

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## GATT – MULTILATERAL TRADE NEGOTIATIONS

(Communications from the Commission to the Council)

SUPPLEMENT TO THE FINAL REPORT ON THE GATT MULTILATERAL

TRADE NEGOTIATIONS IN GENEVA (TOKYO ROUND)

AND PROPOSAL FOR A COUNCIL DECISION

(doc. COM(79) 514 final)

## RESULTS BY SECTOR

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## 5. Results by sector

### 5.1. Chemicals

The negotiations in the chemical sector<sup>1</sup> concentrated to a great extent on the EEC-USA relations; the USA is the EEC's main export market, taking 40% of its "non-EFTA" exports (Japan takes about 15% and Canada 5%), while two-thirds of the EEC's MFN dutiable imports come from the USA (70% of the remaining one-third come from the Eastern trading area).

The EEC had offered to apply the Swiss formula, but was obliged to revise its position in the light of its partners' offers. It therefore made a number of withdrawals, mainly on products where the US industry has cost advantages as regards raw materials and/or energy, and on products chiefly supplied by Eastern trading area countries, given the lack of true reciprocity from these countries and their particular price structures.

In the chemicals sector, the EEC's aim was twofold:

- (i) the abolition of the ASP<sup>2</sup> system of customs valuation, and
- (ii) major reductions by its partners.

Where the USA was concerned, one of the main aims was the elimination of the "American Selling Price" method of customs valuation. A survivor from pre-GATT legislation, and hence subject to the Protocol of Provisional Application, this method established the customs value of benzene chemical products (intermediate products, dyestuffs, pesticides, pharmaceuticals, etc) on the basis of the selling price of like products manufactured in the USA.

There are two drawbacks to this system:

- (i) firstly, it increased, often by a considerable amount, the duty on imported products where a "like" US product existed ("competitive" products) and the American selling price was higher than the import price;

<sup>1</sup>Chapters 28 to 39 of the Customs Cooperation Council Nomenclature.  
<sup>2</sup>American Selling Price.

(ii) it was also a source of continual uncertainty for exporters, as only the US Customs could rule on the existence of a like US product and its selling price.

An agreement to abolish this system was reached in the course of the Kennedy Round in connection with the chemicals arrangement, but this was never ratified by the United States Congress.

In the latest round of MTNs the ASP system as such was dealt with in the framework of the code on customs valuation, and the EEC refused to offer any "compensation" for its abolition. The tariff negotiations concentrated on the conversion of duties and the offer on ASP products.

In its list of concessions annexed to the GATT, the USA had reserved the right, should the ASP be abolished, to adjust the level of the duties entered to make up the difference between the ASP and fob values, and thus retain the same level of protection.

As in the Kennedy Round, therefore, the USA proceeded in two stages: converting the entered rate to arrive at new rates, then offering concessions based on the converted rates.

While the first conversion proposal prepared by the International Trade Commission, published in March 1978, looked a fair one, the final proposal, which formed a basis for the offer lodged by the USA in June 1978, was extensively modified following the public hearings which had taken place in the meantime.

After looking at a wide range of customs declarations, the ITC had proposed converted rates for numerous products, entailing the subdivision of existing tariff lines. In the case of individual products actually imported into the USA, the conversions seemed fair: customs duties on products not manufactured in the USA ("non-competitive" products) were not converted, those on products manufactured in the USA ("competitive" products) were converted, and the calculations looked sound.

The problems arose with the treatment of the product groupings, particularly the residual "Other" headings, which covered the products not itemized in the new nomenclature. Unlike the first ITC proposal, the offer actually lodged by the USA specified upward conversions for most of these headings. Furthermore, many of the converted rates were made the subject of exceptions. Thus the US approach meant that all products not itemized in the nomenclature were deemed to be "competitive" and subject to a high rate. The argument for this approach was that many products manufactured in the USA had not so far been imported, and if there were no conversion, US industry would be deprived of protection which it had always enjoyed.

The Commission, on the other hand, considered this conversion inequitable on two counts, and in the end managed to win satisfaction on both points:

- (a) Firstly, the residual headings included products which were actually exported to the USA, but were not manufactured there, and therefore non-competitive. The USA agreed to take out, without conversion, any non-competitive products notified before 31 July 1979. The Commission forwarded several lists of products exported by European industries, and these are currently being examined by the US Administration.
- (b) Secondly, the residual headings would have included not only all chemicals not itemized in the US offer and currently being produced, but also, more importantly, any new products which might come on the market in future. In the field of chemicals, particularly fine chemicals, there is a particularly high rate of innovation. In practice, the US approach would have had the result of perpetuating the protective effect of the ASP system by penalizing our future exports by high duties; indeed it could have reinforced it, as probably a high proportion of future products would have been non-competitive.

In the end the USA agreed to exclude future products from conversion. For this purpose the US Administration is drawing up a list of products imported into the country before 1 January 1978 (on the basis of the ITC publications) or manufactured in the USA before 1 May 1978. Products not on this list will be brought under a special tariff heading carrying an unconverted duty - which in many cases will be reduced. The Commission and US Delegations will also be able to propose the addition or deletion of any chemical products omitted or wrongly included in the ITC records of imported products.

In its actual MTN offer the USA indicated a number of total or partial exceptions to the formula for certain intermediate products and dyestuffs, but the highest duties, after reduction, will not exceed 20%. Medical and pharmaceutical products and aromatics, however, are given reductions in accordance with the formula; and in addition, the offer on future products, with the exception of dyestuffs, will not be phased in but will come fully into effect on 1 July 1980, the maximum rate (with a single exception: anti-depressants) being 13.5%. There will thus be no increase in protection, even on a temporary basis, and for some products relatively low rates (6% or 8%) are offered. For future dyestuffs, the offer will be implemented in five stages, the current rate of 20% being reduced to 15% by 1984.

Among chemicals not subject to the ASP system, the USA has made several products (mainly petrochemicals and plastics) subject to exceptions, but has made useful cuts, particularly on antibiotics, medicines and perfumery.

While before the negotiations 80 tariff lines - 6% of the USA's dutiable imports from the EEC - were subject to duties over 20%, only two (0.16% of imports) now bear such duties.

The reductions made by Japan result in relatively low rates (with some exceptions: menthol, citric acid). The concessions on fine chemicals (particularly medicines) are especially useful.

Canada made some useful concessions, e.g. sodium hydroxide reduced from 15% to 0%; binding of the suspension for xylenes at zero; some antibiotics reduced from 15% to 9.2%. For dyestuffs, suspensions were bound at zero or rates reduced from 15% to 12% (other pigments for dyestuffs).

In this sector Australia's offer covered perfumery, pharmaceuticals and some plastics.

On the Community side fertilizers and thermoplastic materials and their precursors, given their sensitive situation, were made subject to withdrawals. To realign its own offer with those of its partners, the Community decided to reduce its offer on dyestuffs and several fine chemicals, particularly products mainly exported by Eastern trading area countries.

The Community's twofold aim has been achieved, as the ASP is to be abolished, and the average tariff reductions will be sizeable. For bilateral EEC-USA trade, they will be of the order of 35%. Japan will cut its legal rates of duty on imports from the EEC by 48%, and its applied rates by 26%, while EEC duties on imports from Japan will be reduced by about 35%<sup>1</sup>, Canada's reductions are smaller, and often take the form of bindings of suspensions or ceiling rates.

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<sup>1</sup> But the average tariffs after reduction will be:

EEC vis-à-vis JAPAN : 8.1%

JAPAN vis-à-vis EEC : 5.7%

As the USA could not implement its concessions on ASP chemicals until the entry into force of the customs valuation code, which is scheduled for 1 January 1981, the USA and the Community agreed bilaterally to bring the code into effect on 1 July 1980. Pending implementation of the US concessions, the EEC will not make the first one-eighth cut on products in CCT chapters 29, 32 and 39 until that date; the USA will do likewise for the corresponding chemicals. The second stage will start on 1 January 1981, thus coming back into line with the normal schedule.

The USA has also promised that during the transition period before abolition of the ASP, the US Customs will examine each new case carefully in order to avoid any inadvertent application of the ASP to products which should not be subject to it. The Commission reserved the right to seek consultations in case of difficulties (see exchange of letters in Annex A8).

## 5.2. Textiles

The Community still retains major export interests in this sector, beset as it is by problems and undergoing a process of industrial redeployment.

In 1976, the EEC exported about 6.000 million EUR worth of textiles, but was nevertheless a net importer, its imports for that year being worth about 9.000 million EUR (of which about 2.000 million EUR for raw materials).

The EEC opted, in textiles as in the other sectors, for a reduction in accordance with the Swiss "harmonizing" formula, a choice made all the more suitable here as this <sup>is</sup> a sector where our partners, particularly the USA (1), had high duties, and harmonization allowed burden sharing.

As the initial offers of the USA, Japan and Canada had listed numerous exceptions in this sector, a state of affairs aggravated by withdrawals in December 1978, the Community found itself obliged to readjust its offer on textiles. Despite protectionist pressures in the USA to exclude textiles from the negotiations, it was finally possible to negotiate adjustments and improvements in the concessions, particularly on the part of the USA.

The negotiations resulted in an average reduction of the order of 20% (2) by the EEC, the USA and Japan on imports from all sources. Canada's average reduction was about 10% (3). Australia, which has had recourse to safeguard measures, made no concessions, and the other developed or developing partners likewise offered no concessions, or minimal ones.

At bilateral level, the US reduction on imports from the EEC is 27.5% (4) and the EEC's reduction is 22.6%; the USA accepted the principle of higher bilateral cuts on its part to make up for the disparities between the initial duties in this sector.

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(1) 80% of US imports subject to duties above 20% are textiles.

(2) As in the other sectors, all percentages are worked out on the basis of imports in terms of value.

(3) On the basis of legal rates.

(4) This figure takes into account the quantitative deterioration of the US offer due to the fact that the offer on products liable to mixed duties was formulated mainly or wholly in terms of ad valorem duties.



The weighted average of US duties vis-à-vis the EEC fell from 19.5% to 14.1% while the EEC average vis-à-vis the USA is reduced from 13.1% before the negotiations to 10.3%. Despite exceptions at high duties, the proportion of US imports from the EEC subject to duties over 20% comes down from 48% before the negotiations to 19% after.

The Community attempted to rationalize and harmonize its offer by maintaining duties of the order of 8% on yarns, 10% - 11% on fabrics, and 13% - 14% on clothing. It also maintained protection in this sensitive sector, particularly on synthetic yarns(1), with a duty of 9%, on tufted carpets, with a duty of 14%, and on some imports (e.g. linen fabrics) from Eastern trading area countries, again with a 14% duty.

The US reductions have helped simplify and harmonize the US tariff. The EEC has won quantitative and qualitative concessions on, for example, silk and wool fabrics, as well as reductions in the following areas:

- synthetic yarns : from 16% to 10% and 14% to 9.1%
- cotton fabrics: from 18% / 22% to 12% / 15%
- silk fabrics : from 11% to 6%
- woollen fabrics of a value higher than \$ 9/lb: from 44.4% to 33%
- hosiery : from 23% to 17%
- women's woollen clothing : from 23% / 24% to 17%
- woollen pullovers : from 24% to 17%
- cotton dresses: from 21% to 12%.

The Japanese tariff, which also featured peaks, has been harmonized, the proportion of legal duties over 15% having fallen from 37 % to 12.5 %.

It should be noted, however, that while there may be no real improvement in market access for textile products (few reductions in applied duties), bindings in this sector are not without value, since the Community has an expanding market in Japan for its clothing exports.

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(1) In connection with these products the Commission's statement to the Council in April, on the incidence of energy and oil-based raw material prices, should also be borne in mind. Consultations are currently under way to get a clearer picture of the situation in the USA.

Part III  
Section 1

The EEC is a net exporter to Canada (1), and some of the Canadian concessions, while limited in scope, are nevertheless useful, e.g. the offer of a reduction from 20% to 12.5% on silk headscarves.

To allow time to complete the industrial adjustments needed in this sector, the tariff reductions (2) will only start for the Community and its partners in 1982, and will mostly be phased over a six-year period.

The Council has already noted that the USA has made the maintenance of its tariff concessions of the textile sector subject to the continuation of satisfactory trade arrangements for these products.

In these circumstances, bearing in mind the difficult situation in this sector, the Community has reserved the right to review its own concessions in the absence of a mutually acceptable arrangement regarding international trade in textiles.

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(1) In 1976 exports were nearly seven times greater than imports, which were worth 34 million EUR.

(2) Chapters 51 to 62.

### 5.3 Steel

In the iron and steel sector the United States' offer was, to begin with, made contingent upon the achievement of US sectoral objectives and the nature of the measures taken by the principal producer countries to reduce what the Americans referred to in their initial offer as cyclical distortions resulting from trade measures.

Only after agreement was reached on the setting-up of the CEC's Steel Committee was the United States able to drop these conditions. From the outset the United States' offer also stipulated a mandatory exception for special steels. In addition, partial exceptions were made for major export products such as coils (TSUB 608.84) and galvanized sheets and plates (TSUS 608.95).

The Community, however, obtained certain improvements from the United States, except on special steels, and secured its agreement to continue the harmonization which was started back in the Kennedy Round. Mention should be made of the concessions on iron and steel sheets and plates (TSUS 607.83) from 8 % to 5.1 %, on "tubes, pipes and sections" (TSUS 610.52) from 13 % to 7.5 % and on "tube and pipe fittings" (TSUS 610.80) from 11 % to 6.2 %.

Canada followed the United States by making an exception for special steels and certain other products in this sector.

Japan's offer also led to cuts which resulted in moderate rates.

To restore balance to its own offers the Community made complete or partial exceptions for special steels and certain iron or steel tubes and pipes.

Although the average reduction made by the major partners in this sector was of the order of 20 % the bilateral incidence of the US offer vis-à-vis the Community is around 29.5 % (1) and that of the Community vis-à-vis the United States 24 % in a sector in which US imports from the Community are much higher than Community imports from the United States.

In order to help the European iron and steel industry to cope with the repercussions of the tariff cuts the Council agreed that for CCT headings 73.01 to 73.20 the cuts would not start to be made until 1982. The United States's cuts will be staged according to the same timetable.

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(1) The United States converted specific duties on products of this sector pursuant to Article XXVIII; the variations in incidence relating to this conversion operation are not taken into account.

#### 5.4 Paper

This sector, in which the EEC has a big trade deficit, was a top priority for the United States and Canada, particularly in view of the Community's agreement with the EFTA countries. Taking account of our partners' initial offers the EEC, in order to balance its offer, made withdrawals in this sector in the form of maintenance of customs duties for kraft paper and board and a maximum cut of 3 points for other paper and paperboard of Chapter 48 of the CET. It was found, however, during the bilateral negotiations, that the United States was particularly interested in Community concessions in this sector and considered it a key area of the negotiations.

Accordingly, the Community in the end felt that it would be advisable to make some further reductions in the paper sector.

The duty on kraft paper and board will be cut from 8 % to 6 % except in the case of large-capacity bags. Mention should be made of the US pressure for kraftliner to be defined (see letter from Viscount Davignon to Ambassador McDonald in Annex I, Part III, Section 1, letter A12).

The maximum reduction is still 3 points for the other products, except for coated paper weighing more than 160 g of 48.07 G, wallpaper and certain specialized products.

While our partners made very big cuts (between 35 % and 60 %) in this sector the EEC's reduction vis-à-vis MFN origins was slightly lower at 25 % (1) than the overall reduction on industrial products. Vis-à-vis the United States the reduction was around 26 % (1).

Paper of interest to the EEC from the export angle were the subject of concessions in line with or going beyond the formula by the United States and Canada and generally in line with the formula by Japan.

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(1) These calculations take account of the 30 % reduction on duties applied to newsprint imports outside the bound quota.

Mention may be made of cuts on wallpaper - from 5 % to 0 % in the United States and from 15 % to 7.5 % in Canada - and US cuts for certain printing papers, from 4.8 % to 1.9 %.

In view of the special difficulties of the paper industry the concession on kraftliner will be implemented in the first phase in two stages of 0.5 point each in 1983 and 1984 and, in the second phase, in two stages of 0.5 point each in 1986 and 1987.

At the April Council meeting it was decided that on the basis of regular reports from the Commission the Council will monitor developments in this industry and take appropriate measures on proposals from the Commission. The Commission also stresses its determination to pursue its efforts to combat dumping harmful to the Community industry by seeing to it that the export prices charged by the principal producer countries are not below either their domestic prices or their normal costs.

5.5 Wood

In the wood sector, which was initially subject to the tariff-cutting formula, there were withdrawals and offers in excess of the formula going as far as exemption in view of the partners' offers and the developing countries' requests.

The withdrawals concerned panels (44.15 plywood, 44.11 fibre panels and 44.18 particle panels) the duties on which were harmonized at 10 %.

The United States and Canada, which regarded this as an important sector of the negotiations, are the principal beneficiaries of the increase in the bound quota for coniferous plywood from 400 000 m<sup>3</sup> to 600 000 m<sup>3</sup> (see letter on plywood in Annex I, Part III, Section 1, letter A 13).

The average Community reduction in this sector was 27.5 % for all origins and 37 % and 40 % (1) vis-à-vis Canada and the United States.

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(1) Including the increase in the quota for coniferous plywood.

## 5.6 Raw hides and skins, leather, furskins and footwear

On the whole, reductions in this sector (1) were below average.

In their initial offer the United States, Japan and Canada made partial or total exceptions for a large proportion of the products of interest to the EEC.

The EEC also felt obliged to make withdrawals: These concerned footwear. (total withdrawals), certain leather garments (rate harmonized at 7 %), and gloves (rate harmonized at 10 %). It also sought to obtain improvements from its partners but only small ones were possible.

Since the United States had OMAS (2) with certain developing countries in respect of certain kinds of footwear (3) it had no room for manoeuvre under its legislation (mandatory exceptions), and there were numerous other products where the EEC accounted for only a small share of US imports and the average prices of imports from the EEC were much the same as the import prices of its competitors. Nevertheless, improvements were obtained, particularly for cross-country ski shoes and leather bags worth more than \$20.

Furthermore, big improvements were obtained on gloves worth more than \$20 per dozen (from 25 % to 14 %).

As in the case of chemicals (see Section 5.1 on chemicals) the United States will convert the duties on rubber and plastic footwear subject to the ASP. This conversion will, however, take place on 1 July 1981 and will not be accompanied by a reduction. The EEC, however, manages to ensure that the conversion would not affect sports footwear worth more than \$12 and secured the establishment of a mixed duty for footwear worth between \$6.50 and \$12, the incidence of which decreases as the price increases.

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(1) Chapters 41, 42, 43 and 64 of the CCT.

(2) Orderly Market Agreement, "Voluntary restraint" agreement with South Korea and Taiwan.

(3) Other than rubber.



The average bilateral tariff reductions (1) are determined by the structure of imports : around \$ 500 millions worth of finished European exports and around \$ 50 million worth of primary US exports (leather - particularly Wet Blue) were affected.

For internal historical reasons Japan has always maintained high duties in this sector, some of them not bound. Despite pressure from the EEC it was not possible to obtain satisfactory cuts from Japan. Since the level of Community imports from Japan in this sector is low (2 %) it was not possible to isolate " Japanese " products with a view to making withdrawals. The Community reduction vis-à-vis Japan is 18 % and Japan's cut, though negligible in quantitative terms, nevertheless includes some bindings and reductions on furskins.

With numerous initial exceptions Canada followed its southern neighbour and made further withdrawals. On footwear already subject to an Article XIX procedure, it granted concessions at the end of the negotiations : shoes and boots from 25 % to 22.5 % and ski boots from 25 % to 20 %. This was, however, a concession for the future as restrictions on footwear imports continue to exist.

Australia had itself taken "escape clause" measures on footwear (Article XIX) and therefore did not make any concessions.

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(1) United States tariff cut in respect of imports from the EEC : 5 % ;  
Community cut vis-à-vis imports from the United States : 27.8 %.

### 5.7 Non-ferrous metals

Proposals to cut substantially or abolish duties in this sector were put forward by Canada under the sectoral approach. In the event these proposals were to some extent reflected in the United States offer; Japan, however, had applied the formula with exceptions on relatively high duties.

The EEC, which had initially applied the formula on relatively low duties, was not able to follow Canada's approach, especially as the latter was generally not the leading supplier of these products. The Community, in order to restore balance to its offer, made withdrawals on rare metals, certain unwrought metals (aluminium, lead, zinc, magnesium, titanium) and on most semi-finished goods, including those made of copper. Nevertheless, the gaps between the duties applied to unwrought metals and those applying to semi-finished products will generally be reduced.

The overall cuts vary from 8.7 % (1) for Japan to around 35 % for the United States and Canada (2). The EEC cut its tariff by 15 % in this sector. The biggest volume of trade is between the United States and the EEC, involving on each side a total of around \$ 300 million. The United States will reduce its duties by around 31.4% (3) vis-à-vis the EEC and the latter will cut its duties by 17.3% vis-à-vis the United States.

Among the concessions offered by the United States mention may be made of cold-rolled nickel angles, shapes and sections (TSUS 62022) from 7 % to 4.7 %, uncoated aluminium bars, rods and foil (TSUS 61825) from 3.8 % to 3 % and unwrought magnesium (TSUS 62855) from 20 % to 8 %. Unwrought and refined titanium was initially completely excluded except for one ex heading on waste. The EEC, which emphasized its export interest, eventually obtained a concession on these two headings of 18 % to 15 %.

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- (1) Calculated on the applied rates. Reduction of 21 % on the basis of the legal rates.
  - (2) There is very little variation between legal and applied rates.
  - (3) The United States converted specific or mixed duties pursuant to Article XXVIII for products of this sector; the variations in incidence relating to this conversion operation are not taken into account.

## 5.8 Ceramics

When deciding which concessions to withdraw in order to restore the balance of its offer vis-à-vis its partners, the Community selected a considerable number of ceramics products since many of the producers had to contend with low-priced imports from countries offering no reciprocal concessions (Eastern trading area and certain countries in South-East Asia).

For the many tariff headings which are subject to ad valorem duties with specific minimum amounts, calculation of the incidence of those amounts showed that this was almost invariably below the ad valorem duties. This is due to price trends in recent years and explains why the EEC maintained ad valorem duties but offered to do away with specific minimum amounts. The latter measure has been deferred and will not start until 1982.

The EEC also withdrew a number of pure ad valorem duties.

Details of US tariff concessions in respect of ceramic tableware will be given in the separate report on the renegotiation of Article XXVIII. Mention should be made, however, of the concession cutting the rate for porcelain or china tableware (with the exception of tableware for the catering industry) from 17.5 % to 8 %.

Further concessions in relation to initial offers were also obtained from the United States and Canada for ceramic tiles (cuts from 22.5 % to 19 % on varnished or enamelled tiles by the United States and from 20 % to 12.5 % on ceramic tiles by Canada).

Canada also made significant concessions for ceramic tableware.

Tariff cuts in this sector varied from 16 % in the case of the EEC to 43 % in the case of Japan (26 % in relation to the applied rates). The United States cut its tariff by 22 % and Canada by about 41 % (approximately one-third in relation to the applied rates).

It should be added that owing to the failure of the negotiations with Japan on the abolition of quantitative restrictions, the restrictions vis-à-vis that country (and the Eastern trading area) will be maintained in this sector.

### 5.9 Mechanical engineering

After the civil aircraft sector, this sector<sup>1</sup> is the one in which the fewest exceptions were made in the offers of the United States, Japan, Canada and the EEC.

It comprises a very wide range of products: engines, lifting and handling machinery, building equipment and machinery, agricultural machinery, office equipment, computers and machine tools.

The Community's aim has been to obtain greater outlets on the markets of its partners since EEC exports in this sector were three times greater than its imports in 1976. In addition, the duties levied by Japan and Canada are on average higher than Community duties, which are in their turn slightly higher than the United States average.

Nevertheless, the Community offer did not contain cuts for five lines - sewing machines, certain boring machines, ball bearings and roller bearings - while partial exceptions were made for a number of other lines.

The US offer excepted only four tariff lines: total exceptions for certain ball bearings and machine tool accessories and partial exceptions for certain iron or steel taps and valves and certain gearbox parts.

The most significant concessions obtained in this sector concerned digging machines, from 5% to 2.5%, lifts and conveyors, from 5% to 2%, and textile machinery, from 7% to 4.7% and from 6% to 4.2%. Concessions that went beyond the formula were exchanged, in particular with the United States on products of common interest as "cross" exports (viz. pumps, refrigerators, certain printing machinery, certain machine tools for metalwork and certain other tools).

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<sup>1</sup> Chapter 84 of the Common Customs Tariff, with the exception of aircraft engines.

In relation to the legal rates, partial exceptions were made for only ten tariff lines (out of 500) in the Japanese offer, viz. industrial sterilisation, pasteurisation and other equipment, farming machinery and certain machinery for food processing, printing, the treatment of leather and footwear and the tobacco industry. The many significant concessions included that on nuclear reactors, for which the tariff was cut from 15% to 6.5%

Canada too made very few exceptions in relation to the legal rates. On the other hand, its offer in respect of computers (down from high rates of duty to as little as 3.9%) and the "machinery programme" achieves major reductions and often does away with the distinction between whether or not goods are "Made in Canada", thus bringing the rates down.

The reductions made by the Community's partners average 33% for the United States, 64% for Japan (52% on the applied rates) and around 47% for Canada (approximately 32% on the applied rates). The EEC average was only 30% or so owing to the low rates of duty it applies in this sector.

On a bilateral level, the United States made tariff cuts of 32% vis-à-vis the EEC, while the EEC reduced its tariff by 36%. The Community offered a 20% reduction vis-à-vis Japan, while Japan offered to reduce its tariffs by 58% (44% on the applied rates) in relation to the EEC.

The Community offer vis-à-vis Canada was 40% and the corresponding Canadian offer was 50% (approximately 35% on the applied rates). Implementation of concessions on vapour generating boilers and auxiliary plant (84.01 and 84.02), steam power units (84.05), water wheels and water turbines (84.07), certain gas turbines, engines and parts (84.08 BII, 84.08 C and 84.08 DII) and wireless telephonic and telegraphic apparatus (85.13 B) has been postponed for the EEC, Japan<sup>1</sup> and Canada until the US concessions on these products take effect. The United States has made its own application of concessions on these products conditional on the inclusion of the entities purchasing such products in the government procurement code.

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<sup>1</sup> In the form of a general reservation.

5.10. Electrical and electronics sectors

The EEC exports twice as much as it imports in this sector<sup>1</sup>. Its objectives in the electrical sector differed from those for electronics, however.

In the electrical sector the EEC's aim was to open up the market and on seeing its partners' offers it made withdrawals with regard to some tariff lines (notably generators, motors and transformers) and negotiated reciprocal concessions going beyond the formula in the case of some products.

The EEC had two objectives in the electronics sector: first, to enable Community industry to maintain its present role in "consumer" electronics in the face of competition from countries which did not make any counter-offer in the negotiations; second, to retain certain means of encouraging the emergence of a Community industry in the field of microcircuits, where technological innovation is the key to the development of future products downstream.

So far as "consumer electronics (radio and television sets) are concerned, the Community had offered to apply the formula but made withdrawals on seeing the overall package of offers made by certain partners.

With regard to microcircuits, the Community completely withdrew its offer. The advantage to be derived from the strategy followed depends, however, on the measures to be taken to develop this sector.

Reductions in this sector vary from 13% in the case of the EEC to 59.4% for Japan (42.3% on the applied rates); the United States' reduction is 25.8% and Canada's is around 47% (approximately 30% on the applied rates).

At the bilateral level the Community's reduction vis-à-vis the United States and Canada is around 18-19% but only 9% vis-à-vis Japan.

The USA's reduction vis-à-vis the EEC is one third, while Japan's is 59% (44% on the applied rates) and Canada's is around 42% (approximately 24% on the applied rates).

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<sup>1</sup>Chapter 85 of the CCT.

5.11. Precision and optical instruments, clocks and watches<sup>1</sup>

In the precision instrument and optical sectors the trade balance is in surplus<sup>2</sup>, whereas in the clock and watch sector -where the volume of trade is smaller - it is in deficit<sup>3</sup>.

The EEC modified its initial offer only slightly on seeing its partners' offers. Withdrawals were made in respect of only four tariff lines: lenses (90.02); microscopes (90.12); certain electronic measuring instruments (90.28); rough watch movements (91.11 E).

The US offer also contained few exceptions and in this sector, where US duties were high, a useful degree of harmonization was achieved from the standpoint of quality. Furthermore, so far as clocks and watches were concerned, the US offer resulted in a restructuring of the US tariff, with the introduction of value brackets.

The Japanese offer contained exceptions for lenses and spectacle frames which were particularly keenly felt by the Community industry. The Canadian offer also contains few exceptions (mainly in respect of "large clocks").

The EEC reduced its tariff in this sector by around 38% vis-à-vis all its partners, resulting in an average level of duty of 6.5%. It obtained a reduction of 48% from the United States, giving an average of 5.5%, 42% from Japan (21.3% on the applied rates), which gives an average of 6.4%, and around 43% from Canada (approximately 35% on the applied rates, giving an average of 8.4%.

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<sup>1</sup> Chapters 90 and 91 of the Common Customs Tariff.

<sup>2</sup> 2.500 million EUR for exports (excluding EFTA) and 2 000 million EUR for imports from "most favoured nation" countries.

<sup>3</sup> 220 million EUR for exports (excluding EFTA) and 230 million EUR for imports from "most favoured nation" countries.

5.12. Vehicles and cycles<sup>1</sup>

In 1976 the Community exported five times more than it imported in this sector. But this figure does not take into account investment and market trends and covers a varied situation characterized by a ferment of technological change resulting both from energy problems and from the role of certain factors in the strategy of design and assembly, which is essentially what motor vehicle production amounts to.

In addition to the technological transformation already begun by certain US and Japanese manufacturers (anti-pollution measures, introduction of electronics) automotive industries are being developed in other countries. In the Community commercial vehicle industry, moreover, the following factors may be observed:

- i. the sector's structural difficulties have not yet been overcome;
- ii. production of commercial vehicles in the EEC is relatively low, numerically speaking, by comparison with the United States and Japan;
- iii. commercial vehicle markets in the developing countries have recently been lost.

In its initial offer, the United States proposed to abolish its 3% duty on cars. Its final concession was to reduce the duty to 2.5%, as its partners were not prepared to pay for a reduction to zero. Apart from the exception with regard to lorries, (25%), no duty on motor vehicles will exceed 4.2%. There is an exception in respect of bicycles, but duties on parts will be below 10%.

The EEC reduced its duties on cars from 11% to 10% and on large motor coaches and buses from 22% to 20%. It maintained its duties on small motor coaches and buses (11%) and on lorries (22%) and maintained its duties on all vehicles driven by engines other than spark ignition or compression ignition engines (10% for lorries and 12.5% for cars, motor coaches and buses). The EEC reduced its duties on motor-cycles from 10.5% to 9% and maintained its duties on cycles (17%).

Generally speaking, it applied the formula in the case of tractors, car chassis, and parts and accessories for cars and motor-cycles.

<sup>1</sup> Chapter 87 of the CCT.



Part III  
Section 1

Canada reduced its duties on motor vehicles (and on many parts) and on electric trolley-buses from 15% to 9.2%, on bicycles from 25% to 13.2% (with effect from 1 January 1983, over an eight-year period) but maintained certain exceptions in respect of bicycle parts. The reduction by the United States and the EEC is 19% whereas Japan's reduction is 83.5% (46.1% on the applied duties). The importance of non-tariff barriers in this sector, notably in Japan, should also be borne in mind.

Canada offered a reduction of around 40% (approximately 30% on applied duties).

5.13 Civil aircraft

This sector is dealt with separately in section 6 of Part III. Many of the products on which tariffs are abolished are ones on which duties have already been suspended in the EEC. Duties are already suspended on part of the Canadian concessions. The Japanese import system is more complex but duties have also been suspended for certain products by ad hoc decision. On the other hand, the United States, which is currently the largest exporter, levied the duties which are to be abolished at the full rate.

5.14 Other industrial products

Metal articles

Most parties have applied the general tariff-cutting formula, with the result that the duties levied on Community goods have been reduced by 37% by the United States, 46% by Japan (29.5% on the applied rates) and approximately 40% by Canada on both the legal and applied rates.

The EEC reduced its duties on products from the United States and Canada by 31% and on Japanese products by 22%.

It should be noted that the EEC :

- (a) withdrew a number of concessions on cutlery (in particular knives and blades, scissors, spoons and forks);
- (b) obtained certain improvements in the U.S. offer, especially for scissors (a reduction from 34.4% to 20% on scissors costing over \$1.75 per dozen).

Glassware

The EEC decided to withdraw a number of concessions on certain flat and hollow glass and glass fibre products primarily owing to the lack of reciprocity on the part of the main suppliers of these products (mainly the state-trading countries).

The United States excepted flat glass, to which very low duty rates apply, and a proportion of hollow glass products. However, it offered reductions on products of interest to the EEC, in particular on crystal costing over \$5 a piece (down from 10.5% to 6%).

The duty on crystal glasses has been reduced in Canada too (from 20% to 11.3%).

The total EEC reduction in this sector is 23%. Vis-à-vis the United States, however, the cut is as big as 28.4% and the U.S. reduction on Community goods is 29.6%. The EEC reduced its tariff on goods from Japan and Canada - countries with which the volume of trade is much smaller - by 30% and they for their part reduced their tariffs by 50% and 35% respectively (legal and applied rates).

#### Articles of Stone

The EEC has obtained significant concessions from the United States and Canada, particularly for marble and articles of marble.

#### Fuels

As a result of the U.S. move, no concessions were made for oil or refined products by the main partners.

#### Rubber

The United States maintained a 5% duty on tyres (a product previously on the Final List which was abolished during these negotiations). Japan granted concessions higher than the formula for motor vehicle tyres, resulting in rates of 5.8% and 6.5%.

The EEC made offers based on the formula or going beyond it (a final rate of 5.8% in the case of tyres), except for conveyor belts.<sup>1</sup>

#### Precious metals and jewellery

The EEC obtained very substantial reductions from its partners in this sector. It is worth noting that the United States offered zero rates for diamonds (previously 5%) and certain cut but unset precious stones for jewellery (previously 4%). Japan reduced its

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<sup>1</sup> An offer with regard to this product was made conditional on the abolition of non-tariff barriers in the United States.

duties on cut diamonds for jewellery from 5% to 2.5% and on other precious stones for jewellery from 5% to 3.2%.

Canada offered to reduce its duties on jewellery (diamonds are already exempted) from 25% to 11.3%..

#### Medical instruments and audio-visual recorders or reproducers

In order to restore balance to its overall package of offers vis-à-vis certain partners, the Community did not maintain all its offers. It withdrew the concessions it had offered in respect of certain musical instruments (accordeons), sound recorders and reproducers and video-recorders. However, it obtained from its partners concessions for its main exports which were as good as or better than the formula.

#### Firearms

The EEC obtained significant concessions despite certain exceptions made initially by Japan.

#### Furniture

In this sector significant concessions were offered by both the United States and Japan. Canada, however, maintained the exceptions it had made for wooden furniture.

#### Toys and sports equipment

The EEC applied the formula in this sector, through making better offers for a number of products.

Concessions of considerable interest to the Community were offered, in particular by the United States and Canada with regard to toys and skis and accessories.

6. Renegotiations of Article XXVIII

In October 1978, the United States, in a move on the sidelines of the trade negotiations, invoked Article XXVIII in order to :

- (a) modify the nomenclature of its tariff in the ceramics sector,
- (b) offset the increased duties resulting from changes made in the nomenclature of its tariff in 1968 for mixed woollen fabrics;
- (c) convert specific or mixed duties into ad valorem duties, with particular reference to non-ferrous products, steels and ball bearings.

These renegotiations were accompanied by an offer in the context of the MTNs.

A separate and more detailed report describing the outcome of these renegotiations will be sent to the Council at a later stage for conclusion.