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/1657) 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 18 to 29 March 1963 and from 22 to 27 April 1963. A record of the discussions held at the first of these meetings was circulated on the responsibility of the secretariat as L/1982. A record of points examined at the second of these meetings is contained in L/1985. The Annex to this report contains a record of the discussion at the meeting in April 1963.

Conclusions and suggestions

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

1. That it is essential that the next round of tariff negotiations 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.

2. That the widest possible participation was necessary to make an across-the-board tariff plan effective.
3. That the negotiations should not be limited to tariffs, should also deal with other measures and practices which affect the value and stability of concessions.

4. That the negotiations should cover all classes of products, industrial and non-industrial, including agriculture.

5. That the across-the-board 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 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 from less-developed countries full reciprocity.

8. 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. An objection was made to this plan that it made insufficient provision for problems raised by differences in tariff levels on particular products. 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 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 50 per cent of the extent to which they exceeded a target ad valorem rate which would be the same for all contracting parties but would be different from 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 therefore 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 because of their economic structures and the nature of their trade, they would be unlikely to obtain reciprocity under an across-the-board plan and they should be permitted to modify their offers accordingly. It was agreed that these cases would have to be further considered when completing arrangements for the negotiations.

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. Agriculture. (a) There was wide agreement that agriculture presented special problems and that for certain agricultural products, for example cereals and meats, overall 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 examine 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 a reduction of 50 per cent in a fixed rate of duty. 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. In any event, 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 linear tariff reductions negotiated for non-agricultural products.

Participation of less-developed countries

During the deliberations of the Working Party a number of less-developed countries had indicated that they would be unable to make any substantial contribution to the negotiations. While the Working Party recognized that they 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 process 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.

Procedures

It was agreed that Ministers be invited to establish a trade negotiations committee composed of contracting parties actively contributing to the negotiations. 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.
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.

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. 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. Certain members of the Working Party who at its last meeting had raised the question as to whether a linear approach would cover reciprocity to countries, the general incidence of whose tariff was substantially lower than that of other countries said that the proposal of the EEC seemed to have certain advantages but indicated that in their opinion the type of approach set out in paragraph 8 of L/1985 would probably meet their particular situation better than the new proposed formula.

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 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, members of the Working Party pointed out that, while these rates were already low, they would nevertheless be interested in obtaining further reductions in these duties.

1Details of the United States' proposals for a possible exceptions formula are given in the Annex to Spec(63)57.
Less-developed countries

5. 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.

6. 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 if such examination of the commercial policies of less-developed countries were to be conducted, the best forum might be Committee III. 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.

Procedural and administrative arrangements

7. 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.