

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)

Negotiating Group on Tariffs

TARIFF NEGOTIATIONS
IN THE KENNEDY AND TOKYO ROUNDS

Following requests made at the first meeting of the Negotiating Group on Tariffs on 10 February 1987 and in order to provide a basis for further discussion, the secretariat has prepared the following factual note on various elements of the tariff negotiations in the Kennedy and Tokyo Rounds.

Kennedy Round (1964-1967)

When Ministers launched the Kennedy Round in May 1963, they laid down directives aiming at the reduction of tariffs and other barriers to trade on a much wider front and with a more comprehensive scope than had ever before been foreseen in international negotiations. They agreed that the negotiations between developed countries should be conducted on the basis of reciprocity but that the developed countries could not expect to receive reciprocity from the less-developed countries. Ministers also agreed that the trade negotiations should cover all classes of products, industrial and non-industrial, including agricultural and primary products.

Concerning tariffs, Ministers agreed that, in view of the limited results in previous years from item-by-item negotiations, the tariff negotiations should be based upon a plan of substantial linear tariff reductions with a bare minimum of exceptions which were to be subject to confrontation and justification. The linear reductions were to be equal; in cases of significant disparities in tariff levels, the reductions would be based on special rules of general and automatic application. The Trade Negotiations Committee was requested to deal with the depth of the tariff reductions and the rules for exceptions, the criteria for determining significant disparities in tariff levels and the special rules applicable for reductions in these cases, as well as the problem of certain countries with a very low average level of tariffs or with a special economic or trade structure such that equal linear tariff reductions could not provide an adequate balance of advantages.

In May 1964, the Trade Negotiations Committee (meeting at ministerial level) in a resolution noted that a rate of 50 per cent had been agreed as a working hypothesis for the determination of the general rate of linear reductions provided for in the May 1963 resolution adopted by Ministers. The Trade Negotiations Committee furthermore noted with satisfaction that all participants were prepared to consider the possibility of taking such steps as were open to them to make cuts deeper than 50 per cent in, or to

eliminate completely, duties on products of special interest to less-developed countries. Also addressed in the resolution mentioned above was the question of tariff disparities, but despite efforts undertaken and suggestions made in this regard, no agreement was reached on how to deal with this problem. Concerning the issue of countries with a special economic or trade structure, the Committee agreed that Canada fell into this category and that in this case, equal linear tariff reductions may not provide an adequate balance of advantages. The same was agreed for Australia, New Zealand and South Africa for which it was noted that they had a very large dependence on exports of agricultural and other primary products. For these countries, the Committee reaffirmed that the objective should be the negotiation of a balance of advantages based on trade concessions by them of equivalent value.

The Trade Negotiations Committee also confirmed the previous decision by Ministers that there should be a bare minimum of exceptions, subject to confrontation and justification, that exceptions lists should be tabled by 10 September 1964, and that such exceptions should be necessitated only by reasons of overriding national interest. The process of confrontation and justification relating to exceptions was conducted in a body consisting of the countries participating in the negotiations on the basis of the linear offer. It included the working out of possibilities of offers on products contained in the lists on another basis than that of the linear reduction. At the same time, an examination was carried out of those exceptions of special interest to developing countries in the light of the agreed principle that in the trade negotiations, every effort was to be made to reduce barriers to the exports of these countries.

The linear reduction formula and the related rules for exceptions were only applied to industrial products. For agricultural tariffs, the Trade Negotiations Committee in May 1964 noted that it had not yet been possible to formulate agreed rules to govern, and methods to be employed in, the negotiations. Detailed procedures were, however, adopted in March 1965 providing for item-by-item negotiations on agricultural products other than in the cereals, meat and dairy sectors (for which general arrangements were sought) for item-by-item negotiations based on specific offers which were tabled by September 1965.

Special procedures for the participation of the less-developed countries were established, which provided, inter alia, that developing countries having indicated their intention to participate in the negotiations should receive details of the offers made by developed countries on items of export interest to them, before they themselves indicated the contribution which they would be making to the objectives of the negotiations. It was agreed that the contribution of developing countries to the overall objective of trade liberalization should be considered in the light of their development and trade needs.

Concerning base dates and base rates, no generally applicable formula could be agreed upon. It was therefore decided that each participating country should notify by 1 August 1964 the basis on which the linear tariff reductions would apply in its case, it being understood that this basis would have to be acceptable to the other participating countries and that in all cases the duties used for reference purposes should reflect the results of the 1960/61 Tariff Conference (Dillon Round).

The implementation of the results of the tariff negotiations were spread over a period of five years, the first cut to be implemented on 1 January 1968. It was also agreed that if a participant wished to stage reductions at a slower pace, the product or products in question should figure in its list of exceptions.

The following thirty-one countries and the EEC of Six granted tariff concessions in the Kennedy Round: Argentina, Australia, Austria, Brazil, Canada, Chile, Czechoslovakia, Denmark, Dominican Republic, European Economic Community, Finland, Iceland, India, Ireland, Israel, Jamaica, Japan, Korea, Malawi, New Zealand, Norway, Peru, Portugal, South Africa, Spain, Sweden, Switzerland, Trinidad and Tobago, Turkey, United Kingdom, United States and Yugoslavia. These countries accounted for about 75 per cent of total world trade. Total concessions granted by these countries affected trade valued at just over \$40 billion. Other countries participated in the negotiations without making tariff concessions.

The principal industrialized countries made tariff reductions on 70 per cent of their dutiable imports (cereals, meat and dairy products excluded). Because of the many exceptions introduced in the offers, the Kennedy Round negotiations resulted in an effective reduction of 35 per cent on industrial products in industrialized countries.

Tokyo Round (1973-1979)

Following the implementation of the Kennedy Round tariff cuts, the average tariff level of the developed countries on industrial goods was in the range of 7 per cent. There were, however, still high duty rates applied by certain countries in certain sectors.

In the preparatory phase leading up to the Tokyo Round, it became clear that governments did not want to go back to the old item-by-item technique of negotiation, inter alia because it was considered laborious in view of the increased number of GATT member countries. The following approaches to future tariff negotiations were discussed, mainly in the Committee on Trade in Industrial Products:

- (i) a linear formula similar to the one used in the Kennedy Round, whereby all tariffs would be reduced by a given percentage;
- (ii) elimination of customs duties for industrial products and creation of a world-wide free trade area among industrialized countries;
- (iii) harmonization formula aimed at reducing higher rates (tariff peaks) more than low duty rates.

In the negotiations themselves, conducted in the Group "Tariffs", the following proposals for industrial tariffs were made:

- (a) Canada: duties related to industrial, agricultural and fishery products would be treated as follows:
 - duties lower than 5% to be abolished
 - duties between 5% and 20% to be reduced by 50% or 60%,
 - duties higher than 20% to be brought down to 20%, according to a given staging;
- (b) United States: linear reduction formula with an element of harmonization; however, there would be a maximum reduction of 60%;
- (c) EEC: harmonization formula $y = x (4 \text{ times})$ $y = \text{result}$, $x = \text{rate of reduction}$

Example: with a base rate of 20%, the result obtained is 10.28%, as follows:

1st stage (20% of 20% = 4%) 20% - 4% = 16%
 2nd stage (16% of 16% = 2.56%) 16% - 2.56% = 13.44%
 3rd stage (13.44% of 13.44% = 1.81) 13.44% - 1.81% = 11.63%.
 4th and last stage (11.63% of 11.63% = 1.35%)
 11.63% - 1.35% = 10.28%

- (d) Japan: linear reduction formula of 70% with a permanent harmonization element of 3.5% ad valorem.

Example: (1) base rate 20%:
 20% reduced by 70% = 6%
 6% + 3.5% ad valorem = 9.5%
 The reduction obtained is approximately 50%.

(2) base rate 50%:
 50% reduced by 70% = 15%
 15% + 3.5% = 18.5%
 The reduction obtained is 63%

- (e) Switzerland: $Z = \frac{A X}{A + X}$
 $A = \text{coefficient (14 or 16)}$

$X = \text{initial rate of duty}$

$Z = \text{resulting reduced rate}$

Examples: (1) base rate 10%: $\frac{14 \times 10}{14 + 30} = \frac{140}{44} = 5.83\%$
 (reduction of approximately 40%)

$$(2) \text{ base rate } 20\%: \frac{14 \times 20}{14 + 20} = \frac{280}{34} = 8.24\%$$

(reduction of approximately 60%)

$$(3) \text{ base rate } 30\%: \frac{14 \times 30}{14 + 30} = \frac{420}{44} = 9.50\%$$

(reduction of approximately 70%)

This formula aimed at affecting equally all industrialized countries in order to reach an average reduction rate of 40%. With a coefficient of 16 (instead of 14), slightly inferior reductions were obtained.

Towards the end of 1977, most developed countries accepted the Swiss formula as a working hypothesis. The United States, Japan, Switzerland and Czechoslovakia tabled their offers on the basis of the coefficient 14, whereas the European Communities, the Nordic countries, Australia, Austria and Hungary opted for the coefficient 16. Canada applied a different formula. New Zealand, South Africa and Iceland, as well as the developing countries, carried out negotiations according to the old item-by-item technique.

As in the Kennedy Round, the application of the Swiss formula was limited to tariffs on industrial products. For agricultural tariffs, the request-and-offer procedure, resulting in item-by-item negotiations, was used.

On the question of determination of base rates, it was agreed that negotiations should be conducted on the basis of GATT bound rates, as negotiated in the Kennedy Round and previous rounds and the results of any negotiations under Articles XXVIII, XXIV:6 and accessions to the GATT. No agreement was reached concerning unbound rates. However, when countries made their offers, it was on the basis of base rates and rates of their own choosing, it being left to the other countries to make an evaluation of this element of the offers along with all others.

An examination of the initial offers indicated that less than formula reductions or no reductions had been offered for a good number of items, especially on those for which the developing countries were major suppliers (such as textiles and clothing, footwear, leather goods, cutlery, porcelain, wood or wood products, certain types of non-ferrous metals). In order to compensate to some degree for these partial or total exclusions, deeper than formula cuts were offered on a number of other items where developing countries were still minor suppliers and at that time relied mainly on the GSP to achieve a breakthrough into the market.

For the implementation of the tariff reductions, it was agreed that the cuts would be carried out in eight annual instalments, for most countries beginning on 1 January 1980. However, one group of countries reserved the right to examine the situation after the first five years in the light of the economic situation obtaining at that time before a decision was made on the remaining three annual cuts. It was also agreed that in the case of certain sectors, special rules concerning staging would apply. In the event, some countries implemented the reductions immediately or in a quicker way than was foreseen and this particularly in

the case of products of interest to developing countries. On 1 January 1987, all tariff cuts agreed upon in the Tokyo Round had been implemented.

A total of thirty-six countries and the European Communities of Ten granted tariff concessions in the Tokyo Round. The schedules of concessions of the following delegations were annexed to the Geneva (1979) Protocol: Argentina, Austria, Canada, Czechoslovakia, EC, Finland, Hungary, Iceland, Jamaica, Japan, New Zealand, Norway, Romania, South Africa, Spain, Sweden, Switzerland, United States and Yugoslavia. Schedules of concessions for the following were included in the Protocol Supplementary to the Geneva (1979) Protocol which embodied the results of further negotiations continued in the later months of 1979: Australia, Brazil, Canada (additional concessions), Chile, Dominican Republic, Egypt, EC (additional concessions), Haiti, India, Indonesia, Israel, Ivory Coast, Korea, Malaysia, Pakistan, Peru, Singapore, Spain, Uruguay, Zaire. Three further countries (Colombia, Mexico, Philippines) carried out tariff negotiations in connection with their accession to GATT within the framework of the Tokyo Round.

The total value of trade affected by m.f.n. tariff reductions and bindings of prevailing tariff rates amounted to \$155 billion, measured on m.f.n. imports in 1976 or 1977 (excluding petroleum). Concessions by the European Communities and eight industrial countries (Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland and the United States) covered imports valued at \$141 billion, \$14 billion in agriculture and \$127 billion in industry. Concessions by other developed countries affected imports valued at \$0.4 billion in agriculture and \$2.7 billion in industry. Although the participation of developing countries was not subject to the reciprocity rule, they made contributions, in the form of tariff bindings or reductions, on \$3.9 billion of their imports in 1976 or 1977.

Considering the nine industrial markets enumerated above, the weighted average tariff on industrial products declined from 7.0 to 4.7 per cent, representing a 34 per cent reduction of customs collection. Measured on the basis of the simple tariff averages, the reduction amounted to 39 per cent and the level of tariffs on industrial products declined from 10.4 to 6.4 per cent. As a result of the harmonizing effect of the tariff-cutting formula, the difference in the nine tariff levels was reduced by 25 per cent, measured by standard deviation of national averages.