

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## COMMITTEE ON TRADE IN INDUSTRIAL PRODUCTS - TARIFF STUDY - REPORT OF THE EXPERT GROUP

### Statement by the Representative of the European Economic Community at the Council Meeting of 12 February 1970

In taking note of the report on the meeting of the Expert Group on the Tariff Study, we should like first to commend the secretariat on the tremendous task undertaken by it and the results already obtained. We should like also to thank the governments and national administrations that have helped the secretariat to assemble the necessary documentation.

This is the first time that a task of such magnitude, consisting of assembling and comparing the tariff structures of the principal industrial countries, has been undertaken in GATT. Even if this work is carried out with the aid of powerful modern techniques, it requires a great deal of preparation in order to introduce into one single mould tariffs and trade statistics that are often very dissimilar, and we can well understand that a little more time was needed for assembling the necessary documentation beyond the optimistic deadline envisaged at the twenty-fifth session.

The assembling of this documentation being now practically completed, the experts had to decide on the presentation of the tabulations which are to be submitted to the Committee on Trade in Industrial Products.

In this connexion the Community wishes to recall that, in accordance with the programme of work adopted at the twenty-fourth session, the analysis of the tariff situation must be objective. In our view this analysis must also be readable, - this is a natural corollary of the concept of objectivity. An analysis which is objective, but is incomprehensible except to a few initiates would not correspond to the terms of reference given to us by the CONTRACTING PARTIES.

It was with these two imperatives in mind that our delegation took part in the work of the Expert Group. When the latter established a classification of products, we tried to limit the number of sub-categories so far as possible, while retaining in them an economic significance which will subsequently permit a thorough analysis to be made. I would add on this occasion that it seems to us that this classification corresponds to a very large degree to the wishes of the developing countries, because the fact that the products are classified according to their degree of processing will

thus make it possible to analyze the well-known problem of "differentials" as well as to identify duties on industrial raw materials and very high duties, because the more or less high level of a duty clearly depends on the degree of processing.

On the other hand, so far as the choice of averages for calculation is concerned, we cannot but regret that because of the position adopted by one expert, it was not possible to confine the choice to just two averages. As a result, the tables to be presented to the Committee will not only be difficult to read but will furthermore contain averages which, for our part, we consider are in no way representative of the true level of tariff protection.

Indeed, one expert insisted that two additional types of averages should be included.

The first of the averages on which this expert insisted, average No. 4, is obtained by weighting the rates of each tariff line by the country's own imports. Now, Mr. Chairman, all the economists have long since shown that this type of average implies a downward bias. I shall merely quote Professor Charles Kindleberger, and his book "International Commerce" which is the text book of the American universities. On page 196 of this work he writes: "To weight by actual trade is likely to give a biased result, since the higher the tariff, the more it keeps out trade and the lower its impact. A prohibitive tariff would get no weight, which is absurd."

The calculations carried out by the secretariat clearly show this downward bias which is moreover recognized by the delegation that advocated it. That delegation contends, however, that the degree of bias has been considerably reduced as a result of the Kennedy Round concessions and the consequent harmonization of tariffs. That is an opinion we cannot share, because we consider that even if efforts have been made to achieve such harmonization in a few sectors, it is far from having been achieved in the majority of cases.

The second average recommended by this expert is average No. 5 which, as he put it, would correct any downward bias that remained. According to that delegation, this average should be calculated in the following way:

- one first calculates, as in the preceding method, the averages of BTN headings, weighting tariff lines by the country's own most-favoured-nation imports;
- then, however, to arrive at the average for the category, one re-weights these averages of BTN headings by "world" imports, i.e. total imports by the eleven countries covered by the study, including imports in the context of preferential or intra-regional régimes (for example, intra-EEC trade, intra-EFTA trade, imports from the Commonwealth).

Average No. 5, calculated in this way, seems to us illogical and it does very little to correct the downward bias.

It is illogical from two aspects:

- Like the preceding average, it comes up against the disadvantages that I have already mentioned. As I shall explain in a moment, weighting by world imports precisely tends to avoid the disadvantages of the downward bias resulting from weighting by the country's own imports. Now this bias is re-introduced into the method of calculating at the level of tariff headings.
- Furthermore, if I may say so, one is using two weights and two measures. At the level of tariff headings, one considers only imports receiving most-favoured-nation treatment; and at the BTN heading level one considers all imports, including preferential imports.

The calculations carried out by the secretariat led it to conclude that weighting at the tariff line level has more pronounced effects than weighting at the BTN heading level. As a result, the downward bias introduced by weighting by the country's own imports is only very slightly corrected by re-weighting by world imports at the higher level. This is moreover amply borne out by the secretariat calculations.

For the reasons I have indicated, the Community could not consider averages Nos. 4 and 5 as being representative of the tariff situation in the various categories covered by the study.

The Community, like most of the other delegations that expressed their views in the Expert Group, was in favour of average No. 2.

Admittedly, no perfect average exists, but we can come close to one. Still according to Professor Kindleberger, "the correct system of weighting is the value which would be achieved under free trade. There is no way of knowing it without an enormous amount of information on elasticities". We are, of course, not asking that a task such as this be undertaken, because we imagine it would take years.

The closest measure of what the value of trade would be in the absence of all duties is to be found in "world" imports, including preferential and intra-regional imports which in most cases are effected duty free or subject to relatively low duties. This is admittedly not a perfect yardstick, but it is the least imperfect. On condition, however, that one does not at the outset restrict the incidence of national customs duties by weighting them by the country's own imports.

According to the majority of the experts, average No. 2 therefore best reflects the true situation. This average is calculated in the following way:

- simple arithmetic average of national tariff lines for each BTN heading;
- weighting of these averages by "world" imports at the category level.

In the absence of detailed statistical data on "world" imports at the level of individual tariff lines, which would require an immense amount of concordance work, this average seems to us to be the best reflection of protection, provided of course that it is accompanied by a table showing the disposal of duties above and below the average, which is moreover intended as regards the tables to be distributed to the Committee.

Most of the experts urged that this average which I have just described should be selected, together with the simple arithmetic average already shown in the preliminary tables based on 1964 statistics. Unfortunately, one delegation insisted on including the other two averages whose lack of representativity I have underlined.

In the Expert Group, we expressed the hope that the position of that delegation would be reviewed. We must acknowledge, however, that our hopes have been disappointed.

Mr. Chairman, we cannot but regret this decision which will not only make the study excessively complicated to read, but will also introduce into it elements that are not representative. Indeed, since four averages are to be calculated at the same time for the headings as a whole, and for the dutiable headings, this means that the reader will be confronted with eight averages. For our part, we wish to reaffirm here that averages Nos. 4 and 5 which will be included in the study cannot in any circumstances be considered as objective averages, because of the pronounced downward bias inherent in them, and we disclaim them here and now.