1. The Japanese Government, in devising its proposed formula, took into consideration the following basic objectives:

(a) The formula should be applicable as generally as possible and simple in its form, and should lead to a substantial tariff reduction.

(b) The formula should have a harmonization element of narrowing tariff differentials.

(c) The formula should be such as to minimize exceptions as far as possible.

2. In the light of the above objectives, the Japanese delegation proposes the following formula:

\[ Z = 0.3X + 3.5 \]

\( Z \): resulting rate
\( X \): initial rate

This formula is based upon 70 per cent linear element, which is combined with the harmonization element of constant 3.5. A resulting rate is, therefore, obtained by cutting an initial rate by 70 per cent and adding to it 3.5 per cent ad valorem.

The Japanese delegation, in devising the formula, has borne industrial products in mind. With regard to tariffs on agricultural products, the Japanese delegation is of the view that it is desirable that offers, while following the above formula to the extent possible, be tabled in line with the precedent of the Kennedy Round exercise and in consideration of the special characteristics in the agricultural sector.
3. The Japanese delegation is of the opinion that tariff harmonization which was not fully achieved in the Kennedy Round should be a major objective of the negotiations together with substantial tariff reduction.

4. In applying this formula, tariff rates in the range of 0.1 to 5 per cent are not subject to reduction in order to avoid the increase of tariff rates in the above range. As a result, 5 per cent becomes the floor tariff. This is in accord with the idea of harmonization and also with the interests of developing countries, since it leaves room for appropriate consideration to the avoidance of the reduction of the GSP margins which are narrow in this tariff range.

5. Exceptions should be minimized as far as possible. The Japanese Government, in devising the proposed formula, took into consideration this point. In any event, the selection of formula should be made in relation to exceptions.

6. With regard to the problem of reciprocity, as provided for in paragraph 5 of the Tokyo Declaration, negotiations should be conducted on the basis of overall reciprocity and participating countries should endeavour to achieve an overall balance of advantage at the highest possible level. The Japanese delegation cannot support the view that reciprocity be sought only in the field of tariffs or on a strictly bilateral basis, since it will lead to a lower level of results of the negotiations.

7. On the question of the base rates for the application of the formula, GATT bound rates should be adopted for the bound items as already agreed upon. Concerning unbound rates, the Japanese delegation is of the view that general rates should be used as the base rates. As for the base date, it is of the view that the time of the completion of the Kennedy Round tariff reductions should be chosen for this purpose.
PERCENTAGE TARIFF REDUCTIONS
AFTER APPLICATION OF FORMULA
\[ Z = 0.3X + 3.5 \]

REDDUCCIONES ARANCELARIAS PORCENTUALES
DESPUÉS DE LA APLICACIÓN DE LA FÓRMULA
\[ Z = 0.3X + 3.5 \]

REDUCTION DES DROITS EN POURCENTAGE
APRÈS APPLICATION DE LA FORMULE
\[ Z = 0.3X + 3.5 \]
RESULTING RATE AFTER
APPLICATION OF FORMULA
\[ Z = 0.3X + 3.5 \]

TAUX D'ABOUTISSEMENT APRÈS
APPLICATION DE LA FORMULE
\[ Z = 0.3X + 3.5 \]

DERECHO RESULTANTE DESPUÉS DE LA
APLICACIÓN DE LA FÓRMULA
\[ Z = 0.3X + 3.5 \]