

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/TAR/2
21 May 1975

Special Distribution

Multilateral Trade Negotiations

Group "Tariffs"

RECORD OF DECISIONS TAKEN AND CONCLUSIONS REACHED ON 13-16 MAY 1975

Note by the Chairman

1. The Group met from 13-16 May and took the following decisions and reached the following conclusions. It invited the Secretary-General of UNCTAD or his representative to attend this session of the Group as an observer.
2. The Group heard a number of hypotheses on a tariff-cutting formula, including the following:
 - (a) a working hypothesis for harmonization providing for duty reduction by a percentage equal to initial ad valorem duty, with repeated application of the formula, the terminal tariff rate resulting from the preceding application becoming the new initial rate ($y = x$ repeated several times). Certain modifications should be made for the application of this formula to tariff above 50 per cent to avoid "leap frog effect", and these could be achieved by setting a uniform terminal rate for higher duties. One delegation suggested that this formula, if applied, should be repeated three times;
 - (b) a 60 per cent linear reduction;
 - (c) a combination linear-harmonization formula calling for 60 per cent linear reduction with a 5 per cent floor;
 - (d) a combination of 60 per cent linear reduction minus a harmonization factor $\frac{60}{x}$, where x represents the initial ad valorem tariff rate on each item;

(e) a formula $z = ax + b$ where:

z = final rate of duty

x = initial ad valorem rate of duty

a = 100% - rate of reduction

b = constant rate

Illustrative examples:

$$z = 0.4x + 3$$

$$z = 0.5x + 2.5$$

One delegation suggested that as far as products of interest to developing countries are concerned the coefficient " b " should be deducted ($z = ax - b$)

(f) harmonization formula: $z = a\sqrt{x} + b$, where:

z = final rate

x = initial rate

a, b - coefficients to be negotiated

(g) a built-in differentiator "L" applied to tariff reduction vis-à-vis developing countries. It was suggested that this differentiator should be included in each of the above formulae. It was further suggested that where GSP is applicable for products of developing countries, the rate of duty to be applied should be either the GSP rate or the above m.f.n. differentiated rate whichever is lower. When the GSP rate is subject to quotas or ceilings, developing countries should be able to decide whether they wish the GSP rate or the m.f.n. differentiated rate to be applied.

3. A delegation recalled essential elements of the proposal it had submitted at the previous meeting, which, broadly speaking, was the following:

Duties of 5 per cent and under

Total elimination

Duties over 5 per cent

Alternative (A) as a first step, all rates over 20% should be reduced to 20%,

as a second step, all rates then between 5 and 20% to be subject to either:

- (a) linear cuts of, say, 60% or 50%,
- (b) weighted reductions of, say, 60% or 50%.

Alternative (B) all rates over 5% to be subject to:

- (a) linear cuts, or
- (b) weighted average cuts, or
- (c) a progressive formula i.e. the higher the rate the bigger the cut.

A fundamental element of these alternative proposals is how to deal with exceptions.

4. There was an initial discussion on each of these hypotheses or proposals. Some delegations were of the view that proposals which establish a floor should be considered within the development of exceptions procedures. It was agreed that any further discussion of these proposals and hypotheses must await their detailed examination by the participating governments and that the Group would revert to this question at its next meeting, it being understood that delegations could put forward further hypotheses.

5. There was further discussion on the question of base rates/base date as far as unbound rates are concerned. Since it was not possible to reach an agreement, the Group decided to revert to this question at its next meeting.

6. In this context, the Group discussed the question of the tariff rate information file and the explanatory note describing procedures for fixing and modifying tariff rates, submission of which was decided by Group 3(a) at the preparatory stage of the negotiations (see MTN/4, paragraphs 16-22). The Group agreed that the participants which have not so far submitted the requested data with the explanatory note should do this as soon as possible. If it were to take some time to produce the file, the participating countries should submit the explanatory note first.

7. The Group further discussed the question of how account might be taken of the importance of maintaining and improving the Generalized System of Preferences and how special and more favourable treatment, where feasible and appropriate, may be provided to exports of developing countries. In this context, some delegations reiterated that a Tariff Negotiating Plan should include, inter alia, provisions to the effect that:

- increased security of the Generalized System of Preferences should be ensured,
- preferential margins for products of special export interest to the developing countries should be bound in special schedules of concessions,
- existing limitations on the Generalized System of Preferences should be removed and positive GSP rates should be reduced down to zero,
- the margins of preference should be preserved, to the extent possible,
- the product coverage of the GSP should be increased, especially by comprising the products included in BTN chapters 1-24,
- tariff escalation affecting products of interest to developing countries should be eliminated or substantially reduced,
- special procedures for the participation of developing countries in the tariff negotiations should be elaborated,
- products, where GSP treatment is not feasible, should be subject to deeper than average tariff cuts,
- preferences should be applied in a non-discriminatory way to all developing countries,
- preferential treatment granted by a group of developed countries to some developing countries outside the GSP should be extended to all developing countries,
- MFN tariff cuts for products not included in the GSP should be implemented in advance in favour of developing countries.

8. The Group had only a preliminary exchange of views on these proposals during which a number of delegations from developed countries outlined actions they were taking or are planning to take to improve the access of products from developing countries to their markets. It was agreed that these proposals should be further discussed at the next meeting of the Group.

9. It was suggested that, before a final selection of formulae for the tariff negotiations is made, a study of their implications for the trade of the developing countries should be carried out. It was agreed that the Group would revert to the content and technical aspects of this question at its next meeting.

10. Following a preliminary discussion of a proposal on the determination of unit of reference (MTN/TAR/W/2), the Group agreed to revert to the question at its next meeting.

11. There was a first exchange of views by some delegations on certain other elements that would need to be included in any tariff negotiating plan, including, inter alia, the staging of cuts, tariff escalation, valuation, threshold duties, countries to be exempt from the obligation to implement a general formula, and exceptions. It was agreed that the Group revert at its next meeting to these, as well as to other elements in a tariff negotiating plan, including the relationship between the tariff negotiations and particular non-tariff measures.

12. The Group decided that the secretariat should prepare, on the basis of past experience and of the discussions in the Group and its predecessors, a paper setting forth various elements which, inter alia, might be included in a tariff negotiating plan.

13. A suggestion was made that the participants should submit to each other, or via the secretariat, their most recent tariff. This suggestion received some support in the Group but no formal decision was taken on the matter. A suggestion was also made that as a part of any tariff negotiating plan countries should consider tabling their offers in the form of a consolidated GATT schedule shading out items which are not bound and indicating items which they do not intend to bind.

14. The Group agreed to hold its next meeting on 7 and 8 July, provided Group "Agriculture" is willing to begin its meeting on 9 July, with the possibility of meeting one more day during that week or on 14 July.

15. The agenda for the next meeting would be as agreed above.