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Brussels, 1964  
P-6/64INFORMATION MEMODisparate Aspects of Selected Tariff Structures (1)Foreword

The following study is of a statistical nature and, as such, it aims at supplying overall provisional information, for general use, on the tariffs in question. The findings are purely descriptive and do not imply any official attitude on the part of the Statistical Office nor therefore of the E.E.C. Commission. It should be noted that the figures given in no way prejudice the results of more specific studies which might be put in hand by the E.E.C. Commission prior to tariff negotiations.

1. Significance and limitations of comparisons between tariffs

In the years after the entry into force of the Rome Treaty, international discussions and negotiations on customs tariffs, particularly in GATT, have become more frequent and far-reaching. The object of these negotiations is to reduce by mutual concessions the customs duties on imports into the various countries. Such concessions were formerly discussed bilaterally and product by product, and it was sufficient for the parties to consult each other and to collate their own tariffs and their own import statistics case by case to appraise the economic effects of their decisions. Later there was a marked tendency to adopt much more general lines of approach based on the systematic application of reductions to large groups of products. It is then useful to make a broader appraisal of customs tariffs, and for this purpose it is natural to turn to statistical techniques, which are the means par excellence of presenting information in synoptic form.

We must remember, however, that as regards international comparison the assessment of tariff problems in statistical terms is still in its infancy and encounters difficulties similar to those met with in the earliest attempts to establish international trade statistics : the

(1) This article first appeared as "A statistical comparison of the common external tariff of the E.E.C., the tariff of the United States of America and the tariff of the United Kingdom of Great Britain and Northern Ireland", by Marcel Mesnage, Chief of Division, Statistical Office of the European Communities. It was first published in "Informations Statistiques", a publication of the Statistical Office.

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tariff nomenclatures differ, the duties apply sometimes to quantities, sometimes to values (or both), the values themselves are assessed differently, the rate of duty can vary temporarily and also by country of origin, and its application may be subject to exceptions (processing traffic, tariff quotas, etc.).

That is why, as things stand at present, general statistical surveys in this field can do no more than provide information which will help to clarify ideas but will not in itself be a sufficient basis for well-founded judgements. The present study is no exception and care must therefore be taken not to attribute to the figures a degree of precision which they cannot have.

Furthermore it must not be forgotten that customs duties are only one factor tending to restrict trade. Although often considerable, their protective effect is sometimes less than that of quotas or of certain regulations or even administrative formalities. Any attempt to answer by way of rough-and-ready averages the complex question: "What is the level of protection of one country in relation to some other country?" would lead nowhere.

## 2. Method of comparison used

A first choice presents itself when comparing two tariffs: the duties can either be studied independently or in relation to the volume of trade to which they apply. These two methods are often distinguished as non-weighted calculations and weighted calculations (i.e. weighted by the value of the imports).

At first sight it would seem that weighted calculations should give a more accurate picture. It seems natural to minimize the influence of duties which apply only to small quantities of imports and to give more weight to duties which apply to large quantities. However, the objection has been raised that the picture obtained from these weighted calculations is distorted by the very effect of the duties on imports. A very high duty will greatly reduce or even suppress the corresponding imports and thereby lose all or part of its significance in the calculations. The result is that weighted calculations tend to underestimate the protective effect of the duties in question. Ideally, the duties should therefore be weighted, not by the actual imports, but by those which would be made if there were no customs duties. Such a calculation would require a systematic estimate, product by product, of the effect of the law of import fluctuation according to duty. For the time being this is outside the realm of possibility<sup>(1)</sup>.

Moreover there are other practical obstacles even if such estimates are not attempted. The principal one is that all the nomenclatures differ among themselves. This is true of tariff nomenclatures and nomenclatures of import statistics within a single country and tariff or statistical nomenclatures of different countries.

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(1) The general trend is, however, predictable: there would first be a gradual decline in imports as the duty rose, then a rapid fall when it reached a certain critical figure. This figure would correspond to the maximum price increase which can be absorbed by differences in productivity from one country to another and beyond which imports cease to be competitive.

Finally, even supposing these obstacles were overcome, the structural differences between the various countries' imports would still have to be considered. It might be said that a useful comparison of several tariffs could only be made on the basis of a common weighting, and here the criteria of selection are difficult to work out. One solution would be to use imports into the whole group of countries studied but this would strangely complicate the nomenclature problem.

In view of these difficulties it seemed advisable, as a first stage, to turn to the type of calculation known as "non-weighted", which, as we have said, means considering the duties independently of the corresponding trade. This in fact is the method used in the present study.

It should first be noted that in reality the absence of weighting means only the non-utilization of the import values and that another type of weighting is inevitably introduced by reason of the structure of the tariff. Thus, in a tariff where certain products are subdivided many times (textiles in the US tariff for instance) the duties on the products in question will have a higher frequency in a statistical distribution and a greater weight in an arithmetical average of duties.

In order to prevent this implicit weighting through the number of sub-divisions from seriously distorting comparisons between the tariffs studied, these had to be reduced to a common structure, that is to say, the duties of the three tariffs had to be re-arranged according to a single list of sub-divisions. It follows that the results shown below may differ from those of similar calculations which may have been made elsewhere on the basis of the structure proper to each tariff.

Moreover it is important to note that the simple arithmetical average of the duties calculated for the whole of each tariff is appreciably higher than the average of the duties weighted by the value of imports. In fact the simple average is greatly influenced by the duties on manufactured products, which are much more differentiated than raw materials and bear higher duties so that their "arithmetical weight" is much higher than their actual relative importance in imports and tends to increase the simple average. By contrast, in the weighted average a high weighting is given to duties on raw materials, which are generally small or nil, with the result that this average is reduced.

### 3. The duties used

A regrouping of the tariffs of the various countries of Europe and North America in accordance with the structure of the common external tariff was made by Political and Economic Planning and published in its study "Atlantic Tariffs and Trade" (London, 1962).

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The United States and United Kingdom duties given in this work were used as a basis for the present study. For the United States these duties were drawn from the "Tariff Classification Study", United States Tariff Commission, Washington, D.C., 15 November 1960. They therefore do not take into account the amendments made after the adoption of the Tariff Commission's proposals in June 1962. For the United Kingdom the duties are the non-preferential duties in force on 1 March 1962 (most-favoured-nation GATT duties). Adjustments have been made to eliminate from certain duties the element considered to be purely fiscal. The reader is referred to the work mentioned for further details on the re-arrangement made and the exceptions it involves as well as on the nature of the duties.

Here we will mention only two points which may affect the statistical distribution of the duties. When several duties in another tariff correspond to a single duty in the common external tariff the work quoted mentions only the lowest and the highest of these duties. For the calculations in this study in such case the two duties mentioned have been used and the corresponding duty in the common external tariff repeated each time. In this way a common weighting structure is obtained in which a line always includes one duty, and one only, for each tariff. The omission of the intermediary duties within a heading of the common external tariff is unlikely to have much effect upon the statistical distribution of the duties of each tariff considered in isolation. The distribution of the differences between the duties of the CET and those of another tariff could be inflected in such a way as slightly to increase the relative frequency of the differences whose absolute value is high, that is to say to "flatten out" the distribution. However, a calculation was made to verify important sections of the Nomenclature on the basis of complete dovetailing of the CET and the US tariff, which thus included all the duties of the latter tariff for the Brussels headings covered. The results of this calculation are not appreciably different from those used here.

The other point concerned the handling of specific or mixed duties<sup>(1)</sup>. In the work mentioned, such duties have been replaced as far as possible by estimates of their average incidence expressed as a percentage of value. Where the work gives no such estimate, any corresponding duties mentioned for the other tariffs have also been omitted from the calculations.

As regards the common external tariff the duties appearing in "Atlantic Tariffs and Trade" have been replaced by the contractual duties of 1 July 1963 or, when there were no contractual duties, by

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(1) Specific duties are duties expressed as a fixed amount per unit of quantity, and mixed duties are duties expressed as a percentage of the value but associated with a minimum or maximum charge per unit of quantity.

duties on the list at that date. These duties consequently take account of the concessions granted in GATT tariff negotiations prior to that date<sup>(1)</sup>. On the other hand no account has been taken of temporary reductions or suspensions of duties.

4. The field covered

The analysis has been confined to the products covered by Chapters 25 to 99 of the Brussels Nomenclature, which cover all industrial products but exclude agricultural and food products. For the latter it frequently happens either that the duties are replaced by a different form of charge at the frontier (the case of products subject to levy under the EEC common agricultural policy) or that varying regulations make the relative effect of the customs duties widely different from one country to another.

ECSC products under the Brussels Nomenclature headings 27.01, 27.02 and ex 27.04 (coal and like fuels), for which there is no unified Community duty, are also excluded, as are the petroleum products under BN headings 27.10, 27.11, 27.12 and ex 27.13 for which CET duties have not yet been fixed.

5. General results (see tables and graphs No. 1)

The tariffs compared will be indicated by the following abbreviations:

- CET : Common External Tariff of EEC
- UST : United States Tariff
- UKT : United Kingdom Tariff.

The simple arithmetical averages (for all industrial products) are as follows:

- CET : 11.7%
- UST : 17.8%
- UKT : 18.4%.

The average level of the CET is therefore distinctly lower than that of the United States tariff, which itself is slightly below the United Kingdom tariff.

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(1) It was not possible to take into account in the calculations the concessions granted by the United States and the United Kingdom at these negotiations. The result is a slight increase in the deviations between the CET and the other two tariffs mentioned here. However, this increase does not exceed one point on the average for the various categories and classes of duties considered, and thus does not appreciably alter the relative situations described here.

The pattern of these deviations is confirmed by the median values (1) which are as follows:

CET : 12.6  
UST : 14.2  
UKT : 17.8.

The mode (or most frequent duty) is 14% for the CET and 10% for the other two tariffs. However, this is of no importance for the general comparison of the tariff levels, first because it does not take account of all the duties and, secondly, because the distributions are not unimodal. The frequency of "round" numbers is almost always higher than that of intermediary duties but this feature is much more marked in the UST, and even more so in the UKT, than in the CET. Thus the "intermediary" duties between 1 and 9% included number 443 in the UST, 62 in the UKT and 774 in the CET. It follows that the CET, with fewer 10% duties than the other two tariffs, has in the aggregate more duties at or lower than 10% (1543, as against 1330 and 1446) and conversely fewer duties above 10%.

The differences between the averages, medians and modes of each tariff moreover reflect the differences in the form of frequency distributions which will now be considered in greater detail. The distribution of the CET duties is the least dispersed and the most symmetrical; in other words the CET, in relation to the other tariffs, has more average duties, fewer low duties and still fewer high duties: 80% of the duties are between 4 and 19%. The distribution of the US tariff is the widest and the most asymmetrical. It includes more low or zero duties but, above all, more high and even very high duties (the latter have a greater influence on the arithmetical average than on the median, which is therefore lower). 80% of the duties are between 2 and 38%. The distribution of the United Kingdom tariff is rather narrower than that of the US tariff but it is also rather asymmetrical. Its salient feature is that it is concentrated at three levels of duty (10%, 20% and 33%), which gives it a very disjointed form (this is why the median and especially the mode are of no great significance for this tariff). 80% of the duties are between 7 and 34%.

The proportion of the zero duties does not greatly differ from one tariff to the other. It is 8% for the CET and UKT and 10% for the UST. The proportion of duties at or below 10% is 41% in the CET, 35.5% in the UST and 38.5% in the UKT. 96% of the CET duties are at 20% or less, as against 72% for the UST and 69% for the UKT. Only an infinitesimal proportion (0.3%) of CET duties is above 25% whereas the proportion is 21% for the USA and 25% for the UK. 13% of US duties and 21% of UK duties are even above 30%.

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(1) Values which are such that 50% of the duties are below or above them. The medians, as well as the deciles and the mode, have been calculated on the basis of frequency distributions per class of 1%.

6. Distribution of deviations between tariffs (see tables and graphs No. 2)

The general average of deviations in absolute value is 9.9 between the CET and UST and 8.8 between the CET and UKT. These figures give a preliminary indication of the average disparity between these tariffs.

As between the UST and the CET, 6% of the duties are equal, 48% of the deviations are not above 5, and 70% are not above 10. Nearly 13% of the deviations are higher than 20, 6% are higher than 30 and 1.3% higher than 50.

Between the UKT and the CET 11% of the duties are equal, 45% of the deviations are not above 5 and 69% are not above 10; 8% of the deviations are higher than 20 and only 1.3% higher than 30.

As to the direction of the deviations, it may be noted that 62% of the US duties and 71% of the UK duties are higher than the CET duties. The US and UK duties are more than 10 points above the CET duties in 25.5 and 29% of cases respectively, and more than 20 points higher in 12.6 and 8.2% of cases. Above 40 points the deviation frequency becomes negligible for the UKT, but is still 2.9% for the UST.

The conclusion is that there are appreciable disparities between the three tariffs, that virtually all the high disparities concern US or UK duties above CET duties, and that the frequency of these cases is greater for the UST than for the UKT.

7. Conditional distribution <sup>(1)</sup> of the US tariff in relation to the CET (see tables and graphs No. 3)

Study of the distribution of US duties in relation to the level of the corresponding CET duties shows how far there is a connection between the level of each tariff for similar products and whether this connection is close or remote. But above all this approach makes it possible to define clearly what is meant by disparity between tariffs.

The intensity of the link could be measured by using the traditional coefficient of linear constraint, but this is of little interest in the case in point and has not been calculated here. It seemed more useful to make a graphic examination of the conditional distributions bringing out for each class of CET duties the dispersion of the corresponding US duties around their median considered as a central value.

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(1) Conditional distribution here means the distribution of the US duties corresponding to CET duties of a given level. For instance 298 headings have been found for which the CET has a zero duty. The US duties for 150 of these are also zero, for 31 they are between 1 and 5% and for 37 between 6 and 10%, etc. This corresponds to the first column in Table 3. Each column of the table thus represents the state of distribution of US duties corresponding to the level of CET duties shown at the top.

It will be noted first that on the whole the median of US duties rises in step with the CET duties. This means that, on the average, where CET duties are higher the corresponding US duties are also higher. There is thus a link between the structures of the two tariffs. This is not surprising, for it is known that a common feature of most tariffs is that they tend to tax products in relation to their complexity of fabrication. This will moreover be confirmed later in the distribution by categories of products.

A more interesting fact is the variation of the average disparities in relation with the level of duties, which can be illustrated by the following table:

Level of CET duties	0	1-5	6-10	11-15	16-20	21-25	26 and over
Median of corresponding US duties	0	9.4	12.8	15.0	18.9	19.0	23.5
Inter-decile disparity	25.2	29.4	26.5	34.3	37.0	42.7	55
Deviation/median ratio		3.1	2.1	2.3	2.0	2.2	2.3

By using the inter-decile deviation<sup>(1)</sup> as an indicator of dispersion it can be observed that up to the 10% level in the CET duties the average disparity of the US duties continues to be of the same order of magnitude in absolute value. For higher duties the average disparity increases in absolute value at the same time as the level of duties, and roughly proportionately with the median of US duties.

8. Conditional distribution of the UK tariff in relation to the CET (see tables and graphs No. 4)

An examination of the conditional distribution of the UK tariff in relation to the CET calls for similar remarks to the above on the US tariff as to the existence of a link between the structures of the two tariffs: on the average the duties tend to increase concurrently. As regards the disparities there seems to be no clear link with the level of the duties. Following the phenomenon already noted in connection with the distribution of deviations, i.e. the concentration of the UK tariff on certain frequencies of duties, graph 4 shows that the conditional distributions of the UK duties are very irregular and this greatly reduces the significance of the median and decile characteristics. In fact these presuppose a certain regularity of distributions and are ill adapted to the "saw-tooth" pattern met with here. It may nevertheless be concluded that the average disparity is fairly large, although less than the CET/UST disparity and not constantly asymmetrical in the direction of exceeding the CET, as in the case of the US tariff.

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(1) The first decile is the level of duty which is such that 10% of the duties are below it. The 9th decile is the level which is such that 10% of the duties are above it. The inter-decile deviation is the difference between these two levels. It therefore covers 80% of the observations spread around the centre of distribution.



9. Comparisons by main categories of products  
(see tables and graphs No. 5)

The categories of products listed here have been defined according to the "re-arranged headings" used by the Statistical Office of the European Communities to re-classify EEC's external trade statistics by economic categories<sup>(1)</sup>.

The arithmetical average of the duties for these categories works out as follows:

	<u>Arithmetical average</u>			<u>Difference in relation to CET</u>		<u>Number of duties</u>
	CET	UST	UKT	UST	UKT	
1. Raw materials and energy	1.5	8.1	6.3	+ 6.6	+ 4.8	192
2. Semi-products	10.7	16.5	18.0	+ 6.8	+ 7.3	1 677
3. Industrial equipment	11.7	17.0	19.4	+ 5.3	+ 7.7	588
4. Other products	14.4	21.3	20.4	+ 6.9	+ 6.0	1 303
Total	11.7	17.8	18.4	+ 6.1	+ 6.7	3 760

For all these categories the average level of the CET is clearly below that of the two other tariffs and the deviation between the respective averages varies little from one category to another.

The average level of the three tariffs varies in the same direction according to the familiar structure: minimum duties for raw materials, higher duties, increasing with the degree of processing, for semi-products. Capital goods are charged less than other manufactured products.

As in the case of the averages, the overall results regarding comparative dispersion of tariffs are valid for the various categories of products. The following table sums up the main features:

	<u>First decile</u>			<u>Ninth decile</u>			<u>Inter-decile deviation</u>		
	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT
1. Raw materials and energy	0	0	0	7.1	24.8	11.0	7.1	24.8	11.0
2. Semi-products	3.1	2.5	6.1	18.8	30.7	34.5	15.7	28.2	28.4
3. Industrial equipment	7.0	2.4	9.4	16.7	32.0	31.2	9.7	29.6	21.8
4. Other products	7.8	4.2	7.3	20.8	39.5	33.1	13.0	35.3	25.8

(1) See Classification Statistique et Tarifaire, third edition. The categories which follow correspond to the following headings:  
Raw materials and energy: 01, 02, 03, 04, 05, 06, 12, 13, 15, 16, 31, 32, 38;  
Semi-products: 35, 52;  
Equipment: 71, 72, 74, 75, 77, 78;  
Other products: 73, 76, 79, 91, 92, 93, 94, 95, 96.

The CET is in all cases less dispersed than the other two tariffs, which also show more pronounced asymmetry spreading the distribution towards the higher duties. In the raw materials category an L-shaped distribution is found for the three tariffs with maximum frequency for the zero duties: 74% for CET, 46% for UST and UKT. For semi-products the commonest duties are between 6 and 10 for the three tariffs, but a high frequency (32%) may also be noted for UK duties between 31 and 35. CET duties on capital goods show a fairly concentrated distribution: 95% of the duties are between 6 and 20, as compared with 71% of the US duties. In this category the frequency of UK duties between 16 and 20 is high. For the other industrial products a considerable proportion of high duties in the US and UK tariffs may be noted (duties above 25 make up 26 and 24% respectively, as against 0.7% in the CET).

10. Results by groups of products  
(see tables and graphs No. 6)

The table below shows the arithmetical average of the duties and the ninth decile for some important groups of products (the code numbers refer to the chapters of the Brussels Nomenclature).

	<u>Arithmetical average</u>			<u>Ninth decile</u>		
	CET	USA	UKT	CET	UST	UKT
25-27: Mineral products	1.8	7.8	6.7	7.5	23.9	10.5
28-40: Products of the chemical and allied industries	12.9	16.2	21.6	20.0	30.6	35.0
47-49: Paper-making material; paper and paper board and articles thereof	11.1	10.8	11.2	20.3	22.9	19.8
50-63: Textiles and textile articles	13.6	26.0	21.1	22.1	45.6	34.8
73-83: Iron and steel and articles thereof	9.6	15.3	13.4	20.6	30.1	20.5
84-85: Machinery and mechanical appliances; electrical equipment; parts thereof	12.0	14.6	18.7	16.7	19.6	27.4
86-89: Transport equipment	12.8	13.2	20.1	21.4	23.3	29.9
90-92: Various products	14.0	29.6	29.1	18.8	63.5	47.7

The averages show that the "chemicals", "textiles", and "various products" groups are the most highly protected in the three tariffs. Nevertheless the deviation in relation to the other groups is higher in the UST and UKT than in the CET. The ninth decile is not appreciably higher in the CET, whereas in the two other tariffs it shows a considerable proportion of high duties for these groups.

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11. Conclusions

Whether we examine the total, marginal or conditional distributions or consider distributions by categories or groups of products, the structural features of the three tariffs always appear clearly:

- (a) The CET is lower than the other two tariffs; it is less dispersed and includes fewer high duties;
  - (b) The deviation between the CET and the other tariffs is roughly the same in the various categories of products;
  - (c) The US tariff is very dispersed and includes a considerable proportion of high duties;
  - (d) The general features of the UK tariff are fairly close to those of the US tariff, but the UK tariff is concentrated on several clearly defined levels of duties;
  - e) Although on the average there is a certain link between the level of duties in each tariff, the disparities are considerable.
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Comparative frequencies of duties:

in the Common External Tariff of EEC (CET)  
 in the United States Tariff (UST)  
 in the United Kingdom Tariff (UKT)

(Marginal distributions)

Level of duties <sup>(1)</sup>	Absolute frequencies <sup>(2)</sup>			Relative frequencies (%)		
	CET	UST	UKT	CET	UST	UKT
0	298	364	316	7.9	9.7	8.4
1-5	214	237	17	5.7	6.3	0.5
6-10	1 031	729	1 113	27.4	19.5	29.6
11-15	1 290	870	239	34.3	23.1	6.3
16-20	771	508	920	20.5	13.5	24.5
21-25	146	275	206	3.9	7.3	5.5
26-30	6	276	154	0.2	7.3	4.1
31-35	2	107	725	0.05	2.9	19.3
36-40	2	69	8	0.05	1.8	0.2
41-45	0	120	31	0	3.2	0.8
46-50	0	91	27	0	2.4	0.7
51-55	0	43	0	0	1.1	0
56-60	0	8	0	0	0.2	0
61 and over	0	63	4	0	1.7	0.1
<u>Grand total</u>	3 760	3 760	3 760	100.0	100.0	100.0
0-5	512	601	333	13.6	16.0	8.9
0-10	1 543	1 330	1 446	41.0	35.5	38.5
0-20	3 604	2 708	2 605	95.8	72.1	69.3
0-25	3 750	2 983	2 811	99.7	79.4	74.8
0-30	3 756	3 259	2 965	99.9	86.7	78.9
11-20	2 061	1 378	1 159	54.8	36.6	30.8
26 and over	10	777	949	0.3	20.6	25.2
31 and over	4	501	795	0.1	13.3	21.1

Level of duty

Arithmetical average	11.7	17.8	18.4
Median	12.6	14.2	17.8
Mode	14	10	10
First decile	3.9	2.4	9.3
Ninth decile	18.9	37.8	33.6
Inter-decile deviation	15.0	35.4	24.3

- (1) For greater clarity the duties are taken in ranges of whole numbers, but in fact the upper limit should be increased by 0.9 to allow for duties or incidences with decimal points. These are, however, comparatively rare and in any case account has been taken in the calculations of their decimal portion and the exact limits of the classes.
- (2) It should be noted that these absolute frequencies do not represent numbers of "tariff headings" but numbers of lines in the comparative table of duties. In absolute value these numbers depend on the structure of the classification adopted for this table (see sec. 3). This is why the text mentions only the relative frequencies.

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Table  
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Absolute frequency → Absolute frequency

Relative frequency  
(%)

<u>Deviation (points)</u>	<u>UST</u> minus CET	<u>UKT</u> minus CET	<u>UST</u> minus CET	<u>UKT</u> minus CET
<u>CET &gt; UST or UKT</u> (negative deviations)				
* 26 and over	-	1	-	0
* 25 - 21	3	8	0.1	0.2
* 20 - 16	39	16	1.0	0.4
* 15 - 11	142	65	3.8	1.7
* 10 - 6	343	162	9.1	4.3
* 5 - 1	675	424	18.0	11.3
<u>CET = USA or UK</u> (nil deviations)				
0	224	411	6.0	10.9
<u>CET &lt; UST or UKT</u> (positive deviation)				
1-5	910	850	24.2	22.6
6-10	466	738	12.4	19.6
11-15	302	326	8.0	8.7
16-20	181	453	4.8	12.1
21-25	132	197	3.5	5.3
26-30	109	60	2.9	1.6
31-35	76	27	2.0	0.7
36-40	50	18	1.3	0.5
41-45	34	-	0.9	-
46-50	24	1	0.7	0.1
51-55	14	1	0.4	0
56-60	8	1	0.2	0
61 and over	28	1	0.7	0
Total	3 760	3 760	100.0	100.0
<u>CET &gt; UST or UKT</u> (negative deviations)				
more than 20	3	9	0.1	0.2
more than 10	184	90	4.9	2.3
Total negative deviations	1 202	676	32.0	17.9
<u>CET &lt; UST or UKT</u> (positive deviations)				
Total positive deviations	2 334	2 673	62.1	71.2
more than 10	958	1 085	25.5	29.0
more than 20	475	306	12.6	8.2
more than 30	234	49	6.2	1.3
more than 40	108	4	2.9	0.1
more than 50	50	3	1.3	0.1
more than 60	28	1	0.7	0
Deviations of 5 or less in absolute value	1 809	1 685	48.2	44.8
Deviations of 10 or less in absolute value	2 618	2 585	69.6	68.7
<u>Deviation (points)</u>				
Average of absolute values	9.9	8.8		
Algebraic average	+ 7.9	+ 6.8		
Median	+ 3.0	+ 5.6		
First decile	- 8.2	- 4.5		
Ninth decile	+ 24.7	+ 20.3		
Inter-decile deviation	32.9	24.8		

See notes to Table 1.

Conditional distribution of UST duties  
in relation to CET duties  
(Absolute frequencies)

<u>Level of UST duties</u>	<u>Level of CET duties</u>							Total
	0	1-5	6-10	11-15	16-20	21-25	26-40	
	<u>Absolute frequencies</u>							
0	150	40	96	63	13	2	-	364
1-5	31	29	61	61	41	14	-	237
6-10	37	56	257	231	123	24	1	729
11-15	27	37	279	367	135	24	1	870
16-20	8	6	134	217	126	15	2	508
21-25	17	20	85	72	67	12	2	275
26-30	10	6	41	92	107	19	1	276
31-35	4	5	27	37	28	6	-	107
36-40	3	6	9	23	25	3	-	69
41-45	1	1	13	47	49	8	1	120
46-50	7	3	11	32	28	10	-	91
51-55	0	1	7	20	13	2	-	43
56-60	1	-	3	2	1	1	-	8
61 and over	2	4	8	26	15	6	2	63
Total	298	214	1 031	1 290	771	146	10	3 760

	<u>Level of UST duties</u>						
First decile	0	0.5	1.6	6.1	6.9	5.5	11
Second decile	0	1.5	7.0	8.9	10.1	8.7	16
Third decile	0	5.7	9.0	11.4	13.0	11.8	18.5
Fourth decile	0	7.5	11.0	13.2	15.9	14.8	21
Median or fifth decile	0	9.4	12.8	15.0	18.9	19.0	23.5
Sixth decile	5.6	11.5	14.7	17.2	22.7	27.4	26
Seventh decile	9.7	14.4	17.1	20.2	27.6	29.0	31
Eighth decile	14.7	21.8	21.0	27.2	31.5	37.4	61
Ninth decile	25.2	29.9	28.1	40.4	43.9	48.2	66
9th/1st decile deviation	25.2	29.4	26.5	34.3	37.0	42.7	55
Deviation/median ratio	$\infty$	3.1	2.1	2.3	2.0	2.2	2.3

See notes to Table 1.

Conditional distribution of UKT duties  
in relation to CET duties

(Absolute frequencies)

<u>Level of UKT duties</u>	<u>Level of CET duties</u>							Total
	0	1-5	6-10	11-15	16-20	21-25	26-40	
	<u>Absolute frequencies</u>							
0	155	41	69	31	14	6	-	316
1-5	2	1	10	2	1	-	1	17
6-10	94	128	518	263	78	29	3	1 113
11-15	4	3	75	113	40	3	1	239
16-20	19	14	193	425	231	36	2	920
21-25	3	2	44	70	70	16	1	206
26-30	2	4	15	60	53	19	1	154
31-35	19	20	103	296	257	30	-	725
36-40	-	1	2	4	2	-	-	9
41-45	-	-	1	7	15	7	1	31
46-50	-	-	-	19	8	-	-	27
51-55	-	-	-	-	-	-	-	-
56-60	-	-	-	-	-	-	-	-
61 and over	-	-	1	-	2	-	-	3
Total	298	214	1 051	1 290	771	146	10	3 760

	<u>Level of UKT duties</u>						
First decile	0	0	6.2	7.7	10.0	7.5	6.0
Second decile	0	6.0	7.3	10.2	16.5	10.0	7.7
Third decile	0	6.8	8.2	14.9	18.2	16.8	9.3
Fourth decile	0	7.7	9.2	17.2	19.8	18.8	11.0
Median or fifth decile	0	8.5	10.2	18.2	22.7	20.8	16.0
Sixth decile	7.1	9.4	12.4	20.2	28.9	25.1	18.5
Seventh decile	8.7	10.2	17.3	26.0	32.1	29.1	21.0
Eighth decile	10.4	13.5	19.9	32.1	33.6	32.3	26.0
Ninth decile.	19.3	31.0	31.0	34.3	35.1	34.7	31.0
9th/1st decile deviation	19.3	31.0	24.8	26.6	25.1	27.2	25.0

See notes to Table 1.

Frequency distribution of the duties by main categories of products (relative frequencies)

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Level of duties	Raw materials and energy			Semi-products			Industrial equipment			Other products		
	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT
0	73.9	46.3	46.4	6.2	7.8	8.5	2.2	9.2	2.4	2.9	6.1	5.4
1-5	14.1	14.6	1.0	9.2	7.4	0.2	1.9	2.9	0.3	1.6	6.1	0.7
6-10	9.4	6.3	42.7	38.7	28.3	46.0	28.7	9.4	10.6	15.0	14.4	15.1
11-15	2.6	14.1	-	26.8	17.2	2.8	55.6	47.1	15.3	39.1	21.2	7.8
16-20	-	3.1	8.9	16.2	10.9	6.5	11.2	14.6	54.9	33.3	18.0	36.1
21-25	-	7.3	-	2.9	8.2	2.7	0.4	3.7	3.1	7.4	7.8	11.0
26-30	-	2.6	1.0	-	10.8	1.0	-	2.9	3.1	0.3	5.6	9.0
31-35	-	2.6	-	-	2.4	32.0	-	1.0	6.1	0.2	4.2	11.7
36-40	-	1.0	-	-	1.6	0.1	-	1.2	0.3	0.2	2.5	0.4
41-45	-	1.6	-	-	1.4	-	-	2.9	1.0	-	5.9	1.9
46-50	-	0.5	-	-	3.0	0.1	-	1.9	2.7	-	2.1	0.8
51-55	-	-	-	-	0.1	-	-	1.5	-	-	2.5	-
56-70	-	-	-	-	0.1	0.1	-	-	-	-	0.5	-
61 and over	-	-	-	-	0.8	-	-	1.7	0.2	-	3.1	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of duties	192	192	192	1677	1677	1677	588	588	588	1303	1303	1303
	<u>Level of duty</u>											
Average	1.5	8.1	6.3	10.7	16.5	18.0	11.7	17.0	19.4	14.4	21.3	20.4
Median	0	3.0	6.3	10.5	12.9	10.5	12.5	13.9	17.9	14.9	16.6	18.9
First decile	0	0	0	3.1	2.5	6.1	7.0	2.4	9.4	7.8	4.2	7.3
Ninth decile	7.1	24.8	11.0	18.8	30.7	34.5	16.7	32.0	31.2	20.8	39.5	33.1
Inter-decile deviation	7.1	24.8	11.0	15.7	28.2	28.4	9.7	29.6	21.8	13.0	35.3	25.8

See notes to Table 1.



**Table 6**  
**Frequency distribution of duties by groups of products**  
**(Relative frequencies)**

Level of duties	25-27		28-40		47-49		50-63		73-83		84-85		86-89		90-92							
	Mineral products	Products of the chemical and allied industries	Paper-making material; paper and paper board	Textiles and textile articles	Iron and steel	Machinery and mechanical appliances; electrical equipment	Transport equipment	Various products														
	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT	CET	UST	UKT				
0	64.7	46.4	37.5	4.4	9.9	5.6	10.1	6.5	6.5	4.4	3.2	9.6	-	4.4	0.5	7.1	14.3	6.2	-	0.7	0.7	
1-5	21.3	12.5	2.2	4.4	8.2	0.2	4.6	4.0	0.9	11.2	9.5	-	2.2	-	-	1.8	-	-	-	-	-	-
6-10	12.5	5.9	55.1	20.5	27.9	36.0	15.1	8.0	13.5	53.2	25.8	49.9	27.3	12.1	9.1	28.6	17.8	6.2	7.3	4.7	6.7	
11-15	1.5	18.4	-	39.4	15.4	1.6	22.2	11.4	2.2	22.9	25.4	7.7	58.9	62.6	16.0	33.0	38.4	6.2	71.4	30.0	5.3	
16-20	-	1.5	3.7	26.1	10.1	7.1	35.4	15.4	29.5	8.1	16.8	25.2	10.6	15.0	60.3	18.8	15.2	54.5	20.0	18.0	22.7	
21-25	-	8.8	-	4.6	5.6	2.0	11.4	11.7	20.6	0.2	11.5	1.7	1.0	1.0	2.0	10.7	9.8	3.6	1.3	4.7	12.0	
26-30	-	2.2	1.5	0.2	14.2	0.5	-	10.1	10.8	-	2.4	0.6	-	1.5	6.9	-	4.5	17.0	-	2.7	1.3	
31-35	-	2.9	-	-	2.6	46.7	0.6	4.6	7.7	-	1.1	5.3	-	0.7	4.2	-	-	5.4	-	7.3	36.0	
36-40	-	0.7	-	-	1.9	0.1	0.6	3.1	0.6	-	0.6	-	-	0.7	0.5	-	-	-	-	3.3	-	
41-45	-	-	-	-	1.0	-	-	16.6	7.4	-	0.4	-	-	1.0	0.5	-	-	0.9	-	11.3	-	
46-50	-	0.7	-	-	3.0	-	-	4.6	-	-	1.1	-	-	0.5	-	-	-	-	-	4.0	15.3	
51-55	-	-	-	-	-	-	-	0.3	-	-	0.8	-	-	0.5	-	-	-	-	-	2.0	-	
56-60	-	-	-	-	-	-	-	0.3	-	-	0.3	-	-	-	-	-	-	-	-	-	-	
61 and over	-	-	-	-	0.2	0.2	-	3.4	0.3	-	1.1	-	-	-	-	-	-	-	-	11.3	-	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of duties	136	136	136	1212	1212	1212	325	325	654	654	654	406	406	112	112	112	112	112	150	150	150	150
Level of duty	1.8	7.8	6.7	12.9	16.2	21.6	13.6	26.0	21.1	9.6	15.3	13.4	12.0	14.6	18.7	12.8	13.2	20.1	14.0	29.6	29.1	
Average	0	2.5	6.9	13.6	12.3	20.6	16.2	23.1	20.6	9.2	13.3	16.7	12.7	13.7	16.7	12.9	13.3	18.5	14.0	20.1	31.2	
Median	0	0	0	6.3	1.0	6.5	0	1.4	7.0	3.5	4.5	6.3	7.4	8.3	11.2	6.2	0	7.4	11.2	11.8	13.5	
First decile	7.5	23.9	10.5	20.0	30.6	35.0	22.1	45.6	34.8	20.6	30.1	20.5	16.7	19.6	27.4	21.4	23.3	29.9	18.8	63.5	47.7	
Fifth decile	13.7	29.6	28.5	13.7	29.6	28.5	22.1	44.2	27.8	17.1	25.6	14.2	9.3	11.3	16.2	15.2	23.3	22.5	7.6	51.7	34.2	
Inter-decile deviation	7.5	23.9	10.5	13.7	29.6	28.5	22.1	44.2	27.8	17.1	25.6	14.2	9.3	11.3	16.2	15.2	23.3	22.5	7.6	51.7	34.2	

See notes to Table 1.

Brussels 1964

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TRADE NEGOTIATIONS AND THE PROBLEM OF DISPARITIES

The tariff negotiating plan to be drawn up as part of the preparations for the trade negotiations provided for in the resolution adopted by the GATT Ministerial Meeting on May 21, 1963 must establish in addition to the general rule of linear reduction of duties a special rule for handling "sensitive" cases of disparity.

The difficulties so far encountered in solving this problem have brought it rather prominently into the public eye, and the numerous commentaries on it give rise to some confusion and various misunderstandings as to its real meaning and scope. An objective examination of the origin, background and factual terms of this problem should throw light on the confusion and clear up misunderstandings.

The disparity problem not an invention of the Community

Since it was signed on October 30, 1947 the General Agreement on Tariffs and Trade has provided the setting for a certain number of conferences<sup>(1)</sup> aimed, first at putting an end to the tariff war and, secondly, at progressively reducing tariff barriers between the Contracting Parties.

It is instructive to study the changing procedures followed in these negotiations. Three phases can be distinguished:

- (a) The traditional approach;
- (b) The 1960-62 negotiations, known as the Dillon round;
- (c) The coming trade negotiations.

The traditional approach consisted in each Contracting Party normally negotiating every concession it offered with the Contracting Party which was its main supplier of the product in question. Any concession granted to a Contracting Party was ipso facto extended to all the others under the most-favoured-nation clause. Thus the results of originally bilateral negotiations were treated as results to be applied multilaterally.

The negotiations therefore proceeded on a product-by-product and country-by-country basis.

From the 1950-51 Torquay Conference onwards it became increasingly clear that some industrial countries whose tariffs were lower initially than those of the other countries found it difficult to go beyond a certain point, whereas the tariffs of the others continued to be effective after the reductions agreed to. The problem of disparities between

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(1) Geneva 1947, Annecy 1949, Torquay 1950-51, Geneva 1956 and Geneva 1960-62.

the tariffs was posed and it led the product-by-product method of negotiation to a dead end.

Various suggestions were made for overcoming these difficulties. In 1952 the Benelux countries presented a plan providing for a prior reduction of the high tariffs so that the negotiation could then proceed on tariffs of comparable level. In 1953 France proposed the Pflimlin Plan which was for an automatic reduction of 30% in three years (10% per annum) at the same time lopping the peaks above certain levels and conversely setting minimum figures below which the duties would not be reduced. These plans were not accepted.

However, the 1960-62 negotiation - the Dillon round - was a first turning point. This negotiation sprang from a combination of two factors: first, the power granted to the United States Administration by the 1958 Act on trade agreements to negotiate reductions in existing duties of up to 20%, and secondly, the proposal of the European Economic Community to negotiate the binding of the 20% reduction which had served as the basis of calculation for the approximation of the national tariffs towards the common external tariff in accordance with the decision of May 12, 1960 to speed up the customs union.

The Community further proposed that this 20% reduction should be effected by the linear method but only Great Britain in part accepted this proposal, the other Contracting Parties having stated their preference for the product-by product method.

The Dillon round was a transitional form of negotiation, sometimes product by product, and sometimes linear. The linear approach was first tried out there, but the results were disappointing: the imbalances between the tariff structures of the various countries no longer permitted the low tariff countries to obtain for their export products sufficient advantages to ensure reciprocity.

It then became clear that the method of negotiating product by product on the main supplier principle was no longer effective.

The GATT Ministerial Meeting in November 1961 recognized this fact and for the future advocated the linear formula. By the Trade Expansion Act the United States Congress gave the Administration powers to negotiate tariff reductions of up to 50% in this way. The Community greeted the passing of this Bill as a manifestation of the readiness of its chief trading partner to create the indispensable conditions for a successful joint effort. It was now possible to carry out an exercise in tariff disarmament on a scale hitherto unknown. The resolution of May 21, 1963 opened the road to this new negotiation.

#### The factual situation

If we feel that negotiating methods must change, we must have an idea of what is needed for fresh progress. Old prejudices and habits

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of thought must give way to a fresh approach. Long-established concepts inevitably change in context and content. In particular, the reciprocity principle can no longer be thought of only in narrow terms of the comparative value of the concessions actually exchanged, but rather in terms of balance and comparability of the situations to be attained. A dynamic and forward-looking concept of reciprocity must be substituted for a static concept which has been outpaced by the onward march of tariff reduction.

If progress on these lines were to prove impossible, the problem of disequilibrium between tariff structures, i.e. the problem of disparities, would bring the method of linear reduction in its turn to a dead end, for the need to get round this problem by the expedient of exceptions would inevitably whittle down the scope and content of the negotiations.

The second part of this memorandum, which makes a statistical comparison of the E.E.C. common external tariff, the United States tariff and the United Kingdom tariff, amply demonstrates where the disequilibrium between the tariff structures lies. The CET is lower than the other two tariffs; it is less dispersed and it includes fewer highs and lows. For instance, only 5% of the CET duties are above 25%, as against 28% of the U.S. duties and 30.75% of the United Kingdom duties. Above 35% duty, the proportions are as follows: 0.05% in the C.E.T., as against 10.4% in the U.S. tariff and 1.8% in the United Kingdom tariff. It is clear that a straightforward reduction of 50% would considerably aggravate the effect of this disequilibrium, for it would bring a very high proportion of the C.E.T. down to an extremely low or nil level of protection, whereas the U.S. tariff would continue to afford a much larger measure of protection.

The resolution adopted by the ministers on May 21, 1963, offers all the necessary elements for dealing adequately with the problem of disparities. It defines in harmonious and balanced fashion the principles which should serve as a basis for the negotiation. Along with the general rule of substantial linear reduction, it recognizes the existence of the problem of disparities, lays down the principle of handling this by a special rule -- also of automatic and general application -- whose effect must be to reduce sensitive disparities in trade. It furthermore poses the problem of countries whose tariffs have a lower general incidence and which might thereby be faced with a problem of reciprocity.

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Studies with a view to implementing this resolution, particularly in the matter of pinpointing sensitive disparities and drawing up the special rule to be applied to them, have run into certain difficulties. There is a fairly widespread tendency to attribute these difficulties to the fact that the Community has raised the problem of disparities. This is tantamount to confusing the problem with the solution.

The chief difficulty is the problem facing the small European countries which fear that for them the narrowing of disparities may impair the advantages which the application of the general rule would ensure them in access to the Community market, the chief outlet for their exports.

The problem is a real one but if it exists this is not because the Community wishes to resolve the question of disparities but because attempts at adjustment can be in one direction only. In fact two solutions are possible to make this adjustment: either the low duties follow the general rule and the high duties come down more, or the high duties follow the general rule and, in this case, the low duties are reduced less. However, the working hypothesis of a 50% reduction chosen for the general rule coincides with the limit of the mandate to reduce duties conferred by the Trade Expansion Act and therefore leaves no choice but to apply the second solution.

Nevertheless, the Community wishes to do everything in its power to mitigate the effects of this situation, whose inevitable implications it recognizes although it cannot accept responsibility for them.