

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/TAR/W/15
23 March 1976

Special Distribution

Multilateral Trade Negotiations

Original: English

Group "Tariffs"

STATEMENT MADE BY THE UNITED STATES DELEGATION AT THE GROUP "TARIFFS" MEETING, MARCH 1976

At the last Trade Negotiations Committee meeting, my delegation indicated that the United States would be prepared to put forth a definitive tariff-cutting proposal at this meeting. My Government has undertaken a long and detailed examination of tariff-cutting hypotheses submitted to this Group as well as other possible tariff-cutting hypotheses. We have taken into account the comments and the sometimes conflicting views expressed in this forum. We have also received and considered detailed advice from the United States private sector and have consulted with the appropriate Committees of the United States Congress.

It is my delegation's view that the question of selection of a general tariff reduction approach will be the centrepiece of our work on tariffs over the next few months. If we are to fulfil the agreed objectives of the Tokyo Declaration, particularly the achievement of "an overall balance of advantage at the highest possible level", we must be ambitious in our efforts to find an acceptable tariff-cutting hypothesis.

Having in mind these considerations and with the benefit of having received and reviewed the approaches to tariff-cutting taken by other nations and by affected interests in the United States, my delegation is proposing a tariff-cutting hypothesis with the following objective: to accomplish significant overall reductions in duties, with harmonization. This we propose to do by means of a formula which:

- is more ambitious than the Kennedy Round hypothesis of 50 per cent;
- is aimed at substantially reducing duties within the range in which the large majority of developed country tariffs and trade is found;
- ensures more equitable access among developed country markets; and
- provides more secure and favourable access for exports from developing countries.

As we pointed out in the October meeting, a guiding concept for the United States in these negotiations is the achievement of substantially equivalent competitive opportunities in the markets of developed countries. Because this concept is broader than mere tariff reduction, we will be seeking, as part of any agreement on a tariff-cutting hypothesis, an understanding that non-tariff measures should also be liberalized. That is to say, my delegation does not view the tariff-cutting exercise in isolation. Ultimate success here is directly linked to our ability to reduce non-tariff barriers to trade and accomplishment of the other objectives of this negotiation.

After carefully weighing these various elements we have concluded that a formula with both harmonization and linear elements, that is, a formula of the form Y equals aX plus b will best achieve the objectives of this Group.

The United States therefore specifically proposes that the tariff-cutting formula should be Y equals $1.5X$ plus 50 up to a maximum reduction of 60 per cent applied to tariffs on all products and by all developed countries. This formula combines a 50 per cent linear element with a harmonization element equal to one and one half times the height of the initial tariff rate. Thus, Y , the percentage tariff reduction, is equal to one and one half times the initial tariff rate X , plus 50. This would apply until the depth of cut reaches 60 per cent which is the maximum cut called for under our formula.

The formula must be more ambitious than that set forth in the Kennedy Round. Most tariffs are substantially lower today than they were at the beginning of the Kennedy Round. Accordingly, the base from which percentage reductions are calculated is smaller. Hence, if we are to obtain a significant absolute level of tariff liberalization, greater proportional cuts are needed. The formula we propose takes this fact into account, and would result in a significant overall reduction in the level of duties.

We should not be misled by the fact that average tariff levels which exist today are substantially lower than before. The tariffs that remain are still a significant impediment to trade flows. Moreover, some duties, particularly those applied to certain finished manufactures and to agricultural products in a number of world markets, remain at especially high levels. While their impact is masked by tariff averages, they nevertheless inhibit trade and thereby reduce the benefits of increased trade for exporting and importing nations alike.

Our formula, like those which other countries have suggested, proposes very substantial cuts in the very high tariff range.

However, our formula goes further. In addition to attacking tariff peaks, it is aimed at achieving substantial cuts, with harmonization, in the range of duty rates where the largest volume of trade occurs and where the largest number of tariff lines is found. Most trade flows at duty rates below 15 per cent and most tariff lines also fall below that level. Our formula is specifically tailored to achieve significant overall reductions in this range of rates, and to bring about greater harmonization in tariffs below this level.

This represents the first occasion on which my delegation has embraced harmonization of tariffs as an objective in a tariff-cutting exercise. It is well known that my delegation has previously advocated a linear approach to tariff reductions and that we have differed with those who have advanced theories of tariff harmonization. We have now concluded, however, that our interests and the objectives of this Group are advanced by an approach to tariff cutting which embraces both linear and harmonization elements.

The formula proposed by my delegation includes an important harmonization factor. It is entirely consistent with arguments traditionally advanced in support of tariff harmonization - that is to say, it proposes greater reductions in above average tariffs than it does for average and below average tariffs. Calculations made by the secretariat in the GATT Tariff Study (import-weighted and including duty-free trade) show that the average tariff for the countries covered by the Study is 6.2 per cent. Our formula proposes the maximum cut we are permitted to make - 60 per cent - upon rates of duty above 6.67 per cent - that is, on rates above the 6.2 per cent average - and it proposes smaller, but still substantial reductions upon duty rates below 6.67 per cent. In order to keep the formula simple the harmonization factor was rounded to 1.5 per cent. As a result, the point at which the 60 per cent maximum cut applies is not precisely at the average in the GATT Tariff Study, but near that point, and it results in maximum duty reductions above 6.67 per cent and substantial reductions below that level. We also note that the linear element itself achieves considerable harmonization since it reduces the absolute spread between tariff rates.

We have attached Chart A which shows graphically that $1.5X$ plus 50 reduces all tariff rates substantially and that higher than average rates are cut by more than lower than average rates. Thus, a 2 per cent tariff is cut by 53 per cent; a 5 per cent tariff is cut by 57.5 per cent. Above 6.67 per cent ad valorem the 60 per cent maximum reduction is reached.

I wish to emphasize that the formula advanced by my delegation is aimed at working deep cuts on tariffs where there are significant trade flows - cuts which are deeper than most of those which have previously been proposed to this Group. An analysis of the tariff formulae presented at the Group's meetings last May and July shows that some formulae do not reduce tariffs in the 0-5 per cent range, some reduce tariffs only moderately in the 5-15 per cent range, and some make significant reductions only in tariffs of over 25 per cent. But attached chart B, drawn from the GATT Tariff Study, shows that 17 per cent of all tariff lines of the Tariff Study countries are dutiable below 5 per cent ad valorem, 35.6 per cent are between 5 and 15 per cent ad valorem, 13.8 per cent are between 15 and 25 per cent ad valorem. Only 10.5 per cent fall in the range over 25 per cent ad valorem where some of these formulae are the most effective. The United States, for example, has only 7.3 per cent of its tariff lines with duties of greater than 25 per cent ad valorem. I should note that these distribution data relate only to industrial tariffs. When tariffs on agricultural products are added, for the United States, a higher percentage of tariff lines fall in the 5-15 per cent range, but the number of tariff lines over 25 per cent remains small.

Were we not committed to further trade liberalization, we might well accept a formula which works its greatest effect on a small number of high rates. Clearly, in these circumstances, the adoption of such a formula would result in small tariff reductions on the vast majority of tariff items, would not fulfil the objective of equitable market access, and would leave much of world trade exposed to significant tariff-induced handicaps and distortions. However, we are not content to be so modest in our aspirations and we are confident that this Group will agree. We need to accomplish substantial overall reductions. We need, especially, to accomplish these reductions, with harmonization, in the range where the largest volume of trade and largest number of lines now occur if we are to bring about significant tariff liberalization.

One of the objectives I identified earlier which my delegation seeks by way of this formula is to achieve more secure and more favourable access to developed country markets for developing country exports. In devising our formula we have listened attentively to developing countries and others who have stressed the importance of reducing tariff escalation. Our analysis shows that the formula we are proposing decreases tariff escalation to a major extent. Our analysis of the GATT tariff data shows that nearly all escalation in resource-based industries

exists in the 0-15 per cent tariff range. Raw materials typically enter developed country markets at zero or near zero rates of duties. Semi-finished and finished products, on the other hand, usually enter at higher rates, predominantly at rates up to 15 per cent. Y equals 1.5X plus 50 reduces the tariff spread in the ranges which are relevant for considering tariff escalation, as the attached chart C shows.

On the question of special and differential treatment for the products of less-developed countries, the United States proposed in the October meeting a procedure of bilateral cross notification and consultation between developed countries and developing countries on items of particular export interest. This cross notification procedure can be an important one. It would allow countries to focus on the specific tariff problems which may affect trade in specific items between developing and developed countries. In addition, the cross notification procedure would establish a framework for negotiations between formula and non-formula countries. It can form a basis for providing special and differential treatment for the exports of developing countries in several ways. First, it will help to identify products of developing country interest where developed countries should make a particular effort to limit exceptions. Second, it can provide the basis for special staging, faster or slower time frames for tariff cuts, on products of interest to developing countries. Third, it can identify those products where deeper than formula cuts might be made, in circumstances where the formula calls for use of less than the maximum United States authority.

Several delegations have expressed concern on the advisability of including a tariff floor, either implicit in a formula or stated explicitly. Forceful arguments have been made on both sides of the issue. The formula Y equals 1.5X plus 50 with its 60 per cent maximum is adaptable, depending upon the way in which rates are rounded in the application of the formula. The United States authority for rounding to simplify duty computations is flexible. Depending upon which rounding technique is applied, the United States formula could result in a 1 per cent floor, a half per cent floor, or no floor at all. My delegation does not now take a position on which of the possible rounding rules should be applied and we await with interest receipt of the views of other delegations on this issue.

The United States is committed to a hypothesis that calls for substantial overall reductions across the board. The United States is not prepared to decide or to set forth a United States position on rules for exceptions until the tariff-cutting hypothesis is decided by the Group and we have again consulted our private sector advisory groups and the Congress. In general, however, our view is that all countries should use maximum restraint to minimize exceptions. The United States supports this basic commitment, but its willingness to apply it will depend on its acceptance by other participants.

We need also to examine closely the various alternatives for staging the reductions over time. My delegation has no fixed idea on the implementation of these reductions, but we note that, like our rounding authority, our staging authority allows for some flexibility in the choice of approaches. Some tariff reductions could be placed in effect immediately. Others could be staged over a ten-year period. A recognition of the adaptability of staging provisions should aid the Group in coming to an agreement on a tariff reduction formula that would achieve substantial overall duty reductions.

Last year when we began these discussions on a tariff formula, the world was in recession; now economic prospects around the world are improved. This is an opportune time for a bold decision on a tariff-cutting formula that will lead to substantial trade liberalization - and the benefits that flow from it - for all of us.

My delegation is now prepared to enter into discussions in this Group and to begin bilateral and plurilateral discussions in order that we might achieve agreement on a tariff-cutting formula at the earliest possible date.