STATEMENT MADE BY THE HON. CHRISTIAN A. HERTER, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, UNITED STATES
ON 17 MAY 1963

Item 2: Arrangements for the Reduction or Elimination of Tariffs and other Barriers to Trade, and Related Matters

Item 3: Measures for access to Markets for Agricultural and other Primary Products

Points II and III of the agenda to which I now wish to address myself, deal with the two most central issues in our determination of the framework for the forthcoming negotiations. I say this because I am sure we are all agreed that our choice of the basis on which the reduction of tariffs is to be carried out and of the manner in which agricultural trade is to be included in the negotiations will have much to do with the success or failure of the negotiations.

With your permission, Mr. Chairman, I wish to make the position of the United States Government with regard to these issues as clear as possible.

In 1962 our Congress passed the Trade Expansion Act. That Act was designed to enable the United States to do its share in achieving the objective agreed to by the GATT Ministers in 1961 - that is the maximum liberalization of trade. In fact the purposes of the Act as stated therein are to permit

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the President to conclude trade agreements "affording mutual trade benefits". I repeat - "affording mutual trade benefits". The legislation gives the President far reaching powers to reduce, on a reciprocal basis, virtually the entire range of our tariffs by as much as 50 per cent spread over a five-year period. In certain cases, it enables the President to eliminate our tariff barriers entirely. Furthermore, the Act empowers the President to engage in a linear approach to tariff reductions instead of item-by-item negotiations - an idea that was advocated by many of our major trading partners for some years. You will recall that in the Dillon Round, the European Economic Community in fact, made their offer on a linear basis. Our legislation, at that time, did not enable us to negotiate in this way but the Trade Expansion Act now provides such an opportunity and we fully recognize the linear approach to be a more fruitful means of achieving major tariff reductions.

In the history of United States trade legislation, the Trade Expansion Act stands as a vital landmark, perhaps exceeding in importance our first reciprocal trade legislation of 1934. The powers of the President are greater than ever, the negotiating flexibility has been increased, the rules governing exceptions have been tightened, the trade interests of the less-developed countries have been specifically taken into account, peril points have been eliminated, and the escape clause procedures have been redefined.

You are no doubt all familiar with the details of the Trade Expansion Act. I have referred to them briefly because in my view the Act embodies the firm commitment of the United States to a liberal trade philosophy. We are convinced that a substantial lowering of trade barriers will add new strength to the economies of the trading nations of the world and will contribute materially to the greater well-being of all of our peoples. I am speaking here not merely of trade between the large trading partners. But I have in mind as well the effect of lower trade barriers or the trade within Europe and on the trade between the advanced and the developing countries. As our debate on Point I of the agenda has clearly shown, we are at one in our view that the latter point - the importance of improving the trading opportunities of the less-developed countries - is a vital determinant of the ability of those nations to promote their economic development.

The view of the United States regarding the negotiating plan are guided by the philosophy embodied in the Trade Expansion Act that lower trade barriers are a key to a healthy and prosperous free world community. It is for this reason that we are convinced that the fundamental objective of the conference must be to bring about the greatest possible reduction in tariffs and other barriers to trade. Any plan that does not achieve such an objective is less than adequate in our view. By the same token, any plan that does not permit us to use the powers of the Trade Expansion Act as fully as possible constitutes a loss of opportunity for achieving maximum trade liberalization.

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In the view of the United States, the discussions which have already taken place in the Working Party on Procedures for Tariff Reduction have been most useful. The report of the Working Party indicates fundamental agreement on certain important principles. I assume that the Ministers will be able without much difficulty to confirm that agreement, so that we can quickly proceed to attempt to resolve those points which remain open.

But agreement on the general principles is only a beginning, for the Working Party had before it certain additional propositions with which we must now deal.

One determination which we feel it is vital for Ministers to make at this conference relates to the specific underlying rule on which the negotiating plan will be based. The United States had made certain proposals in this regard to the Working Party, proposals designed to achieve the objective of a maximum liberalization of trade. We were gratified that there was substantial support for these proposals and for the ideas we put forward to implement them. I, therefore, urge that the Ministers reach agreement that the maximum liberalization of trade can best be achieved by a negotiation which begins with across-the-board, equal percentage linear cuts, with limited and narrowly defined exceptions. The working hypothesis adopted in the Working Party was based on linear reductions of 50 per cent. While we think this is a good working hypothesis, the actual figure would of course have to depend on the decision reached later regarding the other aspects of the plan. To state this hypothesis differently, we would base our negotiation on an effort to make an equal percentage movement in reducing our individual tariffs toward zero.

If we can obtain agreement on the concept of equal percentage linear cuts as the basis for the formulation of the more detailed plan, we are prepared to consider in its elaboration the special problems that have been mentioned in the Working Party:

The problem of obtaining reciprocity for countries with specially low tariffs, the problem of countries who may have difficulty in obtaining reciprocity because of their
economic structures and the nature of their trade, the effect on reciprocity of disparities between the tariff level of different countries on the same products and the problems that countries who are largely dependent on the exports of agricultural products may have in achieving reciprocity.

We have considered alternatives to a basic rule of equal linear cuts but come up against immediate difficulties with any of them. One difficulty is that any formula based on unequal linear cuts imposes a serious limitation on the amount by which the average tariff will be reduced. Another is that, in an effort to avoid inequality of benefits, it is almost sure to create inequalities which will increase the difficulties of the final negotiations.

Just by way of illustration of these difficulties, I must refer to the alternative suggestion that was made during the meeting of the Working Party. You are all familiar with the suggestion and with the illustrative tariff targets that have been used in connexion with it. We have quite carefully calculated what would be the effect on the tariff of the United States under that plan. While these calculations have not been completed for all three of the major categories, i.e. raw materials, semi-processed goods, and finished manufactures - they have been completed for finished manufactures, which is the group in which I feel sure the greatest reductions would occur. But even in that group, the reduction in the United States tariff on finished products on the basis of a weighted average would be only 12 per cent from present levels. The tariffs of some other important trading countries would be reduced even less than that.

I feel sure that any other automatic formula which is based on an objective other than that of obtaining the maximum reduction of tariff rates, and hence the maximum liberalization of trade, would produce a similar result. Harmonization of tariff rates is, in our view, very much a subsidiary problem for, in itself, harmonization does not achieve increases in trade. Nevertheless, equal percentage tariff cuts also have the effect of reducing disparities in the tariff structures of individual countries. Under the hypothesis of an equal 50 per cent cut, for instance, we calculate that 98 per cent of United States tariff positions would be below 30 per cent; 80 per cent of our tariff positions would be at rates of less than 20 per cent.
Also, Mr. Chairman, let me state one point very clearly for I think it is of vital importance and I do not wish to be misunderstood on it. We recognize that the basic concept of equal linear percentage cuts can be only a basic concept and that there will have to be exceptions to take account of special problems. It will be the task of the Trade Negotiations Committee to elaborate the plan so that it provides for all the special situations to which I have referred previously. We hope that they will be able to do this so as to make the plan acceptable to all.

Now, Mr. Chairman, I turn to a second crucial issue that was left unsettled in the Working Party, the question of how the negotiations are to cover agricultural products.

It is, of course, the firm position of my Government that negotiations must include agricultural products. This means that my Government will not be prepared to conclude the negotiations until equitable tariff and trade arrangements have been developed for agricultural products. This is necessary for the United States as a major agricultural exporting and importing nation. I would not presume to speak for any other country, but I think it should be quite obvious that countries whose exports consist primarily of raw materials and agricultural products could not participate in the forthcoming negotiations unless they are assured of acceptable access to world markets for their exports.

I am gratified to note that in the recommendations of the Working Party before us, there was general agreement on the necessity of including agricultural products in the trade negotiations. While this is significant, it does not go beyond the decision of the Ministers at the last meeting in November 1961.

If we are to progress beyond the point reached in our last meeting, we must go further and elaborate at least the objectives of agricultural trade liberalization and the broad outlines of the means of obtaining these objectives. The objective in the view of my delegation can be stated very simply. It should be to assure a degree of liberalization of trade in agricultural products comparable with that achieved in the negotiations for other products. The report of the Working Party indicates there was considerable agreement on the manner for including agricultural products in the negotiations to the end that this objective might be realized. These recommendations are found in Item III 2(v), page 14, of our agenda and are of sufficient importance for me to summarize them here. The report indicates there was agreement that agriculture presented special problems and that for certain products, for example cereals and meats, international commodity arrangements would
be required and that the negotiation for removal of trade barriers should take place in the context of negotiations of such arrangements. In this connexion, my Government is prepared to negotiate within the context of such agreements its production, price, export, and import policies on a reciprocal basis. There was further substantial agreement that machinery should be established at an early date within the framework of the Trade Negotiations Committee to consider in the first instance which products should be dealt with through international commodity arrangements and which by other methods. It is also suggested that the Ministers be invited to direct that the Group on Cereals and Meat should henceforth operate within the framework of the Trade Negotiations Committee and meet promptly to work out a basis for commodity arrangements. My delegation fully endorses the proposals and in addition would propose that the frame of reference of the Meat and Cereals Group be expanded to include a directive to work out, in the first instance, interim arrangements which would prevent any increase in effective trade barriers which might limit access to major world markets during the period while commodity arrangements were being negotiated. We do not think this proposal introduces a new principle to trade negotiations.

It is customary that in negotiating reductions in trade barriers, the negotiations use as a point of departure the barriers which exist at a particular point of time. In asking for interim arrangements of certain major agricultural products, we are merely proposing that this basic principle be recognized, since negotiation of international commodity arrangements will be a time-consuming process. Also, we have seen in recent months, the trade disruptions which can occur when levels of protection are raised, and the difficulty of getting barriers lowered once they are increased.

My delegation believes that the most effective way of assuring that agricultural products are included in the trade negotiations in a comprehensive manner is to include agricultural products to the maximum extent possible in the automatic linear reduction formula which is adopted. We recognize that agricultural products in certain instances present special problems which prevent them from being included in an equal formula. Nevertheless these special problems should not blind us to the fact that substantial reductions in agricultural tariffs have been successfully negotiated in the past and where fixed tariffs are the only form of protection, this technique is quite feasible. The United States, for example, imports approximately $21/2 billion of agricultural products annually that compete with domestic production. These products with the exception of cotton, wheat, peanuts, sugar and certain dairy products are subject to moderate fixed import duties and no other barrier. The report of the Working Party contains a further suggestion that those agricultural products, subject to mixed forms of protection, such as quotas, State trading, flexible tariffs, variable levies, etc., should be subject to concessions which would afford a degree of liberalization comparable with that achieved for other products. The United States fully supports this proposal.
My delegation recognizes that at this meeting we cannot hope to agree on more than the broad outline of the plan for including agricultural products in the negotiations. If there can be agreement on the objectives and the broad outlines, we are prepared to have referred to the Trade Negotiations Committee and a subsidiary body on agricultural products, the job of working out the detailed plan for agriculture negotiations. This task would include determining which negotiations should take place in the context of commodity arrangements, which should be included in the linear reduction plan, and which products require the development of other arrangements to assure trade liberalization.

There remain three other points which the Ministers were asked to consider on which I will attempt to give our present views as briefly as possible.

First, with respect to exceptions to the linear offers, we made a suggestion in the Tariff Working Party concerning a formula for their limitation. Some other members of the Working Party had difficulty with this formula and we are quite willing to have this question referred to the Trade Negotiations Committee. There, we will be glad to seek a generally acceptable solution consistent with our legislative requirements.

Second, concerning the negotiation of non-tariff barriers, we believe that there should be a Working Party established under the Trade Negotiations Committee, to make a further study of the way in which the negotiations on these barriers can be incorporated into the over-all negotiations.

Third, concerning the participation of less developed countries, I think this question also will need much more detailed examination in another Working Party established under the Trade Negotiations Committee. We believe that adequate participation by less-developed countries in reduction of tariffs and non-tariff barriers is both directly and indirectly in their own interests. I am hopeful that general agreement can be reached on a form of participation which will help them to find equitable solution for this special problem.

I am afraid, Mr. Chairman, that although these remarks have taken a long time, they have not nearly exhausted the subject. I hope, however, that they have made clear the position of the United States. I likewise sincerely hope that the Contracting Parties understand that the authority of the Trade Expansion Act was requested so as to give us the greatest authority possible to liberalize trade and that the method of negotiation proposed is aimed at exercising that authority to the maximum for the mutual benefit of all.