

MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

RESTRICTED

MTN.GNG/NG1/13
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Group of Negotiations on Goods (GATT)
Negotiating Group on Tariffs

MEETING OF 18 JULY 1989

Note by the Secretariat

1. The Group was chaired by H.E. Mr. L. Duthie. It pursued the discussion on the following points:

Item A: Establishment of detailed procedures, approaches and methods necessary for the tariff negotiations (MTN.TNC/11, page 4, paragraph 1)

2. The Group had before it two new submissions relating to the modalities of tariff negotiations, i.e. by the European Communities and by Japan, contained in MTN.GNG/NG1/W/22 and 25, respectively. The Group also had before it two papers submitted by Australia, Canada, Hungary and New Zealand, regarding the question of multilateral review and assessment of the tariff negotiations and the question of credit for bindings, contained in MTN.GNG/NG1/W/23 and 24, respectively.

3. The submission by the European Communities (NG1/W/22) proposes for all participants a co-ordinated negotiation linking tariff and non-tariff measures with the aim of achieving durable and effective improvements in market access. The EC emphasizes that they have no intention to grant concessions nor give credit for tariff concessions nullified or impaired by non-tariff measures. They also consider it essential that all participate actively in the negotiations, and they reserve the right to adjust their final offer if this condition is not met. The EC proposal stresses that at the end of the Uruguay Round, all industrial tariffs should be bound by all participants. The proposal contains a systematic approach to tariff negotiations on industrial products based mainly on a harmonization formula. It provides three categories of countries, i.e. industrialised and more advanced developing countries, other developing countries (other than the least advanced), and least advanced countries. For the first category of countries, the proposal foresees a maximum tariff rate of 20 per cent after reduction and for present rates up to 40 per cent, a sliding scale which would achieve reductions of up to 50 per cent. For the second category of countries, it envisages reductions to a maximum rate of 35 per cent and the possibility of bilateral negotiations for tariffs of 35 per cent or less. The proposal stipulates that for the countries falling into the above-mentioned categories, both the new rates negotiated and any rates left unchanged should be bound. For the third

category of countries, it provides that contributions would be made within the limits of these countries' capabilities, in accordance with Part I.B paragraph (vii) of the Punta del Este Declaration. In addition to such a systematic approach to tariff reductions, the submission does not exclude the elimination, by all participants, of base rates of 3 per cent or less provided that no compensation or credit is claimed therefore. In introducing its proposal, the EC stressed that it was open to comments and suggestions and that in light of this, they might make amendments at a later stage.

4. The submission by Japan (NG1/W/25) proposes a generally applicable approach to tariff reductions based on the formula used in the Tokyo Round, with the coefficient "a" in the formula being chosen by each participant so as to achieve 33 per cent or more tariff reductions. This formula is to be applied, in principle, by all participants. This approach would enable developing countries to choose a coefficient in accordance with the general principles of the Punta del Este Declaration and to make contributions commensurate to their stage of economic development. In the oral presentation of its proposal, Japan made it clear that its position regarding the question of coverage had not altered from the one contained in its previous submission (NG1/W/8/Suppl.1/Rev.1), i.e. the proposal covered all industrial and mining products (defined as products classified in Chapters 25-97 in the Harmonized System tariff classification) excluding agricultural, forestry and fishery products and petroleum. This proposal also foresees the possibility that the formula approach might be supplemented by a request-and-offer procedure after the submission of the initial offer list in order to achieve tariff reductions deeper than the formula cut, including elimination of tariffs, as required. It further suggests the end of January 1990 as a target date for the submission of initial offer lists, together with an indication of the actual figure of the coefficient "a". Japan stated that it reserved its right to modify the proposal at later stage of the negotiations.

5. Many participants welcomed both submissions and acknowledged them as encouraging inputs to the negotiations in the field of tariffs. Those participants who had previously indicated their preference for the formula approach strongly supported the harmonization effects that both submissions envisage. However, a number of participants expressed concern about the limitations as to the product coverage contained in both submissions. Developing country participants maintained that neither of the two proposals took sufficiently into account the requirement of special and differential treatment for developing countries. In addition, one participant stated that the request-and-offer approach was the best-suited method to its own contribution in the tariff area, but acknowledged at the same time that the modalities proposed in both submissions might be most appropriate for other participants.

6. With regard to the proposal by the European Communities, some developed country participants favoured the idea of upper tariff ceilings for the first two country categories and the binding of all industrial

tariffs. Many developing country participants, on the other hand, maintained that these ideas were too far-reaching and unrealistic in the light of their development, financial and trade needs. A number of developing country participants also questioned the categorization of developing countries into three groups. One of these participants stated that if the proposed modalities were to be applied, developing countries would be required to make deeper tariff reductions than developed countries, which would be contrary to the objectives of the Punta del Este Declaration and the Montreal Ministerial decisions. The idea of a negotiating link between tariffs and non-tariff measures was supported by several participants, whereas some other participants, while agreeing to the aim of achieving durable and effective improvements in market access, stated that procedurally negotiations on tariffs should not be integrated with those on non-tariff measures; it was obvious that at the end of the negotiations, each delegation would assess for itself the progress made in the access to other markets. A number of participants queried why no credit should be obtained for the elimination of tariffs of 3 per cent or less; some of them stressed that this was unfair to countries which had already achieved low tariff averages and would make it difficult for them to attain the agreed target of reductions. In this context, one of these participants wondered whether the proposal envisaged any distinction between 3 per cent base rates which were bound and those which were unbound, and what implications there might be in terms of Article XXVIII bis in case unbound duties of 3 per cent or less were to be reduced to zero and subsequently bound.

7. With regard to the proposal by Japan, a number of participants favoured the idea of combining two tariff-cutting approaches, i.e. the harmonization formula and the request-and-offer approach, and appreciated the elements to provide more flexibility in view of enhancing the effective participation of developing countries. However, several participants expressed doubts about the idea of allowing each participant to choose its own coefficient for the application of the formula, which would introduce too much flexibility into the negotiations. Several developing country participants, while appreciating this element of flexibility in the proposal, stated that the principle of special and differential treatment should not be limited to different co-efficients. They maintained that because of financial problems in their countries, it would be difficult for them to implement a formula for overall tariff reductions. One of these participants underlined that his delegation had serious doubts and reservations as to whether the formula approach would be the best-suited for developing countries whose levels of developments and trade situations differed significantly from one to another.

8. One participant stated that his delegation would be in a position to table a proposal well in advance of the Group's next meeting, and that it would be based upon an across-the-board approach containing a harmonization effect. He explained that this proposal might also encompass the request-and-offer approach to seek and offer deeper cuts and, if possible, the elimination of tariffs. He also mentioned that it would include request lists relating to non-tariff measures with a view to binding all terms of access against future increases at the end of the negotiations.

9. Another participant suggested that in view of the time constraints it might not be possible, and indeed not necessary, for the Group to agree on a single formula and that many variations would be acceptable. He stated that it would be important to establish appropriate principles with a view to an equitable and fair contribution to market access liberalization, to be made by all participants, allowing flexibility to participants in bringing forward their proposals on how they propose to satisfy the criteria set down in Montreal.

10. One participant stated that her delegation was putting forward initial request lists on tariff and non-tariff measures to fourteen other participants. She explained that these participants had been chosen on the basis of the availability of relatively recent tariff and trade tariff data and that the lists were presented at the 6-digit level of the Harmonized System. She also stated that her authorities had tried to be mindful of the criteria outlined in Montreal in developing the requests, such as substantial increase in binding, universality of bindings, broad product coverage and lower and more uniform rates. She mentioned that her authorities were preparing further requests which would be tabled in the autumn. She finally added that her government would welcome requests from other governments so that participants could move towards the presentation of offers in an agreed time-frame.

11. The Group subsequently discussed the submission made by the delegations of Australia, Canada, Hungary and New Zealand on the issue of multilateral review and assessment of the tariff negotiations (NG1/W/23). It was explained by the authors of the submission that, without prejudging the outcome of the discussion on the modalities to be adopted for the conduct of the tariff negotiations, the paper was designed to provide a multilateral dimension to the process of review and assessment. The proposal envisages that as of March 1990 and periodically thereafter during the course of the negotiations, sessions should be scheduled to review summary analyses prepared by the secretariat of individual lists of proposed concessions against certain criteria, as a means of monitoring the target agreed to in Montreal. It was further explained that this proposal was based on the analyses undertaken by the secretariat after the Tokyo Round, and it was assumed that offers would be tabled by 1 January 1990. Several participants supported the idea of transparency and the need for a review mechanism, especially during the early stages of the negotiations. One participant expressed concern regarding the timing in view of the different approaches that were likely to be followed. The need was also underlined that all participants provide the necessary information. Another participant expressed doubt about the practical possibilities to carry out the suggested reviews, but agreed that the proposal merited further examination.

12. In reply to the questions raised in document NG1/W/23, a member of the secretariat explained that the preparation of analyses of individual lists of concessions raised three questions: (1) Which data would be used for the analyses? It was expected that the Tariff Study would include trade

information concerning twenty participants for the years 1986 or 1987 in pre-HS nomenclature; for those countries submitting lists of proposed concessions in HS it would be necessary to create a new Tariff Study file in the HS nomenclature since the Integrated Data Base would not yet be operational. (2) Which computer programmes would be used? On this question, the secretariat could use the computer programmes available to compile the basic documentation for the Tariff Study; new programmes would have to be created for the assessment of the scope of bindings or the credit for bindings. (3) Would the secretariat be able to carry out simultaneously the preparation of the Integrated Data Base and the requested analyses? Due to the shortage of personnel, it would not be possible for the secretariat, within the next eight months, to carry out at the same time the preparation of the IDB and the inclusion of new HS files in the Tariff Study; priorities would have to be defined in view of a more precise assessment of the work necessary to update each of the HS country files in the Tariff Study format.

13. In introducing the document on credit for bindings (NG1/W/24), it was explained that it was meant as a discussion paper and did not constitute a proposal. The paper had been motivated by three reasons, i.e. the need to know what would be the credit for bindings undertaken for the first time, the need for a common understanding among trading partners to assess credit to be granted for first-time bindings, and the need to create some degree of incentive for participants to bind their tariffs. Several participants expressed support for the concept contained in NG1/W/24, especially in view of the fact that one of the major objectives in the tariff negotiations was an increased level of bindings. Doubt was on the other hand expressed whether it would be possible to find a common approach and whether this was not rather a matter for the bilateral negotiations. Some participants felt that this question needed to be examined further, particularly in light of the provision of Article XXVIII bis. One participant pointed out that in establishing credit for bindings, it was essential to take into consideration the very special situation of the countries which had unilaterally bound their whole tariffs. Another participant suggested taking into account also the existing level of bindings.

Item B: Broadening and updating of factual data base for the tariff negotiations

14. Following suggestions made at the last meeting of the Group, the secretariat had circulated a note contained in document NG1/W/21 which gave an update of the situation related to the submission of tariff and trade data. At present, sixteen participants had furnished the required data for the negotiations; four additional countries were being added to the data base. The Chairman underlined that the need for further countries to submit tariff and trade data had been stressed several times at past meetings, and he urged participants once more to make every effort in this respect.

Item C: Consideration of the Group's future work and arrangements for further meetings

15. The Chairman noted that the discussion which had taken place at the meeting had shown that the Group would not agree on a single modality for the negotiations, although there had been strong support for a formula approach of varied types; the concept of a request-and-offer technique had been confirmed by at least one participant, and views on a hybrid approach (formula together with request-and-offer to go beyond the agreed target) had been expressed. Taking into account the various positions adopted by the participants, the Chairman suggested that the next meeting be used to establish an agreed framework containing principles and guidelines within a proposed time-frame for the effective development of the tariff negotiations.

16. The Group agreed to meet again on 27 September 1989. Subsequent meetings would take place on 23 October and 23 November 1989.