

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

TN.64/NP/7
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Special Distribution

Sub-Committee on Tariff Negotiating Plan

SUMMARY BY THE SECRETARIAT OF MAIN POINTS RAISED AT THE MEETING OF 26 FEBRUARY 1964

1. The Sub-Committee met on 26 February to continue its consideration of the question of tariff disparities. This paper sets out the main points made and is circulated by the secretariat on its own responsibility for the convenience of delegations.

I. Proposals by the United States

2. The representative of the United States said that in the interval since the last meeting his delegation had made an earnest effort to re-examine the proposals before the Sub-Committee in the most constructive way possible. After considerable reflection, his delegation continued greatly to prefer a solution based on the concept of a cut-off rate. 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 suggestion which the representative of the European Economic Community had made at the last meeting of the Sub-Committee (TN.64/NP/6) 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 10 percentage points;
- (ii) in addition, the two criteria accepted by the European Economic Community at the last meeting of the Sub-Committee (TN.64/NP/6, paragraph 2(b)) should, subject to certain refinements, be used to identify those of the disparities which met the criterion in (i) which should be regarded as significant.

Proposal (b)

- (i) The double-écart suggested by the European Economic Community should be used for the prima facie identification of disparities subject to the modification that the gap of 10 percentage points would apply to all products and not only basic materials and manufactured goods;
- (ii) this arithmetic formula should be qualified by the two additional criteria referred to in (a)(ii) above, and by two further additional automatic criteria. The first of these would be based on a re-formulation of the first "principle" suggested by the European Economic Community (paragraph 2(c)(i) of TN.64/NP/6) 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. The United States delegation did not have any particular formulation in mind at this stage, but felt that it might be provided that where a country other than the high tariff country was the principal supplier of the low tariff country, the low tariff country could only invoke a disparity after securing the agreement of its principal supplier.

3. The delegation of the United States circulated a paper giving preliminary 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 annexed.

4. The representative of the United States also referred briefly to the proposal made by the European Economic Community for a rule for tariff reductions to apply where significant disparities are identified. It was the opinion of his delegation that the average reduction made by countries invoking disparities should be larger than 25 per cent.

II. Discussion

5. The representative of the European Economic Community said that his delegation would shortly be circulating additional statistical material relating to their suggestion for a double-écart formula. His delegation would require some time to study the proposals of the United States and the related proposal of the representative of Sweden which was contained in TN.64/NP/6, paragraph 5(iii). Consequently, during the present debate he would confine himself to obtaining clarification of the proposals.

6. In answer to a question by the representative of the European Economic Community, the representative of the United States indicated that the proposals which he had put forward were not designed to preclude particular products or sectors of products from the coverage of the disparity formula but had been drawn up as a compromise which would bring the scope to be covered by the disparity rules within manageable limits.
7. As regards the third country question, the representative of the European Economic Community pointed out that the interests of the country with the low tariff and a third country which was principal supplier to the country with the low tariff were divergent, as the former would wish to make a shallower cut and the latter would wish to see this cut maximized. He said that the principle advanced by the European Economic Community recognized the existence of both these interests and a mutually satisfactory solution would have to be found in subsequent negotiations. In his view, in the criterion proposed by the delegation of the United States it was only the third country interest that was taken into account, while the importance of the interest of the low tariff country was disregarded. He enquired as to the considerations on which this priority had been founded.
8. The representative of the United Kingdom said that his delegation still preferred a solution based on the cut-off and felt that the double-écart proposed by the Community was too open-ended. If it was impossible to agree on a cut-off, and it proved necessary to adopt the double-écart formula, this should be linked with additional criteria. Unless the criteria for disparity cases kept to a minimum those cases where third country interests would be damaged, it would be difficult to preserve the linear cut and the multilateral character of the negotiations.
9. The representative of Switzerland said that the first of the proposals put forward by the United States would be unacceptable to his delegation unless an agreed criterion dealing with the third country question were added. He pointed out that many of his country's major export products were subject to a duty of over 40 per cent in the United States. His delegation welcomed the second proposal which corresponded to a suggestion made by Switzerland in November 1963 and reiterated several times since. A very difficult situation would arise, especially for Swiss exports to the EEC, if Switzerland's request were not taken into consideration. For that reason, Switzerland wanted the Community's position on the third country question to be elucidated in some more detail.

10. The representative of Switzerland also gave some figures illustrating the effect on the export trade of his country of the double-écart proposal of the Community. Under this proposal, the Community could claim disparity treatment against either the United States or the United Kingdom on 167 items for which Switzerland was the Community's principal supplier. These items accounted for \$213 million of Swiss exports. This represented 27.7 per cent of its total exports to the Community or 11.4 per cent of Swiss exports to the world. Switzerland would ask that a full 50 per cent reduction be made on these items. On many more items which might be subject to disparity treatment Switzerland, although not the principal supplier to the Community, was nevertheless a considerable exporter to that market.

11. The representative of Sweden welcomed the new initiative of the United States and said that the new proposals gave good hopes of a compromise solution at an early date. In the view of his delegation, it was important that the linear reduction should, as far as possible, be preserved intact and that an automatic rule rather than a series of bilateral negotiations be agreed upon to deal with the third country problem.

12. The representative of Norway estimated that nearly 25 per cent of Norway's exports of industrial goods to the European Economic Community would be affected by the Community's double-écart proposal. He supported the proposals just made by the delegation of the United States. He said that his delegation favoured the idea of a cut-off and pointed out that the double-écart proposal already contained a type of cut-off at 11 per cent ad valorem. He proposed that, if this type of proposal were accepted, a cut-off should be introduced at a higher rate for all products.

13. The representative of the United States suggested that when it came to applying the disparity formula, it would be appropriate to take the actual incidence of duty rates. This incidence might, for instance, be affected by valuation systems which could be on a c.i.f. or an f.o.b. basis. It was generally recognized that it was the true incidence of duties and not their arithmetic expression that was of importance in the present context and that in due course this question should be further examined. It was also recognized that any formula for dealing with significant disparities would raise technical problems related in particular to the international comparison of tariff and trade data.

III. Other matters

14. It was agreed that the next meeting of the Sub-Committee should, in view of the urgency of the matter, be held at the earliest date conveniently possible and in any case not later than the end of March. The date would be set by the Chairman in consultation with delegations.

ANNEXALTERNATIVE DISPARITY CRITERIA¹Possible EEC Disparity Claims Against United States and
United Kingdom (Non-Agricultural Dutiable Imports)²

	No. of CXT Items	Approx. ³ No. of TSUS Items	Total EEC Imports (\$millions)	EEC Imports excluding US & UK (\$millions)	EEC Imports ⁴ of Disparate Items as Share of EEC Imports of all non-agr Dutiable Items
1. <u>40:10 Rule</u>	402	520	752	471	13%
Reduced by 2 EEC cri- teria to	320	415	747	469	12%
2. <u>2:1/10 Rule</u>	1030	1340	1735	889	29%
Reduced by ⁵ 2 EEC cri- teria to	710	925	1730	887	29%
Further re- duced by principal supplier criterion to	300	390	677	210	11%
Further re- ⁶ duced by sub- stantial im- ports cri- terion to	270	350	600	180	10%

¹All calculations are preliminary. No attempt has been made to estimate the effect of the invocation of "shadow" disparities nor of possible chain reactions.

²Calculations based on 1960 data.

³CXT (Common External Tariff); TSUS (Tariff Schedule of the United States).

⁴These percentages do not take into account the fact that EEC trade figures sometimes cover more than disparate items.

⁵"Negligible" imports defined as \$50,000 or less.

⁶Estimated on the basis of using \$1 million and more as the definition of "substantial" imports into the high duty country.

Possible United States Disparity Claims Against EEC⁷
(Non-Agricultural Dutiable Imports)

	<u>No. of⁸</u> <u>TSUS Items</u>	<u>Total</u> <u>US Imports</u> <u>(\$millions)</u>	<u>US Imports</u> <u>excl. EEC</u> <u>(\$millions)</u>	<u>US Imports⁷</u> <u>of Disparate</u> <u>Items as Share</u> <u>of US Imports</u> <u>of all non-agr.</u> <u>Dutiable Items</u>
1. <u>40:10 Rule</u>	7	9	3	--
2. <u>2:1/10</u>	173	968	538	11%
Reduced by 2 EEC cri- teria to	123	967	538	11%
Reduced fur- ther by principal supplier cri- terion to	43	501	112	5%

⁷Calculations are preliminary and do not include estimate of invocation of "shadow" disparities nor of possible chain reactions.

⁸All figures based on 1961 import data.