Japan suggest that, if the double-écart proposal is found to be the only acceptable one, a cut-off of 30 per cent should be introduced into the double-écart formula. The delegation of the Community considers the introduction of a cut-off of 30 per cent unacceptable but has stated that it is prepared to study the possibility of retaining the principle of a cut-off in the double-écart formula.

11. As many of Switzerland's main export products are subject to a duty of over 40 per cent in the United States tariff, the 40:10 proposal of the United States would be acceptable to the Swiss delegation only if the interests of third countries which are main suppliers to the low rate country were protected by the principal supplier criterion, a criterion which Switzerland proposed already in November 1963 and reiterated several times since and to which reference is made in paragraph 28.

##### (ii) Application of a double-écart formula to semi-finished products

12. Several delegations expressed great doubts on the reasoning behind the Community proposal that the ten percentage point minimum spread criterion should not apply to semi-processed products. Accordingly, a Group of Experts was established to examine this proposal from a technical point of view. A note on the discussions and conclusions of this Group is contained in Annex B.

13. The delegation of the Community has noted that the report of the Group of Experts confirms the reasoning underlying its initial proposal and that it would be illogical to apply the 10 per cent gap rule to semi-finished products; it recognizes, however, that within the logic of that reasoning, a minimum gap of 2 or 3 per cent might be applied to such products. The delegations of Japan, Norway, Sweden, Switzerland, the United Kingdom and the United States feel that this note demonstrates that, while the argument of the Community might be valid in certain cases, the problem is extremely complicated and the position varies greatly from case to case. In their view the conclusion to be drawn is that the general rule for a gap of ten percentage points should be applied to all products. The United Kingdom suggested as a possible compromise solution that it might nevertheless be open for a country to claim a disparity if the gap is less than ten percentage points where a case is made on the basis of the type of analysis set out in the note. This proposal is supported by the delegations of Japan and Sweden. The United States delegation is prepared to consider it; it might be provided that cases where the 10 per cent rule would lead to genuine anomalies might be resolved by the Trade Negotiations Committee.

14. The delegations of Israel, Norway, Sweden, Switzerland, the United Kingdom and the United States have emphasized that the effect of the Community proposal would be to exclude from the 50 per cent reduction rule duties in the tariffs of many of the developed countries which are of particular interest to less-developed countries. For this reason both the proposal of the Community and the United Kingdom compromise proposal in this respect are unacceptable to the delegation of Israel. The delegation of Austria feels that a satisfactory solution of the third country question might alleviate this problem also and that moreover disappointment to less-developed countries should be avoided.

15. Referring to the objection made by the delegations of Israel and of the United States, the delegation of the Community pointed out that their position amounted to saying that the level to which an already low duty is reduced affects the interests of less-developed countries more than the considerably higher level to which a high duty is reduced. The delegations of the United States and Israel consider that the latter argument does not alter the fact that any rule which makes the invocation of disparities easier on semi-manufactures than other products would run counter to the objective of obtaining the maximum possible tariff reductions on products of special interest to less-developed countries.

16. The United States delegation have pointed out that some forty items are involved and that the number would not be affected at all by the use of a minimum gap as low as 3 per cent. Even the use of a five percentage point gap would reduce the number of cases only to thirty-five.

#### B. Key countries

17. It is generally agreed that only the tariffs of the European Economic Community, the United Kingdom and the United States should be used for identifying "high" rates in the context of the disparity rules. As is explained in paragraph 3(b) above, the European Economic Community has reserved the right to return to this question.

C. Criteria or principles relating to problems other than that of the interests of third countries

(i) Criteria relating to absence of imports into, and production in, a low rate country

18. There is general agreement with the second of these criteria proposed by the Community, subject to further elucidation of the meaning of the reference to "short term" plans for production. The delegation of the Community has decided that this means taking into consideration only production plans which have already begun to be put into practice.

19. The delegations of Japan, Norway, Sweden, the United Kingdom and the United States propose however that the qualifying provision in the first criterion relating to quantitative restrictions, as proposed by the Community, should be dropped (see paragraphs 3(c)(i) and 4(g)(ii) above). The effect of this qualifying provision would be as it were to reward countries for maintaining such restrictions and would tend to delay the abolition of illegal restrictions. It would be acceptable only if countries appealing to this proviso undertook to remove the restrictions sufficiently before the conclusion of the negotiations so that it could be seen whether imports would or would not take place in their absence.

20. The delegation of Israel proposes that countries should only be able to invoke the provision suggested by the Community if they undertook to remove their restrictions at the same time. The Austrian delegation feel that efforts directed to the removal of such restrictions should be pursued under the normal GATT machinery.

21. The Community continues to feel that the first criterion should not operate where the low level of imports is a result of the existence of quantitative restrictions as, where imports are restrained by measures other than the tariff, the low tariff country might have an importing interest. The Community did not interpret their proposal as meaning that because a disparity was recognized the low tariff country had a legal right to maintain the quantitative restriction. This was a separate question which fell into another field of the negotiating plan.

22. Even with suitable elucidation and qualification, the United Kingdom delegation points out that both the criterion relating to the absence of imports into the low-rate country and that relating to absence of production in the low-rate country are by definition of minimal interest to exporting countries.

(ii) Criterion or principle relating to a high level of imports into the high rate country

23. The delegation of the Community notes that the United States proposal differs from its own position on two points, namely:

- (1) the application of an automatic criterion;
- (2) the consideration of imports from all sources.

With respect to the first point, the more one attempts to reduce the number of disparities, the more the specific character and importance of remaining disparities is accentuated, and the more difficult it becomes to apply any general and automatic criterion to them. Nor can the Community agree to consider imports from all sources, for the fact that a third country can export does not necessarily imply that the duty is not protective. Furthermore, if such high duties have never been the subject of negotiations, it is precisely because the countries applying them have not considered that they can dispense with their protective effects.

24. The delegations of Japan, Norway, Sweden, Switzerland and the United Kingdom agree with the United States proposal that the principle proposed by the Community should be stated in terms of an automatic criterion especially as a pragmatic approach might entail a network of very time-consuming bilateral negotiations;

The United States delegation's position is that the criterion should relate to imports over the high tariff from any source and not just imports from the low rate country. Japan, Norway, Sweden, Switzerland and the United Kingdom thought that this was the logical approach.

D. The criterion or principle to deal with the interest of third countries

25. The Austrian, Norwegian, Swedish, Swiss, United Kingdom and United States delegations have stressed the vital importance which their Governments attach to a solution which would safeguard the interest of third countries where they are the principal suppliers of the product in question. Otherwise their exporters would find that items in which they had an essential interest had been left out from the across-the-board reduction in tariffs simply because of a high rate in some other country's tariff.

26. The delegation of Switzerland estimated that, under the Community's proposed arithmetic formula almost 40 per cent of their total exports to the Community would be affected by the invocation of the disparity formula by the Community vis-à-vis the United Kingdom and the United States. Switzerland was principal supplier to the Community for 167 items on which the Community could invoke the disparity rule against



the United Kingdom and the United States. Exports of these main supplier items alone represented 28 per cent of total Swiss exports to the Community. Switzerland would undoubtedly be the country most severely hit by the disparity rule, but other countries indicated that they would also be severely affected.

27. The delegation of the Community has stated that the second principle proposed by it clearly recognizes that the application of disparity rules could create a problem for the trade of exporting third countries, and that in its view the discussions envisaged could substantially solve the problem of third countries, being aimed at finding mutually satisfactory solutions. It notes that no arguments have been adduced against that proposal, other than that of the time which such discussions might require. The question is too complex to be covered by any automatic ruling which could not take account of the true commercial significance of cases; it is essentially a matter of making an assessment as between the interests involved in each case.

28. It was the view of the members of the Sub-Committee other than the European Economic Community that the number of disparity cases affecting third countries, where these are main suppliers of the product in question, should be reduced by means of an automatic criterion. The delegations of Japan, Norway, Sweden, Switzerland, the United Kingdom and the United States felt that it would be more in conformity with the directive of Ministers to deal with the third country question by an automatic criterion than by the bilateral consultation procedure proposed by the European Economic Community. The United States has proposed (paragraph 4(b)(ii)) that, where a third country participating in the negotiations is the principal supplier of the country with the low rate, the latter country should be able to invoke the disparity rule only with the agreement of its principal supplier. The Norwegian delegation supports this proposal. Similarly, the Swiss delegation feels that the third country which is the principal supplier to the low rate country should be entitled to claim, as a right, the full 50 per cent cut in this country's tariff. The Swedish delegation, with the understanding that the rule would give reasonable reciprocity to low tariff countries, could support the proposal of the United States but would also be prepared as a compromise to suggest that it should be recognized that the country with the "low" duty would have the right to invoke the disparity rule wherever the provisions of the arithmetic formula and the additional criteria were met, but that, without prejudice to that right, it would be understood that it would not normally be invoked where a third country was the principal supplier of the country with the low duty; and that where, exceptionally, the latter wished to invoke the right, it would consult first with the principally interested third countries. The Swedish delegation also suggests that it would be understood that the rule would not be applied if the third country (which is itself the principal supplier) invokes the disparity rule on the product concerned. The delegation of the Community has agreed to study the Swedish delegation's proposal, some elements of which are substantially common also to the Community proposal.

29. The Norwegian, Swedish, Swiss, United Kingdom and United States delegations feel that, under the Community proposal as it now stands, the number of disparity cases which could be invoked (see paragraph 26 and Annex A) and the chain reaction, in the form of withdrawals by other countries, which could follow this invocation, would be on such a scale as to endanger the linear cut.

30. The United Kingdom delegation pointed out that so long as bilateral consultations, relying on item-by-item discussions, left in doubt the outcome of the disparity exercise a major uncertainty would hang over the negotiations. Until this was resolved, it would be extremely difficult to persuade British industry that a linear cut in the United Kingdom tariff with a bare minimum of exceptions would be matched by a reciprocal offer. Above all, it would be difficult to explain that, although a United Kingdom duty was to be cut by 50 per cent, exporters of that item to the EEC would benefit from a cut of only 25 per cent for the fortuitous reason that the duty in the United States was high. The United States delegation feels, moreover, that its Government would not be able to submit its lists of exceptions (in effect its offer list) until it knew what the effect of the disparity rules would be. The discussion proposed by the Community in lieu of an automatic third country rule would have to take place not only between the Community and other countries but among many pairs of participants; they would be extremely complex, their outcome would be uncertain, and they could mean a long delay in the start of the negotiations. The delegation of the Community has recalled that it has already been agreed that initial lists of exceptions would be drawn up in relation to considerations concerning internal situations, and not in relation to external factors. The United States delegation pointed out that the decision of Ministers limiting the use of exceptions was taken at the same time as the decision that disparities were to be dealt with by an automatic rule. It would not be realistic to expect governments to table their maximum offers when a major uncertainty existed as to the partial exceptions that would result from these third country discussions.

31. The United States delegation also called attention to the fact that, in any event, the Community proposal contemplated discussions with only certain European countries. These countries were the principal suppliers of only 217 of the 750 disparities which the EEC could invoke against the United States on the United Kingdom under the 2:1/10 proposal. In other words, no consultations were apparently contemplated with respect to the greater part of the disparities list, i.e. 533 items covering \$743 million in EEC imports, regardless of the fact that these items were also principally supplied by third countries. This posed a problem of some magnitude which, moreover, seemed to the delegations of the United States and the United Kingdom to confirm the practical difficulties inherent in any attempt to solve the third country problem by means of bilateral consultations. In this regard, the delegation of the Community wishes to recall the exact terms of its proposal, namely that the Community would hold discussions with the countries particularly affected. The figures quoted by the United States delegation having never been submitted for discussion in the Sub-Committee, the Community has made a reservation regarding both their accuracy and their interpretation.

32. The Austrian delegation would have preferred the use of an automatic criterion in this field, but feel that, given the far-reaching complexity of problems and the limited time available before the start of the negotiations, it might be advisable to follow the pragmatic approach suggested by the Community.

33. The Canadian delegation indicated that if the settlement of the disparity issue were such as to lead to lower than average tariff reductions on products exported by Canada, the Canadian offer would have to be adjusted accordingly.

Annex A

ALTERNATIVE DISPARITY CRITERIA

Possible EEC Disparity Claims Against the US and UK  
(Non-Agricultural, Dutiable, 1960 EEC Imports)

	No. of CXT Items <sup>1</sup>	EEC Imports of Disparate <sup>2</sup> CXTs from				% of EEC Imports	
		Total	US	UK	Other	Total	Dutiable Non-Agric.
<b>1. 40:10 Rule</b>							
Total							
Full	210	\$260	\$ 55	\$ 50	\$155		
Partial	<u>190</u>	<u>190</u>	<u>45</u>	<u>25</u>	<u>120</u>		
Total	400	450	100	75	275	4%	7%
Reduced by 2 EEC <sup>3</sup> Criteria to							
Full	160	260	55	50	155		
Partial	<u>160</u>	<u>190</u>	<u>45</u>	<u>25</u>	<u>120</u>		
Total	320	450	100	75	275	4%	7%
<b>2. 2:1/10 (2:1 for Semi-Mfres.)</b>							
Total							
Full	450	690	170	170	350		
Partial	<u>520</u>	<u>480</u>	<u>140</u>	<u>80</u>	<u>260</u>		
Total	970	1170	310	250	610	10%	19%
Reduced by 2 EEC <sup>3</sup> Criteria to							
Full	360	690	170	170	350		
Partial	<u>400</u>	<u>480</u>	<u>140</u>	<u>80</u>	<u>260</u>		
Total	760	1170	310	250	610	10%	19%
Further reduced by applying 10-Pt. Spread on Semi- Mfres. to							
Full	340	610	150	170	290		
Partial	<u>400</u>	<u>480</u>	<u>140</u>	<u>80</u>	<u>260</u>		
Total	740	1090	290	250	550	9%	18%

<sup>1</sup> Division between totally and partially disparate items based on list prepared by United Kingdom delegation. ECSC products not included.

<sup>2</sup> Estimate of trade based upon 40 per cent weighting assumption for partial disparate items.

<sup>3</sup> Definition of insignificant imports is \$50,000.

ALTERNATIVE DISPARITY CRITERIA (Cont'd)

	No. of CXT Items <sup>1</sup>	EEC Imports of Disparate <sup>2</sup>				% of EEC Imports		
		Total	CXTs from			Total	Non- Agric.	Dutiable Non-Agric.
			US	UK	Other			
		(In \$ Millions)						
Further reduced by Principal Supplier Criteria to								
Full	120	290	80	90	120			
Partial	<u>140</u>	<u>160</u>	<u>100</u>	<u>40</u>	<u>20</u>			
Total	260	450	180	130	140	4%	7%	
Further reduced by Substantial Imports Criterion to <sup>3</sup>								
Full	110	210	70	70	70			
Partial	<u>140</u>	<u>160</u>	<u>100</u>	<u>40</u>	<u>20</u>			
Total	250	370	170	110	90	3%	6%	

<sup>1</sup>Division between totally and partially disparate items based on list prepared by United Kingdom delegation. ECSC products not included.

<sup>2</sup>Estimate of trade based upon 40 per cent weighting assumption for partial disparate items.

<sup>3</sup>Estimated on the basis of using \$1 million and more as the definition of "substantial" imports into the high duty country.

Possible US Disparity Claims Against EEC  
(Non-Agricultural, Dutiable, 1961 US Imports)

	No. of TSUS* Items	Total US Imports (\$ Million)	US Imports from Countries other than EEC (\$ Million)	Percentage of Total Non-Agric. Imports	Percentage of Dutiable Non-Agric. Imports
40:10 Rule	7	9	3	-	-
2:1/10 Rule <sup>1</sup>	173	968	538	10%	14%
After reduction by 2 EEC Criteria <sup>2</sup>	123	967	538	10%	14%
After reduction by Principal Supplier Criterion	50	554	152	6%	8%

\* Tariff Schedules of the United States.

<sup>1</sup> Not including proposed special rule for semi-manufactures.

<sup>2</sup> Excludes TSUS items with imports less than \$50,000.

Annex BGROUP OF EXPERTS ON THE APPLICATION OF A DOUBLE-ECART FORMULA  
TO SEMI-FINISHED PRODUCTS

1. The Group of Experts examined from a technical point of view the proposal put forward by the European Economic Community (paragraph 2(ii) of TN.64/NP/6) that, since the value added on semi-finished products was in most cases very small, and since therefore a disparity of a few percentage points on these products could be significant, the ten percentage point spread criterion they had suggested should not apply in the case of semi-finished products.
2. The following note on the discussion and conclusions of the Group of Experts has been prepared by the secretariat.
3. It was pointed out that the problem arose only where the "low" rate was less than 10 per cent; if it were above 10 per cent then (by definition under the double-écart formula) the high rate would have to be more than 20 per cent and there would, therefore, be an absolute difference of more than ten percentage points.
4. The Group accepted that in theory at least the degree of effective protection afforded by a tariff could not be assessed solely by reference to the tariff but had to be related to the value added by the processing industry; where the value added was high as a proportion of the total value of the product, this was unimportant; where, however, the value added was small it could be very significant (if for example the value added by processing was 25 per cent of the total value, the effective protection given by the tariff would be four times the nominal protection). While this second situation might exist in the case of certain manufactures, it appeared more frequently in the field of semi-processed products.
5. To this extent, it was generally felt in the Group that, subject to the qualification referred to in paragraph 6 below, the Community argument was, at any rate as a theoretical proposition, valid though it was noted that the proportion of value added differed widely between various semi-finished products and that it would, therefore, be difficult to find one formula which would be appropriate in all cases.

6. It was, however, generally agreed that, for the purpose of making the initial comparison of rates on the same semi-finished products, it was necessary to use not the actual rates of duty on the semi-finished product but those rates less the rates applied in the same tariff on the constituent raw material or materials (since it was this difference which provided the starting point for assessing the protection given to the processing industry).

7. It was noted that the practical effect of this last point was that in some cases the effective disparity would be greater than the apparent disparity, in other cases it would be less and in yet other cases it might be the reverse of the apparent disparity. (This point is illustrated in the Appendix to this paper.)



Appendix

EXAMPLES TO ILLUSTRATE THE POINT REFERRED TO IN  
PARAGRAPH 7 OF THE TEXT

	<u>I</u>	<u>II</u>	<u>III</u>
	<u>Duty in Country A</u>	<u>Duty in Country B</u>	<u>I less II</u>
(a) Effective disparity greater than apparent disparity			
Duty on semi	4	8	+ 4
Duty on raw material	3	2	
<hr/>	<hr/>	<hr/>	
Difference	1	6	++5
(b) Effective disparity less than apparent disparity			
Duty on semi	4	8	+ 4
Duty on raw material	1	4	
<hr/>	<hr/>	<hr/>	
Difference	3	4	+ 1
(c) Direction of disparity reversed			
Duty on semi	4	8	+4
Duty on raw material	0	6	
<hr/>	<hr/>	<hr/>	
Difference	4	2	- 2