It has been apparent for some years that the old item-by-item method for tariff bargaining is no longer an adequate technique for attaining the maximum liberalization of world trade. Past experience with item-by-item bargaining has clearly demonstrated that it tends to reduce greatly the scope of a negotiation and limit its results, since withholding of important concessions on particular products by one country makes other countries unwilling to make concessions in the same area; and, perhaps even more important, domestic pressures in each country often succeed in having many items kept out of the negotiations which might not have been excluded under a linear approach, where concessions would be offered which affect substantially all sectors of production.

This was confirmed by the results of the 1961 tariff negotiations, when a very long and complex negotiation produced only very limited results. Suggestions had been made well before the last negotiations, especially by the European countries, that a new technique of across-the-board, linear reduction was required.

The legislative authority under which the United States could participate in tariff negotiations in previous years made it impossible for the United States to participate in a linear approach. The opportunity to change this situation came last year when it was necessary to obtain new legislative authority, and the United States Administration succeeded in obtaining, in the Trade Expansion Act, a far-reaching new authority to reduce tariffs, on a basis which makes possible an across-the-board reduction of the United States tariff, provided there are mutual trade benefits. The Act was widely hailed as a constructive and realistic attempt to make an all-out assault on those barriers to trade, the removal of which is essential to the growth of world prosperity and well-being. Throughout the course of the passage of the Act in the United States Congress, and in the succeeding months, the aim of the United States to use this authority in this way and for this purpose was made clear and was widely and enthusiastically supported in other countries.

Accordingly, at the last meeting of the GATT Working Party on Tariff Reduction, the United States supported a plan of negotiations based on the principle of an equal linear cut. There was widespread support for this proposal.
II.

The suggestion has now been put forward that the basic plan should involve a very different approach and be centred on "écrêtement". This would mean that there would not be equal linear cuts but rather movement downward toward arbitrarily-set targets. One set of targets that has been widely discussed would consist of zero duties for raw materials, 5 per cent for semi-manufactured products, and 10 per cent for finished products. In other words, tariffs would eventually be harmonized, apparently with the aim of harmonizing conditions of competition.

The rationale for this approach appears to be derived from the fact that while the average levels of the United States tariff and the Common External Tariff of the EEC are roughly the same, the latter is concentrated around rates of 15-25 per cent, because of the averaging process which established the CIT, whereas the US tariff has a greater spread of rates from low to high, i.e., the US has more free and low rates but has also some relatively high rates. The following table shows this comparison:

<table>
<thead>
<tr>
<th>Rates</th>
<th>US</th>
<th>EEC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent of Total</td>
</tr>
<tr>
<td>Free</td>
<td>990</td>
<td>20</td>
</tr>
<tr>
<td>10.0 - 19.9%</td>
<td>894</td>
<td>18</td>
</tr>
<tr>
<td>20.0 - 29.9%</td>
<td>1,510</td>
<td>30</td>
</tr>
<tr>
<td>30.0 and above</td>
<td>775</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>895</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>5,064</td>
<td></td>
</tr>
</tbody>
</table>

It has been said that an equal linear cut of say 50 per cent would be inequitable to the EEC because the United States would still be left with a number of high rates. Put another way, it is said that where a US rate is 60 per cent, and an EEC rate 20 per cent, the result of a 50 per cent linear cut merely maintains the original inequitable disparity between the two rates.

III.

The United States has given detailed study to the proposal to base the negotiating plan on the concept of écrêtement. It is the conclusion of the United States Government that such a plan is unacceptable for two major reasons: (1) because an écrêtement procedure would not maximize trade under present conditions, and (2) because as a practical matter the United States cannot participate in a negotiation on this basis.

With respect to the maximization of trade:

1. The basic objective of the proposed tariff negotiations should be to increase the flow of trade rather than to approach the establishment of uniform conditions of competition. If uniform conditions of competition were to be the objective, this would imply the harmonization of all factors, including wages, social charges, etc.
2. The plan overlooks the significance of reductions in high rates. If significant trade flows at say a 60 per cent rate, a reduction of this rate to 30 per cent is likely to be more valuable and effective than a reduction of a 20 per cent rate to 10 per cent. The country making the reduction from 60 per cent is therefore doing more to expand existing levels of trade than the country reducing the lower rate. An example of a valuable reduction in a high rate was the reduction in the United States duty on dolls from 70 per cent to 35 per cent ad valorem in our negotiations with Italy in 1951. Following this reduction, United States imports increased from $111,300 in 1949 to $3,644,000 in 1961. In negotiations with the United Kingdom, we have reduced our duties on bone china tableware from an average of 71 per cent to 35 per cent. Imports have increased from 655,000 dozen pieces in 1947 to 11,033,000 dozen pieces in 1962.

3. Many United States rates which are high at present are high because they were peril-point items in past negotiations and hence not reduced. They were peril-pointed in many cases because the products involved were being imported in large quantities, or imports of the product were affecting domestic industries particularly sensitive to import competition. Reduction of precisely these rates should be of greatest interest from the viewpoint of expanding the trade of the exporting countries.

4. The limiting scope of écrêttement is clear. On finished products, for the great bulk of both United States and EEC rates, and those of many other countries, there would be reductions of only 25 per cent or less, if the illustrative targets referred to above are used. No reductions would be required in rates of 10 per cent or below. This contrasts sharply with the 50 per cent across-the-board approach, particularly considering the probable effect on our goal of increasing trade. For the United States, the use of our tariff-reduction authority would be sharply limited. Only if the target for all tariffs were zero, could the proposal result in as deep cuts in tariffs as would result from a 50 per cent cut across-the-board.

5. Although rates of 10 per cent or below would not be reduced at all (in the case of finished products) these "low" rates can be and in some cases are highly restrictive of trade. An example is the EEC's rate of 9 per cent on jewellery of precious metals, which United States exporters consider highly protective.

6. The United States believes that the country cutting a high tariff may just as well be the one at a disadvantage under the linear approach, not the low-tariff country. The opposite may hold true only when a high rate excludes trade and continues to do so after a reduction. A careful study, item by item, would be required to determine whether there would be any such cases.
7. Although the écrêtement plan does not propose increasing rates which are already below the harmonized levels, there would inevitably be pressures, if the plan were adopted, to do this. It should be remembered, that on automobiles, a vitally important export of a number of the negotiating countries to the United States, the present United States duty is only $6\frac{1}{2}$ per cent. Another example is typewriters, which are free of duty now in the United States.

8. The éclatement plan negates the basic philosophy of an across-the-board approach to reciprocity. If disparities in tariffs do create valid problems, and result in demonstrable lack of reciprocity, this should be dealt with, not by a formula, but in the overall assessment of reciprocity.

9. The arbitrary levels fixed for the various categories of products in the écrêtement plan seem to have no logical basis. For example, why is the plan limited to industrial products? Why are agricultural products not included with the other primary products on which there are to be zero duties?

Regardless of the substantive arguments given above, the United States cannot practically or legally negotiate on the basis of an écrêtement plan. The provisions of the Trade Expansion Act, and the intent of our Congress as defined in the legislative history of the Act, preclude this:

(a) We are required by the Act to obtain mutual trade benefits. We would not obtain mutual benefits under écrêtement.

(b) Our authority is limited (for rates above 5 per cent ad valorem) to reductions by 50 per cent. We could not go farther if required by the écrêtement "targets".

(c) With respect to industrial products, the United States would do relatively the most tariff-cutting. This could not possibly be defended publicly.

IV. Conclusions

For the practical and substantive reasons cited, the United States therefore sees no possibility whatever of negotiating on the basis of écrêtement. Insistence on écrêtement is tantamount to saying that the United States cannot participate. The same applies to other proposals based on unequal linear reductions of tariffs.
Nevertheless, the United States is prepared to consider on their merits any cases in which wide disparities may operate to the disadvantage of one country or another in terms of overall reciprocity. There may be some instances in which a United States tariff may, after reduction, remain substantially restrictive, to the disadvantage of another country. In other instances, it may be the United States which is at a disadvantage. If desired, the United States is prepared to examine these situations as special problems in the context of a plan based on a linear reduction. If it were found in such examination, that the problems were such that the overall balance of reciprocity which would be obtained for any country would be affected, that country would be entitled to receive appropriate credit.

But the United States finds it out of the question to accept écrêtement as part of the general plan.