Ad Hoc Group of the
Sub-Committee on Tariff Negotiating Plan

RULES TO APPLY IN CASES WHERE TARIFF DISPARITIES ARE IDENTIFIED

Note by the Secretariat

1. It seems to be generally agreed that the rules must in practice be based in some way on the "high" tariff (in respect of which a disparity is claimed) being reduced by the full 50 per cent and the "low" tariff or tariffs being reduced by less than 50 per cent.

2. One question is what is meant by the "low" tariffs. There seem to be two quite different ideas on this.

   A. Only tariffs which qualify for disparity treatment in their own right (i.e. are below the "cut off" and more than the "minimum margin" below the tariff in respect of which the disparity is claimed) can be reduced by less than 50 per cent. All other tariffs, however much lower than the highest tariff, must be reduced by the full 50 per cent.

   B. If on any item any country can claim (or can and does claim) a disparity in respect of a certain "high" tariff, then all tariffs below that high tariff, whether or not they would qualify for disparity treatment in their own right (even that is if they are above the cut off or less than 10 per cent below the high rate) can be cut by less than 50 per cent (by how much less being related to by how much they fall below the high rate).

3. In the attached Chart I, two examples are given of the results of applying a formula of the A type and a formula of the B type.

*English only/anglais seulement.
4. The A type formula used for the illustration is as follows:

(a) All tariffs are reduced by 50 per cent.
(b) Thereafter any tariff which is below the cut off and more than 10 per cent below the "high" tariff has added back to it 2 percentage points plus an extra percentage point if it is less than one half of the "high" tariff.

5. The B type formula used for the illustration is as follows:

(a) The "high" tariff is reduced by 50 per cent
(b) Any other tariff below the "high" tariff is reduced by an amount which is 50 per cent less one half the percentage points difference between it and the "high" tariff (e.g., if the high tariff is 80 per cent then a tariff of 50 per cent is reduced by \((50 - \frac{50}{2})\) per cent, i.e. 35 per cent, and a tariff of 20 per cent by \((50 - \frac{60}{2})\) per cent, i.e. 20 per cent.

6. To avoid certain anomalies (as example of which is illustrated by the crossed line in Chart II) it might be necessary to add, as a proviso to (a), that:
   no tariff need be reduced to a level below that to which a lower tariff is reduced.

7. A proviso of this sort would be less necessary if the formula in paragraph 4 were reformulated so as to make more gradual the impact of the disparity rules on rates just below the level where they qualify for disparity treatment. One formula which has been suggested is as follows:

(i) tariffs not qualifying for disparity treatment are reduced by 50 per cent;
(ii) tariffs qualifying for disparity treatment are first reduced by 60 per cent and then have 3 percentage points added back. (This could still leave some anomalies. For example if in a particular case the qualifying level were 20 per cent, a rate of 21 per cent would be reduced to 10\(\frac{1}{2}\) per cent and a rate of 20 per cent to 11 per cent)

8. Chart II illustrates the different results of the formulas set out in paragraphs 4 and 7 above.
CHART I
Examples of applying the formula in paragraphs 4 and 5 of paper

First example

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Second example

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CHART II

(i) Proposal in paragraph 4 of paper

(ii) Proposal in paragraph 7 of paper