

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## INTERIM REPORT OF THE INTERSESSIONAL WORKING PARTY ON TARIFF REDUCTION

1. The Working Party met to consider the possibilities of future action directed to the reduction of the general level of tariffs in the light of the communication made by the United States representative to the Interseasonal Committee (IC/SR.19, page 2) to the effect that his Government wished that the contracting parties would give consideration to further tariff negotiations in the light of the new powers granted to the President of the United States and that in order to meet the time-limit prescribed by the United States legislation and practices the tariff negotiations should start early in 1956.

2. The Working Party considered unanimously that every effort should be made to carry out another round of multilateral negotiations on as broad a basis as possible. It was also agreed that these negotiations should be conducted in time to permit full participation by the United States Government under its new powers. Pursuant to paragraph (c) of its terms of reference the Working Party therefore recommends that the CONTRACTING PARTIES convene a tariff conference to begin in January 1956. In order to make the necessary preparations for such a conference, the Working Party instructed the Executive Secretary to invite contracting parties wishing to take part in such a conference:

- (a) to notify the Executive Secretary of their intention by 31 July 1955;
- (b) to send by 15 August 1955 at the latest to the United States authorities a preliminary list of products on which they desire to obtain concessions from the United States. Fifty copies of that list should be sent to the Executive Secretary for distribution to the other participating governments;
- (c) to transmit by 1 October 1955 a list of requests to all participating governments including the United States with which they desire to negotiate. Each list should be addressed to the country from which concessions are requested and fifty copies should be sent simultaneously to the Executive Secretary for circulation to the other participating governments;
- (d) to send to the Executive Secretary as soon as possible two copies of the latest edition of their customs tariff and by 1 October two copies of their foreign trade statistics for 1953 and 1954 and to send the same information to any participating government which may request it, together with such additional information as may be requested and is readily available.

3. As regards the procedures to be followed at the forthcoming tariff conference, the majority of the Working Party expressed their preference for the application of multilateral procedures along the lines of the GATT Plan (Basic Instruments and Selected Documents, Second Supplement, page 75 onwards). As, however, the United States and the United Kingdom Governments were not in a position to proceed on that basis in these negotiations, the Working Party came to the conclusion that it was not practicable to consider the introduction of such procedures at the tariff conference to be held in 1956.
4. On the other hand the majority felt that to proceed in accordance with the rules followed in previous tariff negotiations would not result in a substantial contribution to the objectives set out in Article XXIX of the revised GATT, particularly as regards reduction of excessive rates of duty and the recognition of the equivalence of the binding of low rates to reductions in high rates of duty. They recalled, moreover, that the discussions which had led to the formulation of the GATT Plan had been based upon a widespread feeling that the former rules were unlikely to lead to satisfactory results. The Working Party agreed that it would be desirable to consider to what extent and in what manner the negotiating rules should be amended in order to ensure the attainment of the objectives of Article XXIX of the revised GATT, on the understanding, however, that this examination should not delay the preparation for the tariff conference.
5. The Working Party set up a drafting group which prepared, as a basis for discussion, and without any commitment on the part of the members of the group, a note on procedures for tariff negotiations which is annexed to this report (Annex A).
6. Those members of the Working Party which favoured the use of the GATT Plan as a basis for negotiations considered that the suggestions of the drafting group did not in fact contain any substantial assurances that the basic objectives of Article XXIX would be met. Those members which had considered the application of the GATT Plan impracticable at this time felt, however, that the draft procedures included many of the elements which had led them to the conclusion that the GATT Plan was not practicable as a basis for the present negotiations. In these circumstances the Working Party came to the conclusion that it would not be possible to proceed further on the basis of the drafting group's suggestion at the present meeting, but agreed to submit the draft, without in any way committing the members of the group, to governments for their consideration prior to further discussion at a later meeting of the Working Party.
7. Subsequently, the representative of the United Kingdom submitted for consideration of the Working Party the outline of procedures which he felt would go as far as practicable towards meeting the difficulties of the "low tariff countries" but would avoid the most serious disadvantages that his Government would find in the procedures in Annex A. The statement of the United Kingdom representative outlining these alternative negotiating procedures is also annexed to this report (Annex B). The members of the Working Party who had felt that the procedures in Annex A were inadequate, considered that the

United Kingdom proposal had even less to offer as a means of achieving the objectives of Article XXIX. Other members felt that this variation of the traditional procedures raised difficulties of a somewhat different character from those presented by the procedures in Annex A. However, the British proposal was presented towards the end of the meeting of the Working Party and there was little opportunity to study it. It was agreed to submit this proposal also to governments and to examine it at the next meeting of the Working Party.

8. The Working Party noted that there were three features common to both suggested procedures which appeared to enjoy the general support of the Working Party:

- (a) that the negotiations should be based upon the principles of Article XXIX of the revised GATT;
- (b) that each participating government should present a consolidated offers list;
- (c) that the Tariff Negotiations Committee should have somewhat broader functions than in previous tariff negotiations.

It was agreed, furthermore, that whatever procedures were finally adopted it would be desirable, in order to provide for the contingency of subsequent action under Article XXVIII and other relevant provisions of the General Agreement, that the consolidated offers list should also contain an indication of the contracting party or parties to whom each offer is made. In connexion with sub-paragraph (a) above, it was observed that in order to give effect to the principle in Article XXIX regarding the equivalence of the binding of a low duty to the reduction of a high duty it was essential that participating countries, in drawing up their lists of requests, include an adequate number of demands addressed to low tariff countries directed mainly to the binding of low tariffs.

9. The Working Party also considered whether it would be appropriate to take advantage of the presence of negotiators from a number of contracting parties to enable governments wishing to accede to the General Agreement to conduct negotiations directed towards their accession at the time of the tariff conference, as was the case at the Torquay conference.

10. The Working Party noted that there would be no objection on the part of the governments whose representatives took part in the discussions to affording such an opportunity to prospective acceders. The Working Party instructed the Executive Secretary to ascertain from governments which have displayed an interest in the work of the CONTRACTING PARTIES and have shown a desire to accede to the GATT at some future date, whether they would be willing to initiate negotiations with a view to acceding to the General Agreement at the time of the forthcoming tariff conference. The Executive Secretary would

report to the CONTRACTING PARTIES on the results of these informal consultations and, if necessary, secure authority from them for sending, on their behalf, formal invitations to the governments concerned.

11. The Working Party decided to reconvene on a date to be decided by the Chairman but in any event not later than 15 September 1955 in order to formulate recommendations:

- (a) on the procedures to be followed at the tariff conference;
- (b) as to the exact date for convening the conference;
- (c) as to the site of the conference in the light of a report to be submitted by the Executive Secretary on the facilities afforded by Geneva and, if necessary, by other localities.

ANNEX A

TARIFF NEGOTIATIONS PROCEDURES

Working paper prepared by the Drafting Group  
as a basis for discussion in the Working Party

1. The most recent and authoritative statement on the purposes of tariff negotiations under the GATT are laid down in the new Article XXIX. It is there provided that such negotiations should be directed to a substantial reduction of the general level of tariffs and, in particular, to the reduction of such high tariffs as discourage the importation even of minimum quantities. The Article further provides that:

(a) the negotiations should be on a reciprocal and mutually advantageous basis;

(b) the binding against increase of low tariffs or of duty-free treatment shall in principle be recognized as a concession equivalent in value to the reduction of high duties;

(c) the basis on which negotiations are conducted should take into account inter alia the special position of under-developed countries.

It is also relevant to recall that the Article provides that negotiations may be carried out on a selective product-by-product basis or "by the application of such multilateral procedures as may be accepted by the contracting parties concerned".

2. In considering arrangements for the negotiations which are now proposed the question arises as to what negotiating rules would be most likely to secure the objectives laid down in Article XXIX. The scope of the negotiations will in any case be modest owing to the limited negotiating powers which governments have at this time either because of legislative limitations or because the accelerated progress of dismantling quantitative restrictions makes it particularly difficult to carry out extensive tariff reductions at the same time. It would therefore be desirable to see to it that the technique adopted for the negotiations should be calculated to yield the maximum possible results; in other words, to contribute as effectively as possible to the realization of the objectives of Article XXIX. It is a widely held view that the negotiating rules which were followed in preceding tariff conferences are not likely to do so.

3. It appears impracticable to arrive at an agreement for the application of the GATT plan for tariff reduction in time to meet the time-table required by the negotiations now proposed. Accordingly, it is suggested that the best way to achieve the desired result would be to agree on more definite arrangements for the multilateral phase of negotiations. The changes thus introduced into the negotiating rules would have as their main objective:

(a) to encourage participating countries to assess the balance of advantages to be derived from the negotiations by considering the overall direct or indirect benefit which each country obtains from the negotiations as a whole as compared with the concessions it makes, instead of tending as in the past to aim at a balance in each bilateral negotiation;

(b) to ensure, so far as practical at this time, that bindings or small reductions of low rates are effectively recognized as equivalent to substantial reductions of high rates.

4. The first change in the negotiating rules which is suggested concerns the lists of offers made in response to request lists exchanged between the negotiating countries in accordance with the existing practices. It is suggested that instead of the offers being formulated in bilateral lists, each negotiating country should draw up a consolidated list of offers at the beginning of the conference.

5. The second principal modification concerns the rôle of the Tariff Negotiations Committee - on which all negotiating countries would be represented - in the negotiations. This should include assisting the negotiating countries to ascertain the extent to which the negotiations can reasonably be expected to contribute to the objectives of Article XXIX, and for this purpose to establish a negotiating target as a standard against which the negotiating countries can measure the progress achieved. This Committee would be responsible for the overall administration of the negotiations, dealing with their multilateral aspects, drawing up legal instruments for embodying the results, and for the specific matters provided for in this paper.

5. At the opening of the conference, the TNC should have before it:

(a) the consolidated offers list made by each negotiating country,

(b) a list of the rates exceeding 50 per cent which the country concerned proposes to reduce to 50 per cent or below together with a list of rates exceeding 50 per cent, or rates which the country concerned considers to be equivalent to a rate exceeding 50 per cent, upon which it does not propose to offer reductions;

(c) a calculation, on the basis of the criteria set out in the Annex to this paper, of the weighted incidence of the rates of duty applicable in each of the participating countries for the following sectors,

- (i) industrial raw materials
- (ii) agricultural products
- (iii) semi-manufactures
- (iv) manufactured goods;

(d) the necessary statistical data to enable the calculation of the reduction of the weighted incidence in the four sectors which the consolidated offers list would represent.

7. Upon the basis of the consolidated offers list submitted to it, and particularly offers submitted by the leading trading nations, the Committee would make an assessment of the possibilities of the negotiations in the form of a target or targets expressed in terms of a percentage reduction in the incidence of existing tariff levels. It is desirable that the tariff reductions should be spread as widely as possible through the different sectors of the tariff and it might therefore be accepted as an objective of the negotiating countries to approach as near to the same level of reduction in each sector as practicable. It is the purpose of the calculation suggested in paragraph 6 to provide an indication as to how far this would be a realizable objective. The Committee would then indicate the minimum offer below the target which in its opinion should be considered to provide a basis for negotiations. All the countries which make an offer equivalent or superior to that minimum would be considered as having entered into negotiations.

8. At this stage it is suggested that the Committee should take account of the principle of equivalence of a binding or small reduction of a low tariff, to a substantial reduction of a high tariff through the technique set out in the Annex to this paper.

9. It is only after this weighting of the offers that the Committee would indicate whether or not the offer of any country was above or below the minimum. At the same time, the TNC could consider as having entered into negotiations a country whose offer was below the minimum if the Committee considered that the principles laid down in paragraph 3 of Article XXIX justified such action.

10. The stage would then be set for the bilateral negotiations.. All the countries which had been considered in accordance with the above procedures as having entered into negotiations, or which might later be determined to have met the requirements in view of additional offers, would conduct their negotiations in accordance with the usual practice. It is hoped, however, that if the governments agree on the revised rules, their negotiators would have as an important part of their aims in these negotiations:

(a) the bringing up of the overall concessions of each country to the target recommended by the TNC as being its appreciation of the possibilities of contributing to the objectives of Article XXIX,

(b) a reduction of high rates of duty, in particular those exceeding 50 per cent.

The TNC would be at the disposal of any country or group of countries to arrange for additional negotiations on a group basis whenever it was felt that the resort to triangular or multilateral techniques would improve the scope of concessions where purely bilateral techniques have failed.

11. When the bilateral phase had been concluded the TNC would assess the progress achieved in attaining the objectives in (a) and (b) above. The Committee would fix a time-limit to all participating countries to confirm their offers or to make adjustments in agreement with the other participants. The calculations and advice given by the TNC would be purely advisory and it would be for each negotiating country at the conclusion of the negotiations to take its own decision whether to accept the results of the negotiations on the basis of its own assessment thereof.

APPENDIX TO ANNEX A

1. Computation of the average incidence

Each participating government would compute the weighted incidence of its tariff in accordance with the following rules:

(a) for each sector the average incidence would be the ratio defined in the annex to the Report by the Sub-group on the technical aspects of the Revised French Plan (BISD, Second Supplement, pages 83 and following);

(b) each contracting party would be free to exclude from this calculation fiscal duties and the value of the corresponding trade, as well as duties levied on goods of which 50 per cent or more in value were imported by it in the base year from countries which do not take part in the tariff conference (see Rule II, BISD, Second Supplement, page 77);

(c) all valuations would be based on the c.i.f. basis and the f.o.b. incidence would be converted to a c.i.f. basis by increasing the data by 10 per cent (see BISD, Second Supplement, page 86);

(d) the preferential tariffs and preferential trade would be treated in accordance with Section 7(a) of the Report of the Sub-group (BISD, Second Supplement, page 90);

(e) the base year for the computation of the average incidence would be 1954 if reliable statistical data are available or, if that is not the case, 1953;

(f) the composition of the four sectors would be based on the SITC, the items being classified in accordance with the criteria contained in Section 8 A of the Sub-group's Report (BISD, Second Supplement, page 90).

2. Computation of the reduction of the tariff incidence represented by the offers

The Committee would assess the offers in terms of the reduction of the average incidence in the various sectors in accordance with the following rules:

(a) the reduction in the average incidence would be the sum of the reductions in the weighted incidence on each item listed in the offers. For that calculation, the composition of the trade would be deemed to be the same as during the base year;

(b) an additional credit would be computed for reductions of low tariffs and bindings of low tariffs, in accordance with the following criteria;

(c) for each sector a demarcation line shall be calculated on the basis of the rates applied by each negotiating country for all the items in that sector. The demarcation line shall be calculated on the basis of a weighted average of the weighted averages of the tariff rates in each sector of the countries participating in the negotiations, after the exclusion of duties considered as fiscal. For each sector a floor shall be computed which will be fixed at 50 per cent of the demarcation line for that sector;

(d) the binding of a rate at or below the floor would be counted as equivalent to a reduction by the percentage considered as the target for that sector;

(e) the reduction of any rate between the demarcation line and the floor would be weighted in accordance with the formula contained in Section 5 of the Sub-group's Report (BISD, Second Supplement, page 86), i.e. a given reduction of any such rate will be counted as equivalent to a larger reduction of a duty above the demarcation line.

### 3. Data to be sent to the secretariat

(a) Each participating country should send to the secretariat in advance of the tariff conference the weighted average of the tariff rates in each sector after exclusion of duties considered as fiscal, as well as the list of these duties and the value of the corresponding trade during the base year.

(b) each participating country should also send, as soon as its offer lists have been prepared, the average incidence of its tariff after exclusion of the fiscal duties as referred to above and of duty on goods of which 50 per cent or more in value were imported from non-participating countries in the base year, as well as a list of the goods thus excluded and the value of the corresponding trade during that year;

(c) the value of trade during the base year in each product on which concessions will be offered at the tariff conference, and the ad valorem incidence of the reductions offered on specific duties.

ANNEX B

Memorandum by the United Kingdom Delegation

1. For reasons which we have already explained, we see very little possibility, if any, that the United Kingdom Government would be prepared to participate in tariff negotiations conducted in accordance with the procedures currently proposed by the Working Party. We are therefore anxious to formulate, in co-operation with our colleagues, alternative proposals which we - and perhaps some of them - might submit to our respective Governments with better hope of success.
2. The United Kingdom Government are ready to enter into a fresh round of tariff negotiations in accordance with the established procedures. The President of the Board of Trade made clear the Government's position in this matter in his speech to the contracting parties at the last session. But we appreciate the special difficulties which make the low-tariff countries reluctant to join in a fresh tariff conference on these lines and we recognize that it would help these countries if a multilateral method of negotiation could be arranged. And we believe that it should be possible to devise practical procedures to multilateralize tariff negotiations while preserving the empirical methods of previous conferences. The following paragraphs set out our ideas as to how this might be done.
3. The United States Government have powers to reduce tariff rates by 15 per cent but not more than this. These reductions would be spread over a period of three years and the United States Government must be free to hold back particular tariff items for a smaller degree of reduction or no concession at all. Rates which exceed 50 per cent ad valorem might, however, exceptionally be reduced more substantially so as to bring them down to that rate. We on the United Kingdom side would see great political difficulty in accepting any proposals which would lead other countries to expect us to go further in the reduction of the United Kingdom tariff than the United States Government would be able to go in reducing the United States tariff. What we propose is that all of us who are prepared to participate in a further tariff conference should undertake to make it our objective, and to use our best endeavours, to reduce our tariffs, over as wide a range as possible, by 15 per cent or, in the case of very high duties, to a ceiling rate of 50 per cent ad valorem. Each country would table a consolidated list of offers and should seek, through subsequent bilateral negotiations, to improve his consolidated list. It would be for the Tariff Negotiations Committee to appraise the results and to use their good offices to ensure that, so far as possible, all made commensurable efforts so as to produce a reasonably balanced set of schedules which each could accept as mutually advantageous.
4. In order to keep the negotiations on a practical footing and to prevent misunderstanding, we would think it important to clarify at the outset the exceptions and limitations which we or other countries would think it necessary to stipulate.

On the United Kingdom side the following would seem to be the important ones:

- (i) Countries which have devalued their currencies since 1947 and whose tariffs include specific duties which have not been increased since that date to compensate for the reduced value of the money in terms of which they are charged, should be entitled to claim that they have already in this way allowed the effective incidence of these duties to fall by more than 15 per cent.
- (ii) The United Kingdom is a natural market for substantial imports of perishable and seasonal goods and products thereof from the Continent. Intra-European trade in these goods, however, is likely for some years to come to be artificially distorted by the continued application of quota restrictions and we must expect this to lead to an artificial stimulation of exports to the United Kingdom, as the only important market open to exporters of these goods. In this situation we should not ordinarily be able to contemplate a reduction of duties in this field.
- (iii) Fiscal duties, i.e. duties which are charged for purposes of revenue cannot ordinarily be subject to negotiation.
- (iv) As regards other products, countries would, of course, be free to exercise reasonable selectivity subject always to their making an overall contribution which would be accepted as adequate by their partners in the negotiation. The principal supplier rule should not apply to prevent a country not a principal supplier from making a request in respect of a given product, but the country concerned should be able to invoke the principal supplier rule if in any case the principal supplier of that product is not a member of the GATT or is standing aside from the negotiations.
- (v) Finally, we would think it desirable - and consistent with the general philosophy of balancing the reduction of a high duty against the binding of a low duty - to recognize that duties of 10 per cent, or less, ad valorem are low duties to which the special effort to reduce tariffs should not apply.

It would, of course, be open to countries to request greater reductions in particular rates than 15 per cent or to seek concessions which came within the area of the exceptions proposed above. Furthermore it would, of course, be open to countries to offer concessions in response to such requests, and it would be proper to give full credit for any such concessions. But the Tariff Negotiations Committee should not, in seeking to secure maximum results on a basis of reasonable balance, press any country to extend its best ~~concessions~~ beyond the limits proposed in paragraph 3, as limited by the ~~exceptions~~ in paragraph 4.

6. In brief, all countries will do their best, subject to agreed exceptions and limitations, to reduce their tariffs over as wide a range as possible; they would try to reduce by 15 per cent duties in their tariffs which are higher than 10 per cent ad valorem and those with very high duties in their tariffs would try to bring these duties down to 50 per cent ad valorem. Countries with 10 per cent ad valorem or less in their tariffs would not be called upon to reduce these rates. It would be the agreed objective to secure the best results possible on these lines, and while every country would reserve discretion whether to do more or less on particular cases, it would be a collective responsibility, working through the Tariff Negotiations Committee, to assure substantial results with a fair and acceptable balance of concession and advantage as between each country and the others.

7. This is not an ambitious plan. But it is, we believe, practical in relation to the political and commercial facts of the situation. At the same time it should, we hope, meet the special needs of the low tariff countries to negotiate on a multilateral basis. We hope, therefore, that our colleagues will examine it sympathetically and agree to recommend that we and they should submit it to our respective Governments. We should then be able, subject to approval by Governments, to proceed as quickly as possible to finalize arrangements within the exigencies of the tight time table to which we all need to work in order to undertake a successful conference next winter.