My delegation considers it an encouraging sign that the delegations of Japan and Switzerland have translated their ideas on tariff liberalization into definitive tariff reduction proposals for this Group's consideration. We recognize that a significant amount of effort went into the development of these proposals. In thanking these delegations for their efforts, I hope that all of us can now rededicate ourselves to the kind of hard work it took to develop these proposals so we can look forward to bringing these negotiations to a timely and successful conclusion.

Mr. Chairman, in your summing-up of our March meeting, you said that you saw a consensus emerging on several points. One of those points was that the tariff formula should contain an important element of harmonization. Both the Japanese and Swiss proposals presented today do seek to harmonize tariff rates. They do this by observing the principle that the higher the existing duty, the higher should be the reduction called for by the formula. As I stated in March and again in July, the United States proposal also seeks harmonization. While we believe our proposal achieves significant harmonization with lower absolute tariff levels than does either of the proposals tabled today, we nonetheless believe the Chairman's observations on this subject in March are being borne out by other developments in this Group.

We had also hoped to see similar emphasis in the new proposals on the second point you cited in your summing-up. That is, the aim of achieving a substantial absolute reduction in the level of tariffs globally. In this respect, what has been suggested represents in many ways an improvement over proposals made earlier. However, we do think that the new proposals could be significantly improved upon, and that in doing so substantial liberalization warrants more emphasis.

In a preliminary way, I would like to be more specific. The Japanese formula, applied to all products, calls for average reductions of major trading country tariffs of between 34 and 47 per cent. Since nearly all delegations have indicated during this negotiation that they will likely need to except some items from formula reductions, the liberalization which would finally be achieved under the Japanese formula would be a good deal less than what historical precedent leads us to call
substantial liberalization. These figures which I have cited, representing the overall reductions attained under the Japanese formula, were calculated using statutory rates as the base rates on unbound items, since those are the ones used in the GATT tapes. Of course, we must recognize that these statutory rates bear little resemblance to the actual rates which have been applied in recent years. We would expect that the formula would be applied to actual rates.

The delegation of Switzerland offered a proposal which, applied to all products, provides for overall reductions according to our calculations of between 43 and 59 per cent among the major trading countries. These numbers indicate to us that the Swiss Government has sought in its proposal to meet both the objectives of substantial liberalization and the harmonization of rates. But the result of their effort is a formula which still falls short of the proposal of the United States. Accordingly, we hope further discussions among the participants will lead to a recognition that greater liberalization is both feasible and appropriate.

The United States views as important the liberalization of the few remaining high rates in developed country tariffs. These high rates are given particular attention in the proposals tabled today. Under our own proposal we are offering to cut our own high rates by the maximum percentage permitted by our Trade Act. But our willingness to make this maximum effort to cut high rates is dependent on as great an effort being made to substantially reduce duties within the range in which the majority of developed country tariffs is found. We hope delegations will give greater attention to this area during our deliberations.

We have noted that more than 75 per cent of all dutiable items among the tariff study countries are at rates of 15 per cent or less. On the other hand, less than 10 per cent of all rates (and even less of trade) are at rates over 30 per cent. Thus, while we need and are prepared to support an approach which will call for very substantial reductions of high duties, we also must have one which substantially reduces rates in the range of moderate tariffs.

We have plotted out all four proposed tariff-cutting formulas in graphs 1 and 2 (annexed) to examine their comparative effects on the entire range of tariffs. Graph 1 shows the final rates (z) after applying the four alternative tariff formulas to initial tariff rates (x). The Canadian preferences expressed for a tariff-cutting formula are not shown on this chart because the Canadian preferences represent not a single mathematical formulation but rather a family of proposals that do not, at this point, lend themselves to an exact graphical representation. Graph 1 shows that final rates are the lowest under the United States formula proposal for initial tariffs up to the rate of 21 per cent ad valorem. Above the rate of 21 per cent, the Swiss formula achieves lower rates than the United States formula because it exceeds the 60 per cent maximum reduction which the United States can make under law. Not until rates of 30 and 35 per cent are reached do
the EC and Japanese proposals, respectively, achieve lower rates than the United States formula. A conclusion that one must draw from this graph is that the alternatives to the United States proposal do not achieve lower rates except at rates which have relatively little significance when compared to the large proportion of tariffs that inhibit or prevent trade at lower levels.

Graph 2 is presented for those who like to look at the formula in terms of percentage reductions (Y) as related to initial tariff rates. As in graph 1, graph 2 shows that the United States formula is more tariff-liberalizing for those rates where the bulk of trade and tariffs exist, i.e., below 20 per cent. Again the alternative formulas are more liberalizing only for rates above 21 per cent in the case of the Swiss formula, 30 per cent in the case of the EC formula, and 35 per cent in the case of the Japanese formula, and because they exceed the maximum possible cut (60 per cent) that the United States can make under its Trade Act.

Our interest in this range of rates should be shared by the developing countries. Only a formula calling for substantial liberalization of rates in the range between 5 and 20 per cent is going to provide an effective remedy to the problem of tariff escalation. For this reason, the United States proposal, which is much more liberalizing in this range, will we believe better serve the developing country interest in expanding exports of manufactured products.

In previous meetings the United States Delegation has discussed the problem of tariff escalation raised by a number of developing countries. We have presented several charts to show how differences in tariffs at various stages of processing are affected by alternative proposals. We made the point that the United States approach (besides achieving deeper MFN cuts that by themselves substantially benefit developing country exports) results in a narrowing of absolute differences in tariffs at different stages of processing. Thus, the United States formula offers a significant reduction in the escalation of rates from raw materials to semi-finished and finished manufactures.

Graph 3 (annexed) is an update of our earlier analysis, encompassing the two new proposals. The chart shows a hypothetical escalated structure of tariffs that one might find in some given product group. Raw materials (Stage I) are assumed to be duty free, as they often are in developed countries. Semi-finished (Stage II) products are assumed to be 10 per cent, and finished manufactures (Stage III) are assumed to have a rate of 15 per cent.

Applying the alternative formulas, we see that greatest reductions are achieved under the United States approach. Also, the absolute difference between the zero duty on raw materials and the 10 per cent duty is minimized under the United States approach. In addition, the United States formula achieves a substantial narrowing of the difference between the Stage II and Stage III rates.
This chart serves to show again that the United States formula achieves a significant reduction in the degree of tariff escalation.

We regret that the proposal of the Japanese Delegation does not call for reductions on duties 5 per cent and below. Their formula implicitly establishes a so-called tariff reduction floor or threshold at 5 per cent ad valorem. This means that approximately 17 per cent of developed country tariffs would not be subject to formula application. We would have great difficulty in agreeing to a formula which reflects a judgment that tariff liberalization is inappropriate or unnecessary on such a large number of products.

On the question of the product coverage of the formulas presented yesterday: we stated in March that our proposal is meant to be applied to all tariffs, BTN Chapters 1-99. The Tokyo Declaration states that we should adopt a formula of as broad an application as possible, and we do not find reason to retreat from that agreed objective. We are not satisfied, therefore, with proposals which are meant to be applied to an arbitrarily-defined and limited group of products. We are pleased to see that the delegations advancing these proposals yesterday do not consider them wholly inapplicable to agricultural products and hope that the process of moving toward an across-the-board tariff-cutting formula in this Group will continue.

I want also to reaffirm the importance we attach to limiting exceptions. No discussion of a tariff-cutting plan can fail to take into account the impact of potential exceptions and it is for this reason that my delegation re-emphasizes, at this point in our deliberations, our expectation that all participants will exercise maximum restraint to minimize exceptions.

I should also note, Mr. Chairman, your summing-up of the March 1976 meeting noted an emerging consensus that negotiations on tariffs cannot be considered in isolation but must be considered, inter alia, in the context of negotiations on non-tariff measures. This continues to reflect the United States position.

We have now heard specific proposals from five delegations: the European Community, Canada, Japan, Switzerland and the United States. From what has been stated so far at this meeting and the previous two meetings of this Group, we would conclude that taken together these proposals generally reflect a broad spectrum of opinion on the elements which countries wish to see incorporated into an across-the-board tariff reduction formula. Having now attained this fuller expression of developed country preferences, we think it is appropriate for this Group to take concrete steps toward the adoption of a comprehensive tariff-negotiating formula. The Trade Negotiations Committee directed this Group to make solid and substantial negotiating progress in 1976 toward agreement on the major elements of a tariff-negotiating plan. In the months remaining of 1976, we should do our utmost to meet the expectations of the Trade Negotiations Committee. My delegation stands ready to meet this responsibility.
GRAPH 1
INITIAL AND NEW TARIFF RATES
APPLYING PROPOSED TARIFF REDUCTION FORMULAS

NEW TARIFF RATE, $z$, %

INITIAL TARIFF RATE, $x$, %

US
JAPANESE

EEC

SWISS
Graph 2
Percentage Tariff Reductions for Tabled Formulas

INITIAL TARIFF RATE, X, %

PERCENTAGE REDUCTIONS, Y

US
SWISS
EC
JAPANESE
GRAPH 3
INITIAL TARIFF RATES AT
THREE STAGES OF PROCESSING
AND RESULTING RATES UNDER
TABLED TARIFF PROPOSALS

INITIAL RATE = 0
STAGE I
RAW MATERIALS
STAGE II
SEMI-MANUFACTURES
STAGE III
MANUFACTURES

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