

European BACKGROUND INFORMATION Community

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street NW, Washington DC 20037 Telephone (202) 872-8350

New York Office: 245 East 47th Street, New York NY 10017 Telephone (212) 371-3890

BACKGROUND NOTE

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EC-U.S. AGREE ON PRINCIPLES FOR CUTTING TARIFFS

European Community and U.S. officials meeting in Brussels this week agreed on a "joint working hypothesis" that is a significant step toward a general tariff-cutting plan under the General Agreement on Tariffs and Trade (GATT).

EC Vice President Wilhelm Haferkamp and Robert Strauss, President Carter's special representative on trade, confirmed again their commitment to complete preliminary negotiations so that offers could be put forward by January 15, 1978, on a world-wide plan to liberalize trade among industrialized and developing nations. Strauss has said he hopes GATT negotiations can be completed by April or May of 1978. The "Tokyo Round" of the multilateral trade negotiations have been stalled for more than a year in Geneva.

The EC nations, the United States, Japan and Switzerland have each submitted different schemes for cutting tariffs. The agreement reached between EC and U.S. officials this week was to continue working on an algebraic equation $Z = \frac{a x}{x + a}$ under which Z represents the final tariff duty and x represents the existing duty. A similar formula was proposed by Switzerland.

Last year the European Community had proposed a tariff-cutting plan that emphasized tariff harmonization -- the larger the duty, the larger the tariff cut. This would have amounted to about 27 per cent average reduction without exception.

The United States had proposed a plan that would institute across-the-board cuts amounting to about 47 per cent average reduction after exceptions.

At a press conference in Brussels following the release of a joint EC-U.S. communique on the meeting, Strauss told reporters at the American mission that the Swiss formula would allow for cuts averaging about 44 per cent.

A Commission statement declined to put a figure on possible average tariff cuts. It pointed out that this algebraic equation is to be used as a model for further negotiations on establishing the variable (the figure a in the equation above). Final duty rates could vary, the Commission statement said, according to the value assigned that variable.

The Commission statement further pointed out that the U.S. acceptance of this working hypothesis is an important step toward EC-U.S. agreement, since the formula itself is compatible with the harmonization of tariffs advocated by the EC.

Strauss and his deputies -- Alan Wolff and Alonzo McDonald -- met in Brussels with Haferkamp and Etienne Davignon, commissioner in charge of internal market and industrial affairs.

The text of the EC-U.S. joint communique follows:

The two sides reconfirmed their political commitment following the agreement reached by Vice-President Haferkamp and Mr. Strauss at their meeting on 11 July to complete the current phase of negotiations by 15 January 1978 so as to set the stage for the negotiations of the final package.

They confirmed their joint understanding of the need for a substantial tariff reduction with a sufficient degree of harmonization, parallel with substantial progress on agriculture.

They welcomed the progress made in the preparations for tabling on 1 November of requests in the sectors of agriculture and non-tariff barriers. They took note with satisfaction of the intensive discussions that it has now been agreed to start on customs valuation, subsidies and countervailing duties, standards, government procurement, and safeguard mechanisms.

In relation to the formula to be employed in the negotiations for tariff reduction there was agreement that means must be found of achieving a substantial tariff reduction and harmonization. Both sides stressed again the need for tariff reductions substantial enough to improve business confidence. From the discussion a joint working hypothesis emerged that, subject to approval, would enable the current difficulties in finding a definitive tariff formula to be overcome, while ensuring the progress of the negotiations in order to meet the 15 January deadline. It was further agreed to search for mechanisms that would permit progress toward long-term trade liberalization, in stages that would take full account of current economic and political realities.