REPORT OF THE WORKING PARTY
ON PROCEDURES FOR TARIFF REDUCTIONS

Introduction

1. The Working Party was asked, in the light of the discussions which took place during the meeting of Ministers from 27-30 November 1961 and taking particular account of the conclusions (L/1659) reached by the Ministers, to examine new procedures and techniques for the further reduction of tariff barriers on a most-favoured-nation basis in accordance with the terms of the General Agreement.

2. Since its establishment the Working Party has met on three occasions from 12-14 December 1962, from 13 to 29 March 1963 and from 22 to 27 April 1963. The Annexes to this report contain records of the discussions of these meetings.

Conclusions and suggestions

A. The Working Party was able to reach agreement on a number of basic principles. It agreed:

1. That the negotiations should cover all classes of products, industrial and non-industrial, including agricultural and primary products.

2. That the negotiations should not be limited to tariffs but should also deal with other measures and practices which affect the value and stability of concessions.

3. That with respect to the next round of tariff negotiations it is essential that they be based on some form of across-the-board tariff reductions if they are to accomplish more than the limited results that have been obtained in recent years from item by item negotiations.

4. That the widest possible participation was necessary to make the negotiating plan effective.

5. That the negotiating plan must admit of only a bare minimum of exceptions, necessitated by reasons of overriding national interest. In any case, such exceptions should be subject to confrontation and justification.
6. That in the negotiating conference it must be open to each country to request additional concessions or to modify its own offers where this is necessary to obtain a balance of advantages between it and the other countries participating. It would be a matter of joint endeavour by all parties participating in the negotiations to negotiate for a sufficient basis of reciprocity to maintain the fullest measure of tariff reductions.

7. That a problem of reciprocity, to be dealt with at a later stage, could arise in the case of countries the general incidence of whose tariff was unquestionably lower than that of other countries.

8. That in the negotiations every effort should be made to reduce barriers to exports of less-developed countries but that the developed countries cannot expect to receive reciprocity from less-developed countries.

9. That, if a negotiating conference on these lines is to be held in 1964, Ministers should be asked to decide now on a date for the convening of the negotiating conference and to establish machinery through which, in the interim, the further refinement of negotiating rules and the examination of special problems can take place.

B. The Working Party was not able to agree in all cases on the elaboration of the above principles; the following areas of agreement and disagreement emerged.

1. The across-the-board approach. During its second session the Working Party adopted as a working hypothesis a plan of linear tariff reductions based on equal reductions of 50 per cent and staged over a maximum of five years. Subject to the position of certain countries, referred to in 2 below, there was a wide measure of support for the adoption of this plan. During the third meeting of the Working Party an alternative plan was put forward which was intended to achieve a reduction in the present disparity between different tariff levels on individual products along with the linear reduction of tariffs. Under this plan tariffs would not be reduced by 50 per cent of their existing levels but by say 50 per cent of the extent to which they exceeded a target ad valorem rate which would be the same for all contracting parties other than less-developed countries but would be different for the main commodity groups; that is, there might be say, free entry for raw materials, say 5 per cent for semi-manufactured products and say 10 per cent for finished products. The proposal included the suggestion that under this plan there would, in principle, be no need for exceptions. There remained an important area of disagreement as regards the basis for the across-the-board approach.

2. Countries with special problems. Certain countries pointed out that, while they expected that they would wish to participate in any future tariff negotiation and to offer important concessions for their trading partners and to pay fully for all benefits received, they would be unlikely, because of
their economic structures and the nature of their trade, to obtain reciprocity under an across-the-board plan and that it would be appropriate for them to formulate their initial offers accordingly. It was agreed that this situation would have to be further considered when completing arrangements for the negotiations. It was observed by the representatives of agricultural exporting countries that they had not, in their opinion, been accorded the rights to which they were entitled under the General Agreement. In their view any existing imbalance which had resulted from this situation would need to be redressed or taken into account some way if they were to consider making further concessions.

3. Non-tariff barriers. It was generally agreed that there should be an examination during the negotiations of appropriate means of providing that the value of tariff reductions would not be nullified or impaired by measures other than the tariff. Consideration should also be given to the possible need to review the application of certain provisions of the General Agreement, in particular Articles XIX and XXVIII, or the procedures thereunder, with a view to maintaining, to the largest extent possible, the stability of the new tariff reductions.

4. Exceptions. While as indicated above, there was general agreement that exceptions should be kept to a minimum, there was not agreement as to the best method of achieving this. One proposal the Working Party had before them was that the exceptions from a country's initial offers should not exceed a certain percentage of its imports, combined with a percentage limitation on exceptions in any one SITC section. Some other members felt that any quantitative maximum on exceptions would inevitably tend to be filled. Some members also felt that exceptions should be based on common criteria.

5. Agriculture. (a) It had been recognized by Ministers in their Conclusions adopted in November 1961 that there should be negotiation of practical measures for the creation of acceptable conditions of access to world markets for agricultural commodities. The conclusion of the negotiations would depend on a satisfactory resolution of the problems in all fields and the balance of advantage would be assessed on the results finally obtained from the negotiations as a whole. There was wide agreement that agriculture presented special problems and that for certain agricultural products, for example cereals and meats, commodity arrangements would be required and that the negotiation for the removal of trade barriers should take place in the context of the negotiation of such arrangements. 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 commodity arrangements and which by other methods. Meanwhile, the Ministers would also be invited to decide that the Groups on Cereals and Meats should henceforth operate within the framework of this Committee and should meet promptly to work out a basis for commodity arrangements on these products. In connexion with the foregoing, the Working Party had before it an additional proposal, on which agreement was not reached, that the Commodity Groups should, in the first instance, work out interim arrangements which would prevent any increase in effective trade barriers during the period while comprehensive commodity arrangements are being negotiated.
(b) For agricultural commodities for which commodity arrangements were not appropriate the procedures for negotiations were not settled. The Working Party had before it a proposal that these products be divided into two classes: (i) those agricultural products for which tariffs represent the only obstacle to trade would be included in the plan for linear tariff reductions, with the same percentage cuts as applied to other products, (ii) those agricultural products subject to barriers other than tariffs would be the subject of concessions which would afford a reduction in the level of protection comparable to the linear reduction plan adopted as a general rule. In some instances, such concessions might involve a combination of fixed tariffs and other measures.

(c) As regards the proposal in the preceding paragraph, it was alternatively suggested that, having regard to the difficulties involved in reducing the protection for agricultural products, the aim should be, in general terms, to offer concessions which would afford advantage comparable to that sought in the general negotiations; it would be essential to conclude arrangements which, having regard to trade in a previous representative period, would ensure for agricultural exporters opportunities for access which would be fair and acceptable in the light of the target set for the linear reduction on non-agricultural tariffs. Some other countries, while agreeing with the general principle in this paragraph, pointed out that reference to a previous representative period in this context would be relevant only where there had been access which permitted a reasonable flow of trade in such a period and that, in any case, other considerations might need to be taken into account.

6. Participation of less-developed countries. The less-developed countries represented in the Working Party stressed that owing to various reasons which had been recognized by the contracting parties, inter alia the need to promote their economic development, their ability to reduce their tariffs was limited. For these reasons they considered that they were not at present in a position to make a contribution especially by way of a reduction of tariffs. They pointed out that in so far as the concessions granted afforded the less-developed countries better export possibilities, that improvement would bring about an increase in their imports. It was in that direction that the corresponding advantages for the developed countries would be found. That would logically imply that, as a matter of principle, the export products of interest to the less-developed countries would not be included in the exceptions lists of participating countries. While other members of the Working Party recognized that the less-developed countries could not be expected to contribute in the same manner as developed countries, it did not solve the question of the extent and nature of their participation. There was wide agreement that participation of these countries should be viewed first and foremost from the standpoint of their development needs. The Working Party had before it the following proposal, on which no agreement was reached. Under this proposal, each less-developed country would agree to subject its own commercial policies to an examination and consultation progress with a view to determining whether any aspect of its commercial policies, including individual tariffs, should be altered in the interest of its own economic development and the economic development of other less-developed countries.
7. **Procedures.** It was agreed that Ministers be invited to establish a trade negotiations committee. It would make the necessary plans for the carrying out of the negotiations with a view to bringing them to a final conclusion during the course of 1964. It would be understood that the Trade Negotiations Committee would establish such subsidiary bodies as might be required to carry out its task of overall supervision of the negotiations.
ANNEX I

Record of Discussions at Meeting of the
Working Party on Tariff Reduction
held from 12-14 December 1962

There was general agreement between the countries represented in the
Working Party that the discussion should be based on the assumption that agree­
ment would be secured on the holding in 1964 of a new tariff negotiations
conference, based on a linear reduction approach as outlined by the ministerial
meeting in 1961.

Most delegations agreed that a linear approach had great advantages over
the previous item-by-item approach, although the representatives of some less-
developed countries (India, Brazil, Israel) and some countries depending upon
a limited range of exports (Canada, New Zealand, South Africa, Uruguay) pointed
out that a linear reduction plan would cause them certain difficulties, partly
because they needed a high tariff protection for their infant industries,
partly because they expected difficulties in securing a fair balance between
their own reductions of tariffs covering their whole range of imports and the
reductions by their negotiating partners on the very limited number of products
of interest to them.

It was pointed out by several members of the Working Party (the United
States, Canada, Switzerland, Sweden, Israel) that an essential condition for
the success of a linear plan was a very widespread participation by the
contracting parties. If possible all contracting parties should take part.
It would be difficult or, in many cases, impossible for the participating
governments to offer tariff reductions on items the main supplier of which did
not take part in the conference. In this connexion it was pointed out,
however, that the linear approach must lead to a departure from the rigid
balance-of-benefits theory that had governed the negotiations under the item-
by-item approach. Apart from the special considerations in the case of the
less-developed countries (cf. below), the participating countries would,
nevertheless, expect a general "across-the-board" balance between concessions
granted and received.

Members of the Working Party referred to the 50 per cent across-the-board
tariff reduction that had already taken place inside the European Economic
Community and the European Free Trade Association and said that the experiences
gained in these organizations proved that a far-reaching linear reduction could
be enforced in a comparatively short time without causing serious difficulties.
It was pointed out that this applied to some countries which had shown much
restraint in the GATT tariff negotiations in the past; they had now accepted
a thorough elimination of their tariff protection without, seemingly, suffering
serious hardships. It was, however, stressed that the parallel with the EEC
and the EFTA reductions should not be drawn too far, on account of the special
circumstances in connexion with the integration programmes.

This record has been distributed as L/1982.
It was generally accepted by the members of the Working Party that the most-favoured-nation principle would still apply in so far as the tariff concessions were concerned. Two less-developed contracting parties (India and Israel) stressed, on the other hand, that it would make the negotiations easier if it was recognized that a certain amount of preferential or discriminatory treatment on the part of the less-developed countries was to be preferred to a complicated system of more cumbersome restrictive measures, applied under a strict most-favoured-nation rule.

It was generally accepted in the Working Party that a 50 per cent linear reduction could be taken as a basis for the further discussions. This percentage had been suggested during the ministerial meeting in 1961, and the United States Trade Expansion Act was based on an offer of a linear reduction of 50 per cent. Several delegations stressed the importance of using this authority to the fullest possible extent. Most members of the Working Party were of the opinion that the basic reduction requirement should be the same for all participating governments, although it was evident that a certain flexibility in the linear approach would be unavoidable, taking into account the different trade characteristics and tariff levels of the various participating countries.

Two low-tariff countries (Switzerland, Sweden) pointed out that it would hardly be reasonable to expect them to make as large tariff cuts as the high-tariff countries were required to make. It was, however, pointed out that the linear approach would favour the low-tariff countries in comparison with the previous product-by-product approach. It was also stated (by Japan) that the deciding criterion for any special treatment should be the height of the individual rates, not the general level of the tariff. Most countries had, without being real low-tariff countries, some very low rates, which should be taken into account in fixing any special low-tariff provisions. It had moreover always proved very difficult to define high and low tariff countries.

There was a general agreement (United States, United Kingdom, EEC, Japan, etc.) that there should be individual lists of exceptions to the linear reduction, not a common list. The possibility of accepting exceptions - where governments were willing to offer either no reduction or a limited reduction, less than the average percentage - up to a certain percentage of the trade of the participating countries was discussed, but it was found that the negotiating of individual exceptions lists would be a better solution. It was stressed by many countries, that it was essential that the exceptions lists should be kept as short as possible. The experiences of the EEC and EFTA showed the advantage of applying rather severe rules for the putting of items on exceptions lists. It seemed advisable that governments should be allowed to add items to the lists during the negotiation of the lists; otherwise there might be a tendency to present unnecessarily long lists for bargaining purposes. It was stressed that the risk should not be overlooked that the negotiations for exceptions could easily develop into a kind of inverted item-by-item negotiations.
The representative of the United States said that the items legally excepted from the 50 per cent reduction offer covered about 12 per cent of the total United States imports in 1961.

Representatives stressed that the participating governments should be encouraged to make larger cuts than the established average reduction where possible. Such larger reductions could compensate for items being included in the exceptions lists.

Several agricultural exporting countries (United States, Canada, New Zealand, Brazil, South Africa) claimed that a central point was that the negotiations must also deal with the access to the markets for agricultural products. For such agricultural items, where tariffs were the main barrier to trade, the normal negotiating rules could, of course, apply, but for products, where tariffs were not the main obstacle, different solutions had to be found in separate but collateral negotiations. It would not be acceptable, from the agricultural exporting countries point of view, that the agricultural items were to a large extent put on the exceptions lists.

It was generally accepted that the approach to the special problems of the less-developed countries must be flexible. It was clear that a strict reciprocity could not be requested from these countries; representatives of some less-developed countries (Brazil, India) said that to offer even a very limited amount of reciprocity would cause them serious difficulties. Representatives, however, expressed confidence that the less-developed countries would find that there would be real advantages in participating in the negotiations. It was clear that a certain tariff protection for infant industries was to be accepted. In so far as the less-developed countries depended upon the customs receipts for fiscal reasons, they could replace the tariffs by internal taxes. The reduction of the tariffs of the less-developed countries would furthermore be to their own advantage, as the importance of the trade between the less-developed countries was increasing. Doubts were expressed that the less-developed countries really needed a high tariff for development reasons; the industrialized countries would, however, take a sympathetic view of requests for exceptions from the less-developed countries.

Some delegations stressed that the importance of efficient emergency and safeguard measures would be growing under the linear approach. It was pointed out that various such measures were already provided for in GATT, particularly in so far as the less-developed countries were concerned.

It was considered that a good deal of the negotiating work would have to be done before the beginning of the Conference proper. If a political decision could be taken by the Ministers in April 1963, there would then be a long series of discussions before the implementation conference could start in 1964. The Conference, on the other hand, could probably be rather short. The main items for discussion were the exceptions lists and the negotiations concerning non-tariff obstacles to agricultural exports. The decision by the Ministers would also deal with the organizational arrangements for the continued work.
ANNEX II

Record of Points Examined at the Meeting of the Working Party on Procedures for Tariff Reduction Held from 18-29 March 1963

1. The Working Party met from 18 to 29 March 1963. It was agreed that discussion in the Working Party was exploratory at this stage.

The linear approach

2. At their meeting in November 1961 Ministers agreed that consideration should be given to "the adoption of new techniques, in particular some form of linear tariff reduction". They directed that officials should consider this.

3. The Working Party agreed, in order to carry out its mandate, to take as a working hypothesis that the negotiations should be launched with offers of a substantial linear cut staged over a maximum period of five years. The Working Party also agreed, in the context of this hypothesis, that the magnitude of the tariff reductions to be offered on this basis should be 50 per cent. In this connexion it was understood that a broad participation of contracting parties was predicated.

4. Linear offers on this basis would have to be subject to exemptions but these exceptions must be in respect only of specified items where there are compelling grounds of national importance to warrant their exception and all such exceptions should be tested through a process of individual confrontation and justification.

5. It would thereafter be a matter of joint endeavour by all parties participating in the negotiations to negotiate for a sufficient basis of reciprocity to maintain the fullest measure of the reductions of tariff made thereby available. This negotiation would take account of the differing characteristics of the trade, tariff levels, and economic structure of participants and the problems which arise for countries exporting only a few commodities and any special arrangements necessary to deal with certain problems arising in agriculture and at the same time have the fullest regard for the special needs and problems of the less-developed countries.

6. There was a wide measure of agreement that negotiations organized on these broad lines would furnish a means to achieve the objectives Ministers had in view. The Working Party on this assumption elaborated the following points:

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This record has been distributed as 1/1535.
General considerations

7. It was suggested that differences in tariff levels on particular products might present a problem for the appraisal of the real value of the linear cut to be agreed on, and, subsequently, for the measurement of reciprocity; for example, where the tariff of one or more participating countries contains very high rates of duty and where the level of tariff protection would remain high even after a 50 per cent reduction. It was, however, observed in this connexion that an important relevant consideration was the character and volume of trade in the product concerned and that - where the volume was high despite the level of the tariff or could be presumed to become significant as a result of the reduction - the benefit of a reduction could be very considerable and the reduction of a high tariff might well prove more valuable than, for instance, the reduction of a low one covering a small amount of trade; in any case this was a matter which could be resolved in the course of the negotiations.

8. The question was raised as to whether a linear approach could offer reciprocity to countries the general incidence of whose tariff was substantially lower than that of other countries. The Working Party reserved this question for examination at a later meeting if this should prove necessary. The feeling was expressed, however, that this was an aspect of the general problem of reciprocity and that a solution could be worked out in the course of the negotiations.

9. Some members of the Working Party indicated that, while they expected that their countries would wish to participate in any future tariff negotiation, and to offer important concessions for their trading partners and to pay fully for all benefits received, in view of their economic structure and the limited range of their export products, it was apparent in advance that, even if they were to make the most favourable assumptions on the outcome of the negotiations, sufficient compensation would not be provided for a 50 per cent cut in their tariffs. They, therefore, felt that it might be more appropriate to express their initial offer in terms which, in their view, would amount to a fair reciprocation of the linear offer to be made by other countries.

Exceptions procedure

10. It was agreed that exceptions to the general rule of an offer of a 50 per cent linear cut should be kept to a minimum. Two proposals designed to limit the exceptions to the initial offers list were before the Working Party:
Proposal (a)

The rules of the negotiation would lay down the principle that initial lists of exceptions should be minimal and that items should be included only for reasons of overriding national importance. Initial lists of exceptions would be subject to a process of confrontation and justification. This process and the subsequent negotiations would afford opportunities for the negotiation of concessions which might lead to satisfactory arrangements in terms other than provided for by the general rule.

The precise procedures for such confrontation and justification, referred to above, and whether these should be both bilateral and multilateral in character, should be considered by the Working Party.

Proposal (b)

The two conditions in proposal (a) would be accompanied by the addition of a quantitative limitation.

Agriculture

11. The Working Party recalled that it was common ground in the light of the ministerial discussions that negotiations would cover all products - agricultural as well as non-agricultural; in particular it had been recognized by Ministers in their conclusions from which the present discussions derive, that there should be negotiation of practical measures for the creation of acceptable conditions of access to world markets for agricultural commodities. The conclusion of the negotiations would depend on a satisfactory resolution of the problems in both fields and the balance of advantage would be assessed on the results finally obtained from the negotiations as a whole.

12. There was wide agreement that agricultural products presented special problems. The following proposals, which met with substantial support, were put forth as a means of dealing with agricultural products in the negotiations.

13. It was suggested that they would be dealt with to the maximum extent possible within the framework of the tariff negotiations; thus where products were subject to fixed tariffs only, they would be subject to the general procedures for tariff negotiation - e.g., the linear rule for a 50 per cent reduction of tariffs in the same way as industrial products.
14. It would be necessary to deal with some agricultural products through other kinds of negotiation, for example commodity arrangements. Cereals and meat represented clear examples of products where such negotiations might be appropriate. Such negotiations might also be appropriate for some other products.

15. It was suggested that Ministers should give directives for certain commodity groups to be convened, particularly on cereals and meats. These groups should examine the points made in paragraph 14 and recommend how particular items within this field should most appropriately be dealt with. Where the groups recommend the negotiation of commodity arrangements, the parties concerned should in the first instance negotiate interim arrangements to prevent trade being impaired while negotiations of longer-term solutions were being brought to a conclusion.

16. Where protection is afforded other than solely through a fixed tariff, and comprehensive commodity arrangements are not anticipated, the aim would be to offer concessions which would afford a reduction in the level of protection comparable to a 50 per cent reduction in a fixed rate of duty. In some instances, such concessions might involve a combination of fixed tariffs and other measures.

17. It was suggested that before offers of concessions could be established it would be necessary to determine which particular commodities would fall under each of the approaches indicated in paragraphs 9 to 13 above.  

18. If in respect of any particular agricultural product a country was not prepared, irrespective of what other countries might be prepared to do on that product, to negotiate under any of the procedures outlined above, the product would be included in its list of exceptions.

19. The representative of the European Economic Community wished it to be clearly understood that he could not take a position regarding the proposals set forth in paragraphs 12-18.

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1It was suggested that in negotiations on agricultural products, the relationship between derived products and the primary material would have to be taken into account.
Special problems

20. The Working Party felt that, with a view to negotiations aimed at such far-reaching reductions in duties, it would be necessary to examine the problem of measures and practices, other than tariffs, which affect the value and stability of concessions.

(a) Practices and measures of protection in particular countries:

There should be an examination of appropriate means of providing assurances to the exporting country or countries concerned that the value of the concession offered would not be nullified or impaired. In this context it was observed by the representatives of agricultural exporting countries that they had not, in their opinion, been accorded the rights to which they were entitled under the General Agreement. In their view any existing imbalance which had resulted from this situation would need to be redressed or taken into account in some way if they were to consider making further concessions. It was also suggested that some guidelines be established by the Working Party to facilitate bilateral discussions which would take place between the countries concerned.

(b) The stability of concessions:

The application of certain provisions of the General Agreement, in particular Articles XIX and XXVIII, or the procedures thereunder might need to be reviewed with a view to maintaining, to the largest extent possible the stability of concessions.

Less-developed countries

21. It was suggested that, while reciprocity would not be required for the advantages which would derive from the linear reduction offers of the developed countries, less-developed countries should nevertheless participate in the negotiations and make some contribution. The less-developed countries represented in the Working Party stressed that owing to various reasons which had been recognized by the contracting parties, inter alia, the need to promote their economic development, their ability to reduce their tariffs was limited. For these reasons they considered that they were not at present in a position to make a contribution especially by way of a reduction of tariffs. They pointed out that in so far as the concessions granted afforded the less-developed countries better export possibilities, that improvement would bring about an increase in their imports. It was in that direction that the corresponding advantages for the developed countries would be found. That would logically imply that, as a matter of principle, the export products of interest to the less-developed countries would not be included in the exceptions lists of participating countries.
**Principal supplier rule**

22. If the expectation of a broad participation in the negotiations were fulfilled the question of the principal supplier rule would presumably be a marginal one. If, however, in the case of a particular product, the principal supplier to a particular country were not taking part there might be some difficulty in including that product in the linear offer. If, on the other hand, one of the participating countries was an important secondary supplier it might not be the proper answer to exclude that product altogether; the general feeling was that this kind of situation would have to be worked out during the course of the negotiations and that rigid rules were not required.

**Procedural and administrative arrangements**

23. It was agreed that in its report to Ministers the Working Party would indicate the types of machinery necessary for the conduct of the negotiations.

**Next meeting of the Working Party**

24. The Working Party agreed to resume discussions from 22 to 26 April in order to draw up its report to Ministers.
ANNEX III

Record of Discussion at the Meeting of the Working Party on
Procedures for Tariff Reduction held from 22-27 April 1963

1. The representative of the European Economic Community recalled that at its last meeting the Working Party had conducted its discussions on the basis of certain hypotheses. One was that the negotiations should be launched by an offer of a uniform 50 per cent linear reduction in tariffs. The main objection the Community saw to this was that a uniform reduction in the level of tariffs would leave the relationship between present tariff levels unchanged and would therefore do nothing to deal with the problems which arose from the present disparity between tariffs. It had been suggested that problems arising from differences in tariff levels could be dealt with at the negotiating stage, but this would lead to a protracted discussion on a product by product basis. The Community felt it was necessary to find a solution which would meet the problem of tariff disparities, and would also be automatic and across-the-board in character and so avoid detailed product by product negotiations on exceptions. The ideal solution would be one under which all countries had identical tariffs at suitably low levels so that the conditions of access to all markets would be the same. Primary products would be subject to one very low rate of duty, semi-manufactured products to a second, somewhat higher rate, and finished products to a third still higher rate. The Community recognized, however, that this was not a practical possibility in the immediate future, and they had therefore been thinking in terms of an arrangement under which countries, instead of moving immediately to the same notional tariff, would reduce by an agreed percentage (which might be 50 per cent) the difference between the rates of duty in the notional tariff and those in their existing tariffs.

2. The representative of the United States said that proposals based on unequal linear cuts were unacceptable to his Government. In his view, this method would not maximize trade benefits, and it was this objective rather than an approach to the establishment of uniform conditions of competition, which should be the basic objective of the proposed negotiations. The EEC proposal would mean that high tariff rates would be cut by a larger percentage than low rates, whereas rates at or under the "ideal rate" would not be cut at all. This would restrict the scope of the negotiations. It would also not take into account the fact that the reduction of a high rate of duty might lead to a greater increase in trade than the same percentage reduction in a lower rate of duty. It was recalled that many of the high rates in the United States' tariff were on items which had been subject to the peril point procedure in past negotiations and hence not reduced, and reductions in these rates would be of the greatest interest to exporting countries. Among other objections to a basic rule providing for the unequal reduction of duties were the arbitrary nature of the "ideal rates" and the apparent exclusion of agriculture from the scope of the proposal. In addition to these substantive arguments the representative of the United States indicated that his Government could not practically or legally negotiate on the basis of a plan for unequal reductions.

¹The text of this statement has been circulated as Spec(63)58.
3. The representative of the United Kingdom said that the objective of his Government was to secure the largest possible reduction in tariffs and they, therefore, wished full advantage to be taken of the powers which the administration of the United States has to reduce tariffs by 50 per cent. He understood that it was not legally possible for the United States administration to proceed on a basis other than that of equal linear cuts. Practical consideration alone, therefore, seemed to require that course to be followed. This view was supported by the Norwegian representative who welcomed the determination shown by the United States administration to liberalize its own trade policies and to play its rôle as one of the leading trading nations of the world. The representative of Japan said that his Government supported the hypothesis which had been taken as the basis of the Committee's discussion at its last meeting but believed that flexibility was necessary. He, therefore, expressed the interest of his Government in the suggestion put forward by the European Economic Community and expressed the hope that it would be given further consideration before and possibly during the ministerial meeting. Other members of the Working Party also agreed that this proposal should be further studied but that sight should not be lost of the aim of forthcoming negotiations which was to obtain the largest possible reductions in duties and corresponding increase in world trade.

Exceptions procedure

4. The representative of the United States recalled that two proposals designed to limit initial exceptions had been discussed at the last meeting of the Working Party. He stated that his Government favoured the second of these proposals which provided for a quantitative limitation, and suggested that exceptions should not exceed 5 per cent of a country's total imports. In addition, exceptions should be no more than 10 per cent of imports in each of the nine SITC sections. His Government also proposed the exception of all imports subject to duties of 5 per cent ad valorem or less, or the equivalent, from the basic linear tariff reduction. The United States could itself reduce tariffs by more than 50 per cent on these items and reductions to be made by participating countries on low tariff items could be decided during the negotiations, bearing in mind the need to obtain overall reciprocity. In the opinion of some members of the Working Party the use of a quantitative limitation on exceptions would give rise to various difficulties of both a substantive and a technical nature. The representative of Norway pointed out that if it was decided to set a ceiling for exceptions, there was a great danger that governments would pad their opening position right up to the ceiling regardless whether they needed the exceptions or not. He further observed that as there would be by definition little or no import of over-protected commodities, the inclusion of such items in the list of exceptions would only make a small or no cut in the percentage allowed. He therefore proposed that exceptions for the initial offer list should only be allowed to when they fulfilled commonly agreed criteria, and that any proposal for exceptions should be justified and examined. The representative of Japan stated that his Government would not be in a position to limit exceptions to 5 per cent of total trade and reserved the position of his Government with regard to agricultural products. Referring to the United States' proposal on items subject to a tariff of 5 per cent or less, some members of the Working Party pointed out that, while these rates were already low, they would nevertheless be

1Details of the United States' proposals for a possible exception formula are given in the Annex to Spec.(63)57.
interested in obtaining further reductions in these duties. The representative of the United States emphasized that his proposal envisaged that these duties would be reduced to the maximum extent possible and preferably be eliminated.

Countries with special problems

5. The representative of Austria referred to the differing characteristics of trade and economic structure of participating countries which it was recognized could have an important incidence on the problem of reciprocity and said that in the case of some countries a structurally passive trade balance constituted a serious element in this respect.

Less-developed countries

6. Members of the Working Party again stressed the importance which they attached to obtaining the widest possible participation in the negotiations, including participation by the less-developed countries. It was emphasized that these countries would not be expected to make automatic cuts on the same basis as developed countries. This question should be examined at a later stage. The representative of the United States suggested that a review of the commercial policies of individual less-developed countries might be carried out at which the contribution of these countries would be judged in the light of their own development needs. This might be done in the context of Article XVIII. This contribution might entail specific commitments on individual rates of duty, a declaration of intent on other aspects of commercial policy and provision for further reviews.

7. Some less-developed countries represented on the Working Party, while indicating that they were not in a position to comment in detail on this proposal, suggested that the matter could be examined further. Representatives of these countries drew the attention of the Working Party to the latest report of Committee III which referred, inter alia, to the suggestion that preferences might be granted on exports of less-developed countries. Other members of the Working Party agreed that these ideas should be discussed further. The representative of the United States indicated, however, that while his Government was prepared to study the matter in more detail it appeared that they would have real difficulty in supporting proposals of this type. The representative of the United Arab Republic said that the problems of the developing countries needed no more examination. What these countries were in need of was action, and accordingly less-developed countries had proposed in the meeting of Ministers in 1961 a programme of action which had been adopted by the Ministers and then again discussed and studied in several committees. The United Arab Republic had made a further proposal, to supplement the new Programme of Action, to deal with one of the difficulties of the less-developed countries. According to the support which the Programme of Action and the proposals of the United Arab Republic had been given in Committee III by many delegates for less-developed countries and some highly industrialized countries, he thought that many contracting parties did not share the view of the representative of the United States when he had said that he did not see practical possibilities for implementing the suggestion of the United Arab Republic.
Procedural and administrative arrangements

8. The Executive Secretary suggested that a Trade Negotiations Committee, comprising all contracting parties actively participating in and contributing to the negotiations, should be established. It would then presumably be necessary for the Committee to establish subsidiary bodies to carry out detailed work on the various aspects of the negotiations, such as tariff matters, agriculture, non-tariff barriers and the position of less-developed countries. Members of the Working Party agreed that machinery of this type would probably be necessary but suggested that at the present stage it might be sufficient merely to suggest that a Trade Negotiations Committee be set up and to leave a decision on the establishment of sub-groups to the Committee itself.