1. The Group was chaired by H.E. Mr. L. Duthie. It pursued the discussion on the following points:

Item A Establishment of detailed procedures, approaches and methods necessary for the tariff negotiations (MTN.TNC/11, page 4, paragraph 1)

2. The Group had before it a new submission made by Canada concerning, inter alia, the modalities for tariff negotiations (document MTN.GNG/NG1/W/26). As this submission contained Canada's comprehensive proposal on the modalities to engage in detailed market access negotiations, it was due to be introduced also in other relevant negotiating groups.

3. The submission by Canada proposes an approach based on a combination of both a tariff formula and a request/offer procedure. It envisages as a first step the application of a formula which would reduce by 32 to 37 per cent present tariffs of below 30 per cent and would provide for a linear reduction of 38 per cent for all present tariffs of 30 per cent and above. As a second step, the proposal foresees the elimination of duty rates which fall below 3 per cent after applying the above-noted formula. A request/offer approach is considered in the submission as a supplementary technique to provide the maximum possible reduction or elimination of both tariffs and non-tariff barriers (NTBs), and to ensure a mutual balance of advantages at the highest possible level. Exceptions to the formula reductions would be kept to a minimum. While the formula would apply to all sectors, the Canadian submission recognizes that solutions to market access in some sectors (e.g. agriculture) will need to take account of developments in the MTN as a whole in the final result. Canada also proposes that requests for greater than formula reductions be exchanged by all participants as soon as possible with a view to engaging in a mutual exchange of tariff and NTB offers by 31 January 1990. The submission stipulates that the results of both the tariff and NTB negotiations would be bound under the GATT and appropriate credit would be given for the binding of previously unbound rates and for reductions in base rates. It also envisages that the results of the negotiations would be phased in
equal annual steps over an agreed period of time, allowing a longer phasing period for the reduction on sensitive products or in the case of tariff reductions made by developing countries. Developed and newly industrialized participants would make every effort to meet the needs of the least-developed countries by, inter alia, proposing greater than formula cuts and accelerated tariff reductions on goods of particular interest to these countries. The Canadian submission also contains some elements to simplify both the negotiations and their results, such as minimizing the number of tariff items at the eight-digit level and rounding down the results to the nearest one half percentage point.

4. In introducing his proposal to the Group, the representative of Canada stated that his Government recognized certain sensitivities in specific sectors in each participant country, but at the same time he stressed that it would be very important not to set aside certain blocks of products in the negotiations. In view of achieving the biggest possible package in the improvement of market access, he maintained that the generic tariff negotiations as proposed in the submission would be the best way. With regard to the period of phasing, he suggested five equal annual steps as a general rule. He described the harmonizing effect by the proposed tariff formula moderate, but also maintained that the built-in harmonization of the formula would effectively address the normal range of tariffs where most of the trade took place, as well as facilitate the reduction of higher duty rates often found in developing countries. He expressed his concern that a higher harmonization effect might cause some difficulty in achieving the maximum participation in the negotiations. He also stressed that whatever formula were to be agreed, it should be a fixed formula and should not vary from one country to another by using different co-efficients.

5. Many participants welcomed the submission and considered it as a useful and valuable contribution to the work of the Group. They expressed their appreciation on some essential elements in the submission, such as the approach based on a systematic formula, the combination of a tariff formula and a request/offer procedure, the flexibility in determining the phasing period for developing countries, full binding of the results and simplification of negotiations and results. They acknowledged that the proposal contained politically realistic elements to encourage wide participation in the negotiations. One participant argued that the proposal would give more favourable treatment to countries presently applying high tariffs, which could be considered as an element of special and differential treatment for developing countries. The point was also made that tariffs and non-tariff measures should be dealt with together, although this was contested by other delegations which saw the tariff negotiations as a separate exercise.

6. While welcoming the proposal, several participants stated that a more pronounced harmonization effect in applying a formula was necessary, particularly in order to achieve deeper cuts for high tariffs than envisaged in the proposal, and more emphasis on the formula rather than on the request/offer approach. One participant pointed out that the general application of a fixed approach proposed in the submission would not always
suit different tariff structures and might lead to a broad range of exceptions. Some participants expressed their concern over the suggested approach in dealing with low tariffs in the Canadian proposal; the low-duty countries would have very limited negotiating leverage in bilateral negotiations after automatically eliminating significant proportions of their present tariffs. Some participants noted that the submission created a new category of developing countries; they expressed doubts whether such a classification of countries depending on the level of economic development was consistent with the decisions of Ministers. These delegations also said that the need for special and differential treatment in favour of developing countries, as stipulated by Ministers, required more than just a time derogation. Several members suggested that ceiling binding would also promote the widest possible participation in the negotiations.

7. In reply to the point made that the proposal did not contain a sufficiently strong harmonization element, the Canadian delegation replied that its formula should make it possible for developing countries with high tariffs to apply the formula on the same basis as other countries. In addition, the request/offer procedure would in any event permit deeper than formula cuts and thereby greater harmonization.

8. A number of participants expressed a sense of urgency in starting substantial negotiations on tariffs and felt that an agreement on the question of modalities for the negotiations should be reached as soon as possible. The Chairman was requested to hold informal discussions with a view to seeking agreement among different positions and proposals. Many participants suggested that the three recent submissions, i.e. the proposals by the European Communities (MTN.GNG/NG1/W/22), by Japan (MTN.GNG/NG1/W/25) and by Canada (MTN.GNG/NG1/W/26) would constitute a good basis for such an agreement.

9. One participant which had been in favour of the request/offer approach stated that following its presentation of request lists to fourteen participants in July, his Government had refined its requests and would be in a position to present additional request lists in the autumn. He also mentioned that his authorities were currently working on nine other countries and would be able to table requests by the end of October, with further requests to be submitted before the end of the year. This participant stated that although his government would not alter its previous position, it would be ready to negotiate with those countries who would apply a formula approach. He further explained that his authorities would be in a position to look at offers made to them on the basis of a harmonization formula and, if necessary, entertain requests made on the basis of a formula approach if the requesting country had a supplier status on the products concerned. In this connection, this participant encouraged others to provide his authorities with request lists as soon as possible.
Item B  Broadening and updating of the factual data base for the tariff negotiations

10. A member of the secretariat advised the Group that in addition to the sixteen participants listed in document NG1/W/21, Tariff Study data for a further four participants (Argentina, Brazil, Peru, Yugoslavia) were now available. On the other hand, most of the data provided to the secretariat for the IDB were incomplete and could be used only for testing purposes. Some participants expressed their concern that the situation of data collection could impede progress in the tariff negotiations and emphasized that no matter what methodology the Group might agree upon, one could not negotiate without sufficient data. One participant noted a problem in identifying what bindings existed for certain countries and suggested that the secretariat should prepare a paper providing information on the present situation regarding bindings. The Chairman once more urged the participants who had not yet submitted information to do so as soon as possible.

Item C  Consideration of the Group's future work and arrangements for future meetings

11. The Chairman noted that a number of participants had expressed serious concern that the Group had not yet reached any agreement on the question of the negotiating modalities. Bearing in mind the urgent need to come to an agreement in this respect, the Chairman said that he would hold informal consultations before the next meeting of the Group.

12. The Group confirmed the dates of the next meetings on 23 October and 23 November 1989, respectively.