18 September 1953

REDUCTION OF TARIFF LEVELS

Report of a Group of Experts on Classification of SITC Items
for Purposes of determining Ceiling Rates and Demarcation Lines

A. Calculation of Ceiling Rates

The Group of Experts considered the possibility of classifying items of the
SITC into four groups, as follows:

Category I - Industrial Commodities
   Class 1 - Raw materials
   Class 2 - Semi-finished products
   Class 3 - Finished products

Category II - Foodstuffs

After prolonged discussion, the Group came to the conclusion that the most
logical sub-division into the two categories might be as follows. "Agricultural
products", should exclude raw materials serving mainly for industrial purposes,
but include products serving as raw materials for the food processing industries;
all remaining items would fall under the category of "industrial commodities".

After having identified the SITC items that would fall within the category
of "agricultural products", as defined, the Group proceeded to classify the
"industrial commodities" into three classes - (1) raw materials, (2) semi-
manufactures, generally interpreted as commodities simply transformed or due
for considerable further transformation, and (3) finished manufactures, generally
comprising commodities more elaborately transformed or not due for further
transformation.

Full agreement was reached as regards the category of "agricultural products"
(as defined) and hence the composition of the category including the "industrial
commodities". As regards the classification of the "industrial commodities"
into the three classes, agreement was also reached except on one point, i.e.
the question of whether SITC items 511-09, 512-09 and 531-01 in the chemical
field were to be considered as falling into class 2 (semi-manufactures), or
class 3 (finished manufactures). For purposes of calculating the average
incidence of national tariffs shown in the table below all these items have
been included in class 3. As a check calculation has shown, the effect of
putting these items into either class 2 or class 3 has no influence on the
numerical results although their grouping will be important in connection with
the application of the ceiling results.

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The exact composition of the categories and classes as agreed among all the members of the working group, with the exception noted above, is shown in Appendix A.

For each of the three classes of category I ("industrial commodities"), and for category II ("agricultural products") the secretariat has worked out the unweighted average incidence of national tariffs, on the basis of the unweighted average incidence shown for each SITC item in document MGT/60/52/Rev.1, of 14 November 1952. The table shows the results:

Unweighted Average Incidence (in per cent) of the National Tariffs of Eleven Countries, in Various Categories and Classes

Category I - Industrial Commodities

<table>
<thead>
<tr>
<th>Class</th>
<th>Incidence (in per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1 - Raw materials</td>
<td>2.25</td>
</tr>
<tr>
<td>Class 2 - Semi-manufactures</td>
<td>9.55</td>
</tr>
<tr>
<td>Class 3 - Finished manufactures</td>
<td>16.14</td>
</tr>
</tbody>
</table>

Category II - Agricultural Products

Total 13.45

B. Proposed Ceiling Rates

The "Low Tariff Club" proposal of the Council of Europe suggested industrial ceiling rates of 5, 15 and 25 per cent for raw materials, semi-finished products and finished products respectively and recommended the application to all agricultural products of a ceiling rate of 25 per cent.

The Group of Experts, considering that the rates shown in the table above represent the average rates applied by the eleven member countries of the Sub-Group on Tariff Reduction, was of the opinion that ceiling rates might reasonably be set at roughly twice that average level. They were gratified by the remarkable resemblance of ceiling rates resulting from doubling the actual average rates and the rates proposed by the Council of Europe. They therefore felt on fairly safe ground in proposing that the ceiling rates be set at 5, 15 and 30 per cent for the three classes of industrial commodities and at 27 per cent for agricultural products.
C. Calculation of Demarcation Lines

The Group of Experts took cognizance of the definition in terms of SITC items, as set out in document Sec/17/53 of 16 March 1953, of each of the ten sectors for which demarcation lines are to be set (Appendix B).

The table below shows the average percentage incidence of national tariffs for each of the ten sectors, according to two methods of computation:

(1) The column headed "Unweighted Average" shows the simple arithmetical average of the unweighted average incidence for eleven countries as shown for each item of the SITC in document MGT/60/52/Rev.1 of 14 November 1952.

(2) The column headed "Weighted Average" shows the weighted average incidence of national tariffs in each of the ten sectors for the same countries as in the preceding column except the United Kingdom. The calculation of the weighted averages is based on the information from which the weighted average incidence (excluding fiscal duties) shown in document Sec/45/53, of 14 July 1953, has been obtained.

D. Proposed Demarcation Lines

The Group of Experts considered that demarcation lines might reasonably be drawn at a level roughly 30 per cent below the unweighted average incidence and came to the conclusion that percentages shown in the third column of the table below could be recommended as a possible basis for the calculation of low tariffs.

In arriving at this proposal, account was also taken of the weighted average incidence shown in the second column.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Unweighted Average</th>
<th>Weighted Average</th>
<th>Proposed Demarcation Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>12.9</td>
<td>6.91</td>
<td>8</td>
</tr>
<tr>
<td>II</td>
<td>18.3</td>
<td>10.70</td>
<td>11</td>
</tr>
<tr>
<td>III</td>
<td>11.8</td>
<td>8.33</td>
<td>8</td>
</tr>
<tr>
<td>IV</td>
<td>3.1</td>
<td>2.11</td>
<td>2</td>
</tr>
<tr>
<td>V</td>
<td>12.3</td>
<td>8.44</td>
<td>8</td>
</tr>
<tr>
<td>VI</td>
<td>15.1</td>
<td>6.48</td>
<td>9</td>
</tr>
<tr>
<td>VII</td>
<td>19.0</td>
<td>9.02</td>
<td>11</td>
</tr>
<tr>
<td>VIII</td>
<td>12.3</td>
<td>6.94</td>
<td>8</td>
</tr>
<tr>
<td>IX</td>
<td>15.9</td>
<td>10.68</td>
<td>11</td>
</tr>
<tr>
<td>X</td>
<td>15.3</td>
<td>12.09</td>
<td>11</td>
</tr>
</tbody>
</table>