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# GENERAL AGREEMENT ON TARIFFS AND TRADE

Multilateral Trade Negotiations

Group "Tariffs"

## SECRETARIAT NOTE ON A SYSTEM FOR RAPID EVALUATION OF TARIFF-CUTTING FORMULAE

At its meeting on 7-10 July 1975 the Group "Tariffs" agreed that the secretariat should prepare a system for rapid evaluation of the implications of different tariff-cutting formulae on the exports from developing countries to developed countries' markets when such formulae were formally proposed. The purpose of this note is to describe such a system, which could be developed further in co-operation with interested delegations, and to obtain comments from the delegations concerned before the system is implemented by the Electronic Data Processing services of the secretariat.

The aim of such a system should be to provide a basis for an assessment of the results that any general tariff-cutting formula would produce in any given sector or sub-sector in which individual developing countries or all developing countries combined have a substantial export interest. The system should have enough flexibility to select the sector or sectors according to the particular needs.

Given these basic conditions, the system should provide answers to a number of questions which a negotiator must ask before he can decide whether one general formula is preferable to another formula. Some questions to be answered through the system are discussed below; it should be understood, however, that the system would be open-ended in the sense that negotiators could request additional information from it. The information would be given both on tariff line level and suitably aggregated in sectoral sub-totals and totals.

An evaluation of a general tariff-cutting formula from the viewpoint of an individual developing exporting country must consist, first of all, in comparing the results which the formula would produce in individual import markets into which the country in question sells or intends to sell in the future. The basic facts available for each market are as follows:

- (a) the n.f.n. rate in force at present, with its binding code, and the level to which it would be cut according to the formula tested;
- (b) the preferential rate under the generalized system of preferences and the conditions under which it is granted;

- (c) the amount of total imports and imports from the GSP countries combined and from each developing country in question under that line.

It may be noted that the secretariat does not have information on non-tariff barriers on magnetic tape. However, a proposal is currently before the NTB Group for such information to be collated. It may also be possible for individual developing countries to obtain a part of this information from the country studies which the secretariat has already supplied, subject to such verification as may be needed.

Once these facts are established, the negotiator would be mainly interested in two additional things: (i) the competitive standing of his country's exporters in that particular market, and (ii) the degree of processing of significant imports from his country, and the possibility (given partly by the escalation of tariff rates) of selling these products in a more highly processed form.

As for the first question, there would be no problem of identifying the principal suppliers, and the amounts they supply, in the three categories: m.f.n. imports, GSP imports, and other preferential imports. The formula-indicated cut of the m.f.n. rate would enable the negotiator to form a judgement as to the relative position of the other two categories of suppliers. It should be possible to supply information for individual developing countries as well as for developing countries considered as a group. For a given sector or product category tariff lines could be sorted according to the above criteria. Thus, sub-categories could be created according to the importance of supplies from developing countries, the level of the duty applicable (m.f.n. or GSP), the size of the GSP margin or the conditions under which the GSP is granted (existence of ceilings or tariff quotas, applicability to all or only some developing countries).

As for the second question, the computer tapes do not contain the crucial information on the amounts of value added at different stages of processing. Nonetheless, tariff lines or sub-aggregated totals can be shown according to their degree of processing.

For the time being, the system could only draw on the information that is available on the computer tapes of the Tariff Study. This documentation covers eleven developed import markets. The files contain import data generally for three years (1970, 1971 and 1972) and tariff data as of 1 January 1973 (except for Australia, 30 June 1973). The trade flows can be distinguished according to whether they are entitled to m.f.n. treatment, preferential treatment under the GSP or other preferential systems, or are subject to other tariff treatment.

The GSP information is based on the latest communications received by the secretariat. At present, however, it is in several respects incomplete. It distinguishes preferential duty-free admission from admission under preferential

positive duties, but in some cases, information on the absolute level of the latter is not yet available in computerized form. A more serious defect is that it is not possible to determine the volume of trade actually benefiting from preferential treatment. There are several reasons for this. It is possible to determine from the secretariat's files those products on which the preference is limited by a tariff quota, ceiling or other limitation but the amount of preferred imports actually entering under these arrangements is not known. Furthermore, in numerous cases preference is not granted to all items included in a tariff line which is the smallest unit of information on the Tariff Study file and cannot be sub-divided further. Finally, it is impossible to determine from the secretariat files what proportion of imports otherwise qualified for preferential treatment satisfies the rules-of-origin and other criteria applied under the generalized preference schemes of individual donor countries.

Despite these limitations, the information available in the secretariat in combination with other information in the possession of the delegations could enable them to make a beginning towards an assessment of implications of the different tariff-cutting formulae for developing countries' exports.