

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## TARIFF-CUTTING FORMULA

Statement made by the Japanese Delegation  
at the Group "Tariffs" Meeting, October 1976

1. It will be recalled that at the last meeting of Group "Tariffs" the Japanese delegation indicated that the Government of Japan would propose a definitive tariff-cutting formula this autumn. We are now in a position to do so and we have asked the secretariat to circulate our written proposal which I hope is now available to delegations. I would like now to present and explain the Japanese tariff-cutting formula.
2. Let me begin by touching upon the objectives which we consider basic in formulating a viable tariff-cutting formula. First, the formula should be applicable as generally as possible, that is to say, as many countries as possible should apply an agreed tariff-cutting formula to reduction of their tariffs. It should be simple in its form and should also lead to a substantial tariff reduction. Secondly, the formula should have a harmonization element of narrowing tariff differentials, and thirdly, the formula should be such as to minimize exceptions as far as possible.
3. In addition to these basic objectives, we have carefully examined the tariff-cutting formulae proposed by other participants and a number of working hypotheses suggested in this Group. We have also taken into account many constructive and useful comments made in this Group.

Based upon these considerations, the Japanese Government now formally proposes the formula  $Z = 0.3K + 3.5$ , where  $Z$  is the resulting rate and  $K$  is the initial rate. This formula is based upon a 70 per cent linear element, which is combined with the harmonization element of constant 3.5. A resulting rate is, therefore, obtained by cutting an initial rate by 70 per cent, i.e. the initial rate is multiplied by 0.3, and then adding to it 3.5 percentage points. To illustrate, an initial tariff rate of 10 per cent would be reduced to 6.5 per cent ( $10 \times 0.3 + 3.5 = 6.5$ ). An initial rate of 15 per cent would be reduced to 8 per cent, and an initial rate of 20 per cent would be reduced to 9.5 per cent.

If our formula is strictly applied to the range of tariffs of less than 5 per cent, the resulting tariff rates would be higher than the initial rates. It is proposed, therefore, that the tariff rates at less than 5 per cent should not be subject to change and should remain as they are.

In comparison with the EC's formula i.e.  $Y = X$  four times, in the range of tariff rates approximately from 8 per cent to 27 per cent, the Japanese tariff-cutting formula achieves a deeper cut than does the EC's formula. By means of our formula, if an initial tariff rate is 35 per cent or more, the reduction rate of tariffs would be 60 per cent or more.

The question of how to deal with tariff reductions over 60 per cent should be left open for the time being.

4. The Government of Japan, in devising the formula, has borne industrial products in mind. With regard to tariffs on agricultural products, the Japanese delegation is of the view that it is desirable that offers, while following the above formula to the extent possible, be tabled in line with the precedent of the Kennedy Round exercise and in consideration of the special characteristics of the agricultural sector.

As to the rules applicable to the reduction of tariffs on agricultural products, this delegation is of the view that they would require a full discussion in Group "Agriculture". I may add, however, that we would not be opposed to an exchange of views on this subject in this Group.

5. As I have stated, the tariff rates less than 5 per cent are not subject to change. This feature of our proposal is in accord with the idea of harmonization, which was not fully achieved in the Kennedy Round negotiations and which, in our view, should be a major objective of the negotiation of this Round. This feature would also take into account the interests of developing countries since it leaves room for appropriate consideration to the avoidance of the reduction of the GSP margins which are narrow in this tariff range.

6. When it comes to actual application of the formula, it would be inevitable to have some items to which full application is not feasible, while the possibility of deeper than formula cuts, where feasible and appropriate, would not be precluded either.

In the view of the Japanese delegation it is essential that exceptions be kept to the minimum level possible. I would like to emphasize that in devising the formula, the Japanese Government carefully weighed this factor.

7. With regard to the problem of reciprocity, as provided for in paragraph 5 of the Tokyo Declaration, negotiations should be conducted on the basis of overall reciprocity and participating countries should endeavour to achieve an overall balance of advantage at the highest possible level. The Japanese delegation is of the view that reciprocity should be sought in the framework of overall advantage, and should not be sought exclusively in the field of tariffs or on a strictly bilateral basis, since this will lead to a lower level of overall results of the negotiations.

8. On the questions of the base rates, GATT bound rates should be adopted for the bound items as already agreed upon and as recorded in GATT document MTN/TAR/1. Concerning unbound rates, the Japanese delegation is of the view that general rates should be used as the base rates. As for the base date, the Japanese delegation is of the view that the time of the completion of the Kennedy Round tariff reductions should be chosen for this purpose. I am reiterating the position that we had occasion to state in greater detail in past meetings of this Group.

9. I would now like to make a brief observation on the question of developing countries.

(1) The Japanese Government is of the view that all developed countries should apply an agreed formula to tariff reduction. But with respect to the developing countries, we do not expect them to make offers in accordance with the agreed formula.

Concerning reciprocity, I have emphasized that an overall balance of advantage should be achieved at the highest possible level. Having accepted the Tokyo Declaration, we do not expect full reciprocity from developing countries. We look, however, for meaningful contributions by developing countries to the success of the MTN, the contributions that are consistent with their individual development, financial and trade needs.

(2) As for the important questions of special procedures and special measures for developing countries, I would like to say that we have been giving serious considerations to this question but that our examinations are not yet completed. Some of the procedures and measures floated at the previous meetings of the Group seem useful to this delegation, while in some others we see some problems. In any event, this delegation is of the view that it would be appropriate to proceed by identifying items of special export interest to developing countries. We would also support the examination of special measures in parallel with the selection of a general tariff-cutting formula.

10. I have outlined the Japanese proposal and some of our basic views. It is our earnest hope that our proposed formula would be given a full consideration by participants to this negotiation.

In closing my statement, I wish to emphasize that Japan attaches great importance to an early agreement on the general tariff-cutting formula so as to give impetus to the promotion of the Multilateral Trade Negotiations.