A. The nature of the non-tariff barrier

1. The United States import duty and excise tax on spirits are charged on a proof gallon basis unless the spirits are either imported or withdrawn from bond at below 100° proof. In that case they are assessed on a wine-gallon basis and treated for duty and tax purposes as if they were 100° proof regardless of actual strength.

2. Most Scotch whisky is imported in bottle at 86° proof and consequently pays duty and tax assessed on a wine-gallon basis as if it were 100° proof, so that the 14 per cent of added water is assessed as if it were whisky. However, the tax attaches to domestic whisky when it is produced, and is consequently assessed and payable at proof gallon rates when the whisky is withdrawn from bond before dilution and bottling. The wine-gallon assessment system therefore gives the advantage of an extra margin of protection, for bottled American whisky over imported bottled whisky. This differential consists in fact of the proportion of the import duty and excise tax which is charged on the water contained in bottled whisky. Calculated at 86° proof the preference amounts to $1.87 per proof gallon, i.e. $0.16 in import duty (duty per proof gallon being $1.02) and $1.71 in excise tax (tax per proof gallon being $10.50). It is estimated, on the basis of 1961 figures, that the additional revenue accruing to the United States Treasury, in respect of whisky from the United Kingdom alone, as a result of this discrimination is of the order of $54 million annually.

B. Reasons for notifying the non-tariff barrier

3. The wine-gallon assessment system seriously discriminates against imports of bottled whisky in favour of bottled American whisky, and as shown above, disguises an extra margin of protection (amounting to more than the existing duty) for the domestic product. Her Majesty's Government have urged for a considerable time the removal of this discrimination against imports of bottled whisky.
C. Changes which the United Kingdom wish to see made

4. Her Majesty's Government hope that the United States Government will be able to remove this unjustifiable discrimination against imported bottled whisky - which is against the spirit of Article III of the GATT - by abolition of the wine-gallon method of assessment of spirits as a basis for both import duty and excise tax, and its replacement by assessment on a proof gallon basis for all spirits at whatever proof.