Committee III - Expansion of Trade

THE REDUCTION OF CUSTOMS TARIFFS

Note by the Executive Secretary

1. Committee III, in the light of the conclusions of the ministerial meeting and the Declaration of 7 December 1961, has set for itself a number of tasks, among which are the consideration of ways and means of bringing down certain types of tariffs and the formulation of principles and considerations for reference to the Working Party on Procedures for Tariff Reductions. (See paragraph 9 of the Committee's report on its future work programme in L/1732.) Contracting parties were asked to submit specific proposals, and those maintaining the types of tariff barriers identified by the Committee were invited to indicate the consideration given by them to the reduction of such barriers. Apart from factual data on the present state of the tariffs in question, the secretariat was asked to provide suggestions which would facilitate the Committee's discussion of these points (see L/1732, paragraph 11).

2. Before any proposals are discussed, it may be useful to recapitulate the types of tariffs the reduction of which is desired by less-developed countries and has been urged by the Committee. As noted in its special report in L/1557 and as explained in that and various previous reports, these consisted of: (a) high tariffs, and (b) tariffs which differentiated disproportionately in favour of raw materials, as compared to processed goods. The products especially enumerated by the Committee as being affected by such tariffs (apart from certain "tropical products" which are to be considered separately by a Special Group) are:

- Manufactures of jute, of cotton and of coir, sports goods,
- aluminium, ferro-alloys, copper rollings, leather goods, and certain other manufactured consumer goods, i.e. bicycles,
- sewing machines, electric fans, electric motors, diesel engines and steel furniture.

3. The question of disproportionately high tariffs principally relate to basic materials (such as the metals and fibres mentioned above) which have undergone the first stages of processing. The establishment of processing industries, it has been recognized, would contribute to the promotion of economic development and augment the export earnings of a less-developed country. As regards the simple manufactures (bicycles, sewing machines, etc.), the Committee has drawn attention to the existence of relatively high tariffs.
on such goods, and has recognized their growing importance for the export earnings of less-developed countries. The Committee has affirmed that a reduction of these barriers would be of considerable assistance to less-developed countries (L/1557, paragraph 5(ii)). No doubt the Committee, in addressing itself to the tasks relating to tariff reduction, will wish to concentrate its attention on these products.

Reduction of tariffs in a plan for tariff reductions

4. Paragraph 9 of the report in L/1732 states that the Committee intends:

(i) "to consider ways and means of bringing about an earlier and more substantial reduction of the types of tariffs mentioned above than can be expected to result from the general plan for tariff reductions with a view to formulating a precise programme" (such reductions might subsequently be taken into account when a general tariff reduction plan is implemented), and

(ii) "to formulate principles and considerations, both in general terms and in regard to particular products, which would be made available to the Working Party on Procedures for Tariff Reductions and which the Committee considers should be taken into account in the new procedures to be recommended by the Working Party".

5. The Committee will no doubt direct its attention to the task described in (i) above in the light of the factual data available. As regards the task described in (ii) it will be recalled that at the ministerial meeting, the conclusion was reached that, the traditional GATT techniques for tariff negotiations no longer being adequate, consideration should be given to the adoption of new techniques, in particular, some form of linear reduction, or a specific programme of phased reduction over a period of years. Since then the United States Government is reported to have been requesting authority from Congress for the reduction of tariffs along certain lines. Apart from these general indications of possibilities there is as yet no guidance as to the likely form which the proposed tariff exercise will take. In the circumstances it would be difficult for Committee III to aim at formulating "principles and considerations" in very precise terms. The Committee might console itself with the knowledge that, while the contemplated tariff reduction plan gradually takes shape, the Committee will clearly not be denied opportunities for elaborating or supplementing whatever proposals it may feel able to make at present.

6. In formulating such "principles and considerations" the Committee will no doubt wish first to ascertain the range and depth of reduction in the import duties of industrialized countries which are desired by the less-developed countries as a whole. In this connexion, it is suggested that attention might be given to the following points:

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1The summary schedules being prepared by the secretariat for use by the Committee (COM.III/73 and Add.1) accordingly cover the same products (except cotton textiles).
(a) The less-developed countries may wish to stress that in any tariff reductions plan, the products of interest to the less-developed countries should be assured of inclusion among the products on which industrialized countries will reduce their duties. The Committee may wish to discuss whether this should include all the products enumerated in paragraph 2 above.

(b) As regards the depth of reductions, the Committee may wish to discuss some such criteria as:

(i) that reductions of the tariffs on these products should be at the highest rate of reductions provided for; or

(ii) that the reductions should be adequate to enable a desired degree of expansion of the export of the product from less-developed countries into the market of the importing countries. The question of how deep the tariff cuts should be might better be considered separately for each individual product or group of products. For some items such as the processed or manufactured items, the costs of newly-developed industries may be such as to call for very substantial cuts in order to move such exports into markets previously supplied entirely by well-established industries, especially in view of the increased preferences arising from integration movements in industrialized regions. In some particular cases, it might well be that free entry was needed in order to achieve any significant expansion of the trade.

(c) The less-developed countries will no doubt wish to be assured that in any tariff reduction plans, adequate provision would be made for the reduction of tariffs which disproportionately differentiate in favour of a processed product, as compared to the raw material for that product. Reductions on raw materials should be accompanied by reductions on the related processed products.

Participation of less-developed countries in the tariff reduction plan

7. In the light of the guiding principles noted in its preamble the Declaration of 7 December 1961 specifically states that "in negotiating for reduction of barriers to the export of less-developed countries, contracting parties should adopt a sympathetic attitude on the question of reciprocity, keeping in mind the needs of these countries for a more flexible use of tariff protection ..." (Declaration, paragraph 5). The Ministers themselves had concluded that "... in view of the stage of economic development of the less-developed countries, a more flexible attitude should be taken with respect to the degree of reciprocity to be expected of these countries" (L/1657, page 2). Thus the principle of not requiring full reciprocity in tariff reductions by less-developed countries has been given specific recognition.
8. It may be noted that this principle is not an entirely new one, but has been stated or reflected in past arrangements for tariff negotiations, and in Article XVIII:bis of the General Agreement. The fact that these arrangements and provisions have not led to enthusiastic or fruitful participation in recent tariff negotiations by less-developed countries would seem to indicate that the adequacy of these past arrangements in giving effect to the principle might be examined in order to ensure that it be better reflected in future plans for tariff reductions. It would also seem desirable if the Committee were to give careful consideration to some of the obstacles, real or imagined, which are in the way of a positive and meaningful participation by less-developed countries in a plan for multilateral tariff reduction.

9. Some of such obstacles which have in the past been referred to by these countries may be briefly outlined:

(a) The less-developed countries have stated that the lack of adequate bargaining power has limited their participation in tariff negotiations. The envisaged new approach to tariff reductions, however, appears to be in the direction of discarding the matching of reciprocal, commensurate concessions; it should be reasonable to expect that the plan would take more account of the economic and other factors limiting the ability of less-developed countries to grant tariff concessions. This, in principle should greatly reduce the relevance of the quantitative value of the concessions which a less-developed country is in a position to offer.

(b) The less-developed countries have sometimes invoked the need to protect newly established industries or the implementation of development plans, as justification for the maintenance of existing tariffs, a factor which is said to limit their capacity to participate in tariff negotiations. It has even been argued that less-developed countries need to maintain high duties because they may wish in the future to develop certain industries under protection. It should be noted here that the use of tariff protection for industries is permitted under GATT and that the General Agreement specially provides for the renegotiation and adjustment of concessions at any time when this is necessary for development purposes.

(c) Less-developed countries have also argued that they have been unable to enter into negotiations and to grant tariff concessions because they rely on import duties to provide a large percentage of their budgetary revenue. In order to facilitate their participation in a tariff plan, it may be that less-developed countries should try to separate duties which were primarily revenue producing from duties which were primarily protective, and perhaps also examine whether any import duties considered primarily as revenue producing were not indeed also protecting uneconomic production. If a separate
schedule for revenue duties were created and the duties collected
as an internal tax payable equally on imports and on domestic
production where this exists, the government might find it at
the same time easier to participate in a plan for tariff
reductions and to avoid stimulating inefficient industries.

(d) It has also been argued that the existence of a high tariff
avoids the use of quantitative restrictions. In this connexion
it should be noted that the use of temporary surcharges for
balance-of-payments reasons has been accepted by the GATT in
principle and has been dealt with on a case-by-case basis in
the light of changing balance-of-payments situation. It may
therefore be unnecessary for the less-developed countries to
retain high tariffs on a permanent basis for this purpose.

10. It is suggested that a clarification of these various points by the
Committee might lessen the inhibitions on the part of the less-developed
countries in participating in a tariff reductions plan. The Committee
may consider it desirable to recommend to the Working Party on Procedures
for Tariff Reductions that a reaffirmation of some of the principles noted
above or a clarification of some of the GATT provisions and procedures
regarding the use of tariffs be written into the plan for tariff reductions.