

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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STATEMENT MADE BY THE DELEGATION OF THE COMMISSION  
OF THE EUROPEAN COMMUNITIES AT THE GROUP "TARIFFS" MEETING  
MARCH 1976

We listened with interest to the American statement, which had been awaited for some time.

We consider that the announcement by one of the major partners of its intentions in the tariff area enables us to move on a stage in the work of this Group with regard to the very important point of the tariff-cutting method. This is an intermediate stage towards an agreement on this method.

The principal new element in these deliberations are the proposals made by the United States. Accordingly, I shall comment on those proposals in detail, and first on the objectives.

We agree with some of the objectives that have been announced, in particular the objective of a significant reduction of tariffs and the objective of harmonization. In the opinion of the Community, however, the two objectives should be closely integrated in a single formula and should not be set side by side.

The objective is stated to be a general tariff-cutting hypothesis more ambitious than the Kennedy Round hypothesis.

The United States puts forward the following mathematical argument: since tariffs are lower today than before the Kennedy Round, greater cuts (in percentage terms) than in the Kennedy Round are needed in order to achieve an equivalent liberalization in absolute terms (in terms of tariff percentage points).

Taken to its logical conclusion this reasoning would amount to claiming that the lower the tariff, the greater the reduction ought to be in percentage terms. Now, that is the contrary of what we are seeking by means of a formula including harmonization. So there is some contradiction.

The United States quite rightly stresses that some duties - not all duties - remain especially high and inhibit trade. These are the duties which should be tackled first, by cutting them substantially and proportionately more than the low duties.

A further objective is that of achieving substantial cuts in customs duties in the range in which the majority of the developed country tariffs and trade is found. Where the level of imports is high, the reason is no doubt that these duties hardly hamper trade. We should rather give attention to the duties where there is only a small volume of trade, for these are in general very high tariffs, and a substantial and more than proportionate reduction would tend to increase trade.

The objective of securing more equitable conditions of access to developed country markets is attractive. But we do not know exactly what this objective implies. In our view what matters is:

- first, to tackle, in conformity with the Tokyo Declaration, the tariffs which inhibit or distort trade flows;
- secondly, to arrive, after the tariff cuts, at a relatively balanced situation as between the tariff profiles of the developed countries and also in regard to tariff bindings.

The special measures for developing countries are covered by another item on the agenda.

#### The formula proposed by the United States

We listened with interest to the statement describing the formula submitted by the United States.

We wish to make a first remark regarding the product coverage. In our view, the formula is applicable to industrial products only. The case of agricultural products comes within the rules and procedures to be determined by the Group "Agriculture".

We appreciate the introduction of a harmonization element in the American approach and the positive statement that harmonization is conducive to achievement of the Group's objectives. But this element strikes us as prima facie insufficient and it does not really deal with the problems arising out of the difference of tariff profiles.

The formula, if it was complete, might contain an element of harmonization. If the 60 per cent ceiling were removed, the rates of reduction would be:

- 51.5 per cent in the case of a duty of 1 per cent
- 57.5 per cent in the case of a duty of 5 per cent
- 65 per cent in the case of a duty of 10 per cent
- 72.5 per cent in the case of a duty of 15 per cent
- 80 per cent in the case of a duty of 20 per cent

But the 60 per cent maximum reduction considerably limits the operation of the harmonization factor.

We thus arrive at the combination:

- of a formula which already combines a substantial linear element (50 per cent) and a harmonization factor (1.5 times X),
- in which the linear element very soon becomes preponderant.

What then do we find?

- the harmonization element affects only a small range of duty rates, i.e. from 0.1 to 6.67 per cent;
- the harmonization effect is relatively minor, for it bears only on the difference between a 50 per cent cut and a 60 per cent cut. If, for example, it was agreed to round duties to the next higher or lower point or half point, the only difference between the formula  $y = 1.5x + 50$  and a 60 per cent linear reduction would occur in the case of duties of:

3 per cent reduced to 1.5 instead of 1 per cent  
4 per cent reduced to 2 instead of 1.5 per cent

Moreover, the graph distributed yesterday (Chart A) shows, so far as the resulting rates are concerned, an absolutely straight line, which shows that the reduction is essentially linear.

And if we apply the United States formula to industrial products, on the assumption that there are no exceptions, we find that:

- the EEC tariff, already moderate and concentrated, would, so far as most products are concerned, be situated between 1 and 5 per cent and there would be virtually no duties above 8 per cent;
- the American tariff would exhibit a high concentration of duties between 1 and 4 per cent but a high proportion beyond 8 per cent, with duties of up to 20 per cent.

We do not understand the mathematical argument advanced by the United States concerning the average tariff of 6.2 per cent. Nor are we very clear as to how this average rate may have been calculated. We have always expressed the most explicit reservations regarding the use of a simple average to reflect the reality of a tariff. This would be tantamount to comparing the average height of two different population groups, one consisting of dwarfs and giants and the other of persons of normal stature.

In the case under discussion an average of eleven tariffs taken in the aggregate is used, disregarding the fact that the individual averages of each of these tariffs vary considerably.

Besides, insufficient allowance is made for the fact, which is well demonstrated in the GATT tariff study, that most of the tariffs - with the notable exception of the Community tariff - display a very asymmetrical distribution of frequencies that is very clearly biased towards the right, i.e. towards high duties. This fact is illustrated by Chart B which was circulated yesterday and it would be even more striking if, instead of considering the eleven tariffs taken in the aggregate, the individual tariff profiles were illustrated.

Hence, the average is not representative of the true structure of the tariff.

If the object is to smooth out the unevenness of the tariff structure and - to use the terms employed by the United States - achieve equitable conditions of access to markets and remove the significant tariff-induced handicaps and distortions, the right course to take would be not just to even out slightly the little bumps but to try to scale the giddy heights. In other words, it is the tariff lines which are well above the average that ought to be tackled first.

Even if the duties in excess of 25 per cent ad valorem account for only 10.5 per cent of the tariff lines of the eleven countries and for 7.3 per cent of those of the American tariff, they constitute a serious barrier to trade.

Nor are we convinced that this formula is necessarily the most satisfactory as regards the reduction of tariff escalation. In the first place, a great many finished products, and even a significant number of semi-finished products, are liable to duties in excess of 15 per cent. It would be necessary to study in concrete terms the tariff structure applicable to each sequence of production operations and also the varying situations as regards production costs in the different national industries, including the price at which raw materials, such as petroleum, are obtainable, before drawing any conclusions in this field.

#### Exceptions

There is patently a connexion between the future form of the general formula and the exceptions aspect.

What is needed first is to set an ambitious objective of a significant tariff reduction and of harmonization. Secondly, that objective should not be fixed at a level where the formula would lose credibility, drive and persuasive power and where it would be largely eroded by a host of derogations and exceptions. Accordingly, a method should be found that would avoid these pitfalls.

We endorse the objective of maximum restraint to minimize exceptions. But to us it seems difficult to reach agreement on the formula without at the same time having made considerable progress on the principles regarding exceptions.

The time has not yet come to translate into reality the ideas relating to this field, but at a later stage in our deliberations, when we shall have a better idea of the general formula acceptable to the Group, we shall have to deal with them.

### Conclusion

We thank the United States for their proposals and for our part we shall continue to analyze their implications.

The Community has already had occasion, in connexion with the work preparatory to the ministerial meeting of Tokyo and again during the first meetings of this Group, to spell out its objectives, which are essentially:

- harmonization of tariffs
- significant reduction of tariffs
- participation in the general formula by all developed market-economy countries
- a greater degree of tariff binding
- specific actions as regards products of interest to the developing countries.

The Community illustrated this approach last May by means of a working hypothesis for harmonization reflected in the formula  $y = x$ , to be repeated several times. We maintain this hypothesis and hope to receive the reactions of our partners.

Within the Community we shall continue to work out in greater detail our position with respect to tariff matters. In the course of this process, we hope to receive the benefit of proposals and opinions expressed by the various delegations in this Group.