We would like this morning to make some remarks, in response to Section (a) of the note by the Chairman regarding our exception list and our offers. We welcome the fact that the negotiations are now engaged, and we are ready to work as hard and intensively as possible, beginning now, to bring the negotiations to a successful conclusion. This means that for this set of meetings we are prepared to remain here as long as necessary, this week and next week, in order to complete our discussions.

I should say at the outset, and this will surprise no one that the offers which we have made relate, of course, to the industrial sector. They have been made on the assumption that the various negotiating partners here are firmly and fully committed to carry out the objectives of the Ministers with regard to the totality of the negotiations - that includes, among other problems, the objectives laid down by Ministers with regard to the achievement of substantial liberalization in protection relating to agricultural trade. Our industrial offers have been made in the light of this ministerial objective and, of course, would be subject to review if this were not achieved.

In describing and explaining somewhat further our exceptions list and hence our offer, I shall avoid dwelling on statistical measurements because of a firm conviction that excessive quantitative analysis of the lists is misleading and not likely to lead to the best results. Where figures are mentioned, and sometimes they have to be mentioned, they are intended to indicate only a rough order of magnitude rather than a specific measure of the value of a particular offer in relation to some other offer. Two basic convictions which have guided us and will continue to guide us are: first, that the qualitative much more than the quantitative aspects of the offers are interesting and important; secondly, that the offers must be evaluated and the negotiations must be conducted as much as possible as a multilateral rather than on a bilateral basis. We believe that this approach conforms most closely to the rationale of a linear negotiation. We have kept these two considerations very much in mind in drawing up our exceptions list, and will also have them clearly in mind as we evaluate the lists submitted by others.
I think that you will find a reflection of these considerations in my statement this morning. I should make one final point on the use of statistics. The use of trade coverage data as a measure for the value of a particular offer or exception can at best be only one of many criteria that will have to be used and would probably, in our view, be a fairly inadequate measure. If we dwell on the qualitative more than on the quantitative aspects and if we keep in mind the multilateral nature of the negotiations, we believe that we can achieve a higher balance of mutually advantageous concessions than if we depart from these fundamental principles.

You will note that we have not been able to supply with our exceptions lists the more detailed justifications for each of the exceptions that have been presented to our negotiating partners. We are presently hard at work in organizing these more detailed justifications to make them available to our negotiating partners, and I am informed by my colleagues who have that responsibility in Washington that we will have that material available for the various countries within about one to two weeks.

With regard to the United States offer itself, we have scrupulously applied the criterion of overriding national interest. We have gone through a process, to a large extent public as you know, involving many months of hearings with our industry and then a very detailed, very lengthy and, in our view, very conscientious efforts to come up with the smallest possible list of exceptions that could be justified under the criterion laid down here in Geneva. We feel that the result, by any measure that you employ, qualitative or quantitative, has been an offer which, in terms of United States history tariff negotiations, is unprecedented. We feel that this is the kind of objective, on which our Trade Expansion Act itself was based and that this is the kind of objective that the Administration of President Kennedy originally had in mind when it asked the Congress for this legislation. We believe that the offer that has been made is as fully responsive to that objective as it is to the rules laid down in Geneva.

Our exceptions list, as our negotiating partners will have noticed, is divided into three categories. There are some exceptions which we have termed technical; some which are mandatory, i.e., provided for in legislation; and some economic, i.e., those exceptions based on other reasons of overriding national interest. Out of the total list of exceptions submitted, the technical exceptions constitute about 10 per cent of the total, the remaining 90 per cent being divided about equally between the mandatory, which were known at the outset, and the economic. That means in fact that the additional exceptions which we found necessary to include are no greater than the mandatory ones that had been determined by legislation.

With regard to the mandatory ones, of course there are no surprises - these were known. They are in fact the items on which an escape clause action is in effect and where there is a legal bar to reduction. They include, among the principal items, lead and zinc, watches, carpets, glass, as well as safety pins, and a few others. Under our legislation, whereas an offer for reduction is not possible at this time, there is a provision for a regular annual review of each of
these cases. Secondly, there is a provision for a more detailed review of the economic situation relating to each of these commodities at the initiative of the administration or of the Tariff Commission, particularly when there is an assumption that a change in these conditions has occurred. As you know, such a review is presently underway on watches, one of the most important items on the mandatory exceptions list. Therefore, the fact that some of the items are included in this list, meaning that we cannot offer a concession now, does not mean that this is an eternal matter; in fact, we look forward to regular reviews with an effort to make changes to the extent that this is possible.

The technical exceptions are included in our exception list although, under the criteria used by many other countries, a larger part would not be included in our list. This is essentially because we have taken the position that what we are talking about in the Kennedy Round is an effort to cut existing effective rates and not legal maximum rates. Our technical exceptions fall into two categories. Those in which a 50 per cent reduction of the effective rate is not possible because the provisions of the Trade Expansion Act limit us to 50 per cent and because a part of that authority has already been used either in the Dillon Round or subsequently. The other are cases in which the base rate provided by the Trade Expansion Act, which is the rate of 1 July 1962, is higher than the base rate which we have notified to the GATT for purposes of the Kennedy Round, which is the rate in force on 4 May 1964. These situations arise because legislation has temporarily reduced or suspended a duty. It means that there may be a difference between the temporary effective rate and the bound rate. We cannot, in these cases, apply the full linear cut to the effective rate, which incidentally in some of the cases mentioned happens to be zero. We are, of course, offering a 50 per cent cut wherever possible in the bound rate. So these really are technically exceptions, and the economic significance of these exceptions, as far as we see, is small. If the United States had used the method followed by many other countries, these items would not have been listed as exceptions at all. One of the major items in this group, incidentally, is some type of red cedar shingles which involves some $20 million of trade which presently is already traded duty free.

That brings us to the economic exceptions which are, of course, the ones of greatest interest for purposes of the negotiations here. We have scrupulously attempted to include only commodities in this list where a reduction of the tariff would result in serious economic injury or an impairment of the national security, and we have only included such items which we feel fully meet the criterion laid down for the Kennedy Round. This has been only after comprehensive reviews at all levels in the United States Government and after careful hearings and investigation of the economic effects.

The only sector of our economy from which a significant volume has been excluded from the offer of a 50 per cent cut is the textile sector. Here the exceptions are almost exclusively wool textiles. I wish to emphasize this situation because the fact that virtually no cotton, no synthetic, and no silk textiles are on our list represents, in our view, a very far-reaching and difficult decision for the United States Government. It was not an easy decision, but this action was taken nevertheless in order to make the maximum contribution to the success of the negotiations. Moreover, we recognize that these textiles are commodities which are, among others, of particular interest to the developing countries.
Wool textiles represent, as most of my colleagues around this table know, a particular problem for the United States, a problem which we have had occasion to discuss frequently with our various negotiating partners in capitals as well as here in Geneva. These wool textile and wool apparel problems are deep rooted, and they have long been a matter of considerable national concern in the United States. The wool textile industries have been under intense pressure from the newer fibres, and are going through a period of great change in technology and geographic location which is causing a high level of unemployment concentrated in certain specific geographic areas. At the same time a rising tide of imports from both traditional and new suppliers is adding to the great pressure to which this industry is subject. At the present time more than 20 per cent of wool textile consumption in the United States is accounted for by imports. This has been a rapidly rising figure and for that reason we have felt it necessary to exclude these commodities from our offers.

Beyond the wool textile sector we have no other group of exceptions that are heavily concentrated in any one industry. Let me say before leaving the textile sector that while we have virtually no cotton textiles on our exceptions list, and our offer has been made without conditions, one of the factors that has enabled us to make this decision has been the fact that there has been a cotton textile agreement in existence and the knowledge that this agreement will continue over future years. Obviously the fact that there is such an agreement has been helpful in enabling us not to place these items on our exceptions list.

Another important set of exceptions are in the footwear products, but a careful examination of the exceptions that we have had to make will indicate that we have been quite selective in the number and types of exceptions that were made in this sector and that our offer on shoes is still quite comprehensive. The basic problem of the footwear industry, which is the employer of more than 250,000 people in the United States, is in some ways analogous to that of the textile and apparel industry to which I have had occasion to refer a moment ago. Incidentally, it is analogous not only in the terms of the economic characteristics and pressures on the industry but also in terms of the geographic location in which the production of these commodities takes place. Imports in general in the footwear industry have already achieved a very substantial share of the market, profit margins are among the lowest of any United States industry. There are many small establishments concentrated in these depressed, and characteristically very high unemployment areas, and of course these are products that are traditionally labour intensive and where adjustment is difficult since the absorption of such labour into other activities is difficult and in general substitute activities are not as labour intensive as those of the shoe industry. In spite of the fact that we have had to make some significant exceptions in this area, however, we are offering concessions in major trade items on both leather and rubber footwear. On some of the leather shoe categories we are making no exceptions whatsoever, on the largest import items we have indicated that we can offer 25 per cent reductions. In the rubber footwear group we have excepted only protective footwear, an area in which we have particular difficulties. I should also point out that we have, after considerable consideration, made no exception for canvass footwear products, which constitute the bulk of the rubber footwear market.
The next sector in which we have some exceptions is that of the leather gloves industry. This happens to be a case in which the industry is located in one country, Fulton County, in New York State, which has been classified as a serious unemployment area since 1961, and which has the most limited alternative employment possibilities. Production of leather gloves has declined steadily over the past five years while imports have more than doubled or, for some categories, tripled, and now constitute about one fourth of our domestic market. This is a particular hardship situation in which we feel we have to make some exceptions. We are still, however, offering partial reductions on some of the most important items in the glove trade.

We have made some exceptions in the wood products sector where we are making partial offers on certain plywood and hard-board items, and where we have been very careful to keep the exceptions down to an absolute minimum. Hard-board imports have tripled in the last five years, and plywood imports today account for a very high percentage of consumption in the United States.

We have excepted some earthenware, chinaware and glassware items which also face situations which are analogous to those in the textile and shoe sectors. Our imports of earthenware today are 30 per cent of the domestic market and rising rapidly, and some 60 per cent of our consumption of household chinaware is imported. I think these figures give an indication of the fact that exceptions in this sector were necessary to safeguard some remaining elements of this industry.

There are certain other perhaps generally less important products on our list. For example, in the vast range of electronic products we are excepting only a few items for rather unique reasons. One of them is television picture tubes where the recent revision of our tariff schedules has lowered the effective duty from 30 per cent to 12½ per cent. Here is one case where because of a technical reason we have in advance of the Kennedy Round and going beyond the specific provisions of the Kennedy Round made a larger than 50 per cent cut in our tariff. For certain electrical measuring devices we have had a customs court ruling which affected our decision. Occasionally our customs courts make rulings that must be quite pleasing to our trading partners. Generally, however, we hear about ruling that are not so pleasing. In this case they ruled that the duty was to be lowered from 50 per cent to 12 per cent. That is more than a 75 per cent reduction. It is for these reasons we felt that further reductions at this time for these products were not possible. Other than for those cases, we have not made further exceptions in this important sector.

This has been a very quick run through the major areas in which we have made exceptions. As I indicated, we shall have the detailed product-by-product justifications available in the near future.

With due regard for the caveat expressed earlier concerning attempts at quantitative evaluations of exceptions list, I should point out that taking into account our exceptions and partial offers, we calculate that the average reduction offered on our industrial duties covered under the 50 per cent linear rule is about 41 per cent. Prior to the Kennedy Round the average United States duty on
non-agricultural dutiable imports from participating countries was 13.2 per cent. The cuts that we are now offering would bring that down to 7.8 per cent. Of course this 41 per cent average cut is only a general indication of the extent of our offer, but I think that as an order of magnitude it does show why I said at the outset that this is unprecedented as far as the United States is concerned. This figure, of course, does not reveal very important qualitative aspects of our offer and does not show specifically that particularly important sectors such as iron and steel, virtually all chemicals and a great many other products which might be considered sensitive are being offered for a full 50 per cent linear reduction. From aircraft to machine tools, from polyethylene to pipe, from nuts and bolts to the most sophisticated modern machinery, a 50 per cent offer is on the table subject to reciprocity with our trading partners.

So much for the general nature of our offer, I would now like to make a few comments with regard to certain specific issues which I know are of concern to some of our negotiating partners. No doubt they will be discussed in detail in the coming months, but they merit some brief comments at this point. First, the question of American Selling Price valuation as it applies to certain chemicals. As I indicated a moment ago, we have offered a 50 per cent reduction for these products as well as for virtually all other chemical products.

The 50 per cent reduction that we have offered relates, of course, to the effective as well as the nominal rates, and to the protectiveness of the American Selling Price system itself. We wish to underline the fact that this offer is not being made easily or lightly. This is the first time, to my knowledge, that the United States has offered such a substantial reduction of protection in this sector which has caused so many difficulties. We know there is an interest on the part of our negotiating partners to discuss the possibility of a change in the system of valuation used for a part of our chemical sector. As we have indicated before, we are entirely willing to discuss these ideas and to see what can be worked out in the context of a reciprocal package of Kennedy Round concessions. I think it is important that in approaching the American Selling Price problem that all of us, working together, gain a clear understanding: (a) of what the facts are; and (b) of what the problems are. In this connexion I wish to remind my colleagues that during discussions of the American Selling Price problem in the July meeting of the Sub-Committee on Non-Tariff Barriers we requested information from our trading partners with regard to the operation of this system. We would like to renew this request for information. I should emphasize that in indicating a willingness to discuss the operation of the American Selling Price system, which means indicating a willingness to consider improving, on a reciprocal basis, the offer we have already made, there are extremely difficult technical and legal problems that have to be overcome. These difficulties have to be fully understood and sufficiently explored if some progress is to be made. We can give no assurance at this time, that we can in fact overcome these difficulties but we are willing to explore and to discuss and to see what can be done. Certainly any additional United States action relating to the American Selling Price system of valuation is going to be considered from the point of view of the quid pro quo involved. The question is going to be what are our trading partners willing to contribute to the success of the negotiations to make it possible for us to make this additional contribution providing the technical and legal problems can be overcome.
In conclusion I would urge that as we approach this problem we refrain from public pressure, and especially to the more inflammatory and campaign type of pressure because it would make any action in this field all the more difficult. What we need is a careful quiet exploring of the possibilities and an understanding of legal and technical problems in the hope that the Kennedy Round might afford a means for progress in this area.

The second point to which I wish to refer relates to the question of exclusions. Our trading partners will have noticed that we have excluded several articles from the linear offer on grounds that a major portion of United States imports comes from countries not now participating in the Kennedy Round negotiations. Among these are included, petroleum, two fish items, some lead items, and a few glove classifications. This is a small number, but of course the most important of these is petroleum. I should remind my negotiating partners, as no doubt they know, that participating countries supply only a minor portion of United States imports, that the duty on petroleum is very low - about 3 1/2 per cent - and that mandatory quotas determine the volume of imports. The duty is not a factor in this regard. I take it that no country here would be ready to offer concessions equivalent to the trade coverage of this item. I think that it is merely an indication that a statistical analysis of a problem of this kind would not lead us very far.

Third, I wish to say a word about the base rate issue. As we indicated last month in the Trade Negotiations Committee, it is our position that the linear cut should apply to effective rates on the base date of each participant where these are lower than legal or bound rates. I am reminded in this regard of various comments, at times made by you to the effect that we should try as much as we can to cut the existing tariffs and not legal or maximum rates. We have drawn up our exceptions list consistently with this position, and that is why we have included among the technical exceptions, as I indicated earlier, somewhere this was necessary in order to be consistent with this principle. In those cases, therefore where participants are offering a 50 per cent cut from rates higher than effective rates, the United States, of course, reserves the right to challenge the validity of such offers in terms of the 50 per cent cut. In particular, I wish to say at the outset that we do not regard the European Coal and Steel Community offer on steel as a legitimate 50 per cent linear offer. There may be other items on which we will come back later in this regard.

There is, finally a fourth issue, that of non-tariff barriers which I know we will be discussing in some detail in the Non-Tariff Barrier Sub-Committee. It is clear that there are a number of problems of great interest to us in this regard and where action to ameliorate or remove non-tariff barriers would be an important factor in making sure that the tariff cut offered is not impaired or nullified by the existence of such restrictions.
That is all that I have to say at this time concerning the United States offer. In due course we shall be interested in raising some questions regarding clarification of the lists submitted by other countries, and we shall for our part make every effort to supply speedily the answers to requests for clarification relating to our list.

I do, in conclusion, wish to underline the fact that one of the things we will have to do when these initial statements have been completed and when the requests for further information have been exchanged, is to feel our way towards, and make some decisions relating to, the framework and procedures for the actual negotiations. As I have indicated at the outset, we believe that the multilateral approach, which is consonent with a linear type of offer, should be used as much as possible. In this regard while we recognize that there may be instances in which a discussion by industries or by sectors may be useful at some point of time, we have hesitations about an approach that would concentrate on achieving reciprocity within sectors. It is quite clear that the kind of reciprocity that we have been talking about all along is global reciprocity, and that we certainly will not seek to achieve reciprocity within any one sector but rather in overall terms.

I should say that having said what I have about our list we welcome the fact that some countries have made a greater effort than we have, and have not submitted any exceptions list at all. They have therefore, made an offer of a full 50 per cent cut on the entire industrial sector. At the same time, I should note that our preliminary analysis shows that some countries, both in terms of the scope and the qualitative content of their lists have submitted an offer which indicates an effort that would not appear to be as great as the one we feel we have made. I should say in particular that we believe that the exceptions lists submitted by the European Economic Community and by Japan fall into this latter category. We look forward to efforts in the negotiations to establish the necessary reciprocity and reduce these lists so that the maximum result in the Kennedy Round can be achieved.