

GENERAL AGREEMENT ON TARIFFS AND TRADE

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TARIFF-CUTTING FORMULA

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

In May 1975 the Swiss delegation presented, by way of a working hypothesis, a tariff-cutting formula in a rather general form. At a subsequent stage in the work it declared its readiness to translate that hypothesis into concrete terms in due time. Today the Swiss delegation is in a position to present to you a quantified and precise proposal for a tariff-cutting formula.

At each of the stages I have just mentioned - presentation of general hypotheses, elaboration, and formulation of a concrete proposal - the Swiss delegation has constantly borne in mind four considerations that it has voiced on a number of occasions but that may nevertheless in my opinion, usefully be reaffirmed once more.

It has been our view that the tariff negotiations should lead in the first place to a substantial and significant reduction of customs tariffs. In the second place, we have maintained that the tariff negotiations should be based on the concept of harmonization of tariffs. In the third place, our view has been that in order to have some chance of success, the tariff negotiations must be based on a formula of the most general application possible. Lastly, Mr. Chairman, we have underlined that the tariff situation resulting from implementation of the Tokyo Round tariff formula must be such that the next round of tariff negotiations will be greatly facilitated and simplified, the starting points of each of our governments having moved substantially closer together.

The formula that we are proposing today seems to us to meet these four objectives which, if we are not mistaken, are likewise being pursued by a great many governments represented here. This formula is expressed in the following way:

$$z = \frac{14 x}{14 + x}$$

It involves three simple operations - one multiplication, one addition and one division. We have thus taken account of the concern of certain members of the Group that the Swiss delegation should not come back on its earlier proposals, which were based on a square root calculation.

That being said, I now come to the principal technical characteristics of this formula and to the effects of its application. In order to do so, I shall comment only on certain modalities of the formula. (For further details, members of the Group may refer to the technical note that has been circulated in document MTN/TAR/W/34 and Add.1.) The application of this formula will lead to a substantial reduction of duties: thus a duty of 5 per cent would be reduced to 3.5 per cent in rounded figures; a duty of 10 per cent to 6 per cent; a duty of 15 per cent to 7 per cent, and a duty of 20 per cent to 8 per cent. May I add right away that rounding to the half percentage point can still be discussed, and we have only selected it by way of example.

You will also see that the Swiss formula would not leave any duty in excess of 14 per cent, and that it is based on the concept of harmonization since the reduction rates increase as the initial duties rise, as can be seen clearly from the graph in document MTN/TAR/W/34/Add.1.

The formula is simple, not only for the reasons I have just mentioned but also because it directly expresses the final rate, and because apart from the initial rate we have only one other element to take into consideration which is, in the case of the Swiss formula, the figure 14.

Lastly, it is amenable to application without modification or any restriction to all initial rates, be they low, medium or high.

I think these few comments cover what I would term the more technical part of the Swiss formula.

I come now to considerations of a more general nature. In this connexion I should like to reaffirm that while in our opinion the tariff negotiation is a very important element of the Tokyo Round, nevertheless it cannot be undertaken validly except in the context of an overall effort bearing likewise on the other obstacles to international trade, in particular on non-tariff measures.

This parallelism is still more fundamental in the agricultural sector, given the specific character of the problems arising there and the far-reaching differences in the starting situations of individual countries. It does not, therefore, seem feasible to us at this stage to take any position in regard to the tariff area where agriculture is concerned. Indeed, the tariff area cannot be dealt with independently of all the other elements deriving from agricultural policies, whether at the level of frontier measures or even sometimes that of domestic measures. Consequently, if the tariff formula that we are proposing to you today is applicable at this stage to the industrial sector in parallel with progress made in the area of non-tariff measures, on the other hand in the agricultural sector we wish to reserve the possibility of its application having regard to work still to be done in the appropriate Groups.

The tariff formula that we are proposing offers the following advantages: it is sufficiently ambitious for the tariff negotiation to yield substantial results; in addition, it seems to us sufficiently well balanced to avoid, to the fullest extent possible, exceptions that would inevitably lower the effective results of the negotiations to a level unrelated to the initial objective. It would, therefore, allow essentially automatic application that, in our opinion, is the best safeguard against the risks of exceptions of all kinds.

Lastly, this formula likewise seems to us consistent with the objectives set forth in the Tokyo Declaration as regards taking into consideration the specific interests of developing countries.