

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY 2 ON THE REDUCTION OF TARIFF LEVELS

Draft Report

I. INTRODUCTION

1. In accordance with its terms of reference, the Working Party examined the proposal submitted by the French Delegation on 19 September 1951, relating to the automatic lowering of tariff levels.

2. With the approval of the CONTRACTING PARTIES, the Working Party set up a sub-group composed of: Austria, Belgium, Canada, Denmark, France, Germany, Italy, Luxemburg, the Netherlands, Norway, Sweden, the United Kingdom and the United States; the Sub-Group considered the French Plan from the point of view of its application to the countries represented on it, and elaborated the technical aspects of the Plan with a view to facilitating its more thorough consideration by the CONTRACTING PARTIES at the present Session. The report of the Sub-Group has been circulated to all contracting parties under the symbol IW.2/16. The Working Party considered this report and gave an opportunity to the representatives of countries not members of the Sub-Group to confirm their views on the technical points described in that document. The remarks of those members on these points are summarized in Section II of this Report.

3. The Working Party then addressed itself to the consideration of the French proposal in its more general aspect and examined whether and to what extent its main features would have to be adjusted in order to take into account the disparities between the economic and social conditions in different countries. The French Delegation made specific proposals regarding the special treatment which might be granted to under-developed countries and countries in process of industrial development. Those proposals are contained in an Annex to this Report. The Working Party, after a preliminary exchange of views on these suggestions, agreed that they required to be considered more carefully by the governments concerned.

4. The Working Party also discussed the questions which may arise in respect of compensation from contracting parties which would not be in a position to participate in a plan for an automatic reduction of tariff levels. The views of the members of the Working Party are contained in Section IV of this Report.

II. TECHNICAL ASPECTS OF THE FRENCH PLAN

5. The Working Party reviewed the various technical points discussed in the Report of the Sub-Group. Although the Report contained a comprehensive analysis of the specific problems of a technical nature which may arise if the French Plan were put into force, it was pointed out that on certain important points, the plan under discussion was not finally elaborated and several members of the Working Party reserved their right to re-examine the plan from a technical point of view should subsequent developments introduce new technical aspects.

6. As regards the method suggested by the Sub-Group for the selection of the base year in paragraph 13 of the Report, the representative for Brazil, supported by the representative for Australia, pointed out that if a late year such as 1951, were selected as a base year, the average incidence of the tariff of industrialized countries would appear lower than it is normally, since their imports of raw materials and other goods on which low tariffs are levied were exceptionally high in that year and the high prices prevailing on world markets of primary products in that year would have similar effects on those calculations.

7. Referring to the suggestions contained in paragraph 15 of the Report regarding the valuation of imported goods, the representative for Australia pointed out that this question should be examined with particular care in order to ensure that the countries using the f.o.b. basis of valuation should not be less favourably treated than the countries applying the c.i.f. system.

8. The proposals contained in paragraph 17 and in paragraphs 19 to 22 regarding the division by sectors were considered as of particular interest by the representatives of countries mainly exporting agricultural products, who stressed that the division by sectors of the trade in agricultural products would determine to a large extent the attitude of their Governments. The representative of Cuba pointed out that it would be necessary to provide at least four sectors as suggested by the Danish representative to the Sub-Group to cover the agricultural sectors; in the absence of such a provision, the exporters of agricultural products would not be in a position to expect any substantial reduction in the tariffs levied by industrial countries on imports of agricultural products.

9. The suggestion made by some members of the Sub-Group with a view to separating the purely fiscal element of the so-called revenue duties from the protective element of those duties were supported by the representatives for Brazil and Cuba.

10. Regarding the suggested inclusion of preferential duties in the exercise, the Working Party agreed that the problem was of particular importance and deserved further consideration.

11. The representative for Cuba stressed that the proposals set forth in paragraphs 34 and 37 of the Report by the Sub-Group regarding the levelling-off of high tariffs were an essential part of the proposal for a reduction of tariff levels and indicated that the government attached particular importance to any proposal resulting in a reduction in the high duties which are levied in many countries on agricultural products such as sugar.

12. Members of the Working Party discussed the suitability of the figure of 30 per cent for the application of an automatic reduction and indicated that the acceptance of the Plan might be facilitated if a lower percentage were contemplated or if the process of reduction could be spread over a longer period. The representative for the Union of South Africa also pointed out that it might be difficult for certain countries which consider proposals for tariff changes as secret to indicate in advance to other governments the cuts proposed for successive years as it has been suggested in paragraphs 40 and 41 of the Report.

13. The Working Party took note of the proposals concerning the binding effect of the commitments entered into under the French Plan and, the representative for Australia pointed out in this connection that the acceptance of the plan by countries in process of industrial development would be more difficult to secure if it involved the acceptance of rigid commitments valid for a period of years.

III. APPLICATION OF THE PLAN TO COUNTRIES IN PROCESS OF INDUSTRIAL DEVELOPMENT

14. In the Report submitted at the Sixth Session, the Working Party had already emphasised "that under-developed countries will not be able to participate fully, if at all, in the scheme because of the importance to them of their tariffs as, e.g., sources of revenue and as a means of protecting industries in the course of development". When the report of the Sub-Group was discussed by the Working Party the representatives of Australia, Brazil, Cuba, India and the Union of South Africa gave further illustrations of the type of difficulties which the application of the plan as evolved by the Sub-Group would create for their countries. These representatives stressed that the carrying out of programmes of industrial development prevented their governments from abandoning their freedom of introducing protective import duties or of raising the level of those duties on goods which it was contemplated would be produced domestically. The tariff structure of countries in the process of industrial development was far different from that of industrialized countries: revenue duties accounted for a very high percentage of the whole tariff (95 per cent in the case of India), and the national budget relies to a very large extent on customs revenue, (the share of that revenue in the total revenue representing 35 per cent in the case of Cuba) and protection duties were introduced gradually to keep pace with industrial progress. Moreover, countries in process of industrial

development were mainly exporters of agricultural and pastoral products which, when they attempted to enter industrialized countries, met high tariffs, rigid quantitative restrictions and other protective devices, or of raw materials on which the importing countries, as a rule, found it unadvantageous to levy any significant import duties. In those circumstances, countries which rely mainly on the export of primary products would only derive substantial benefits from the operation of a plan along the lines of the French proposal if the exercise were to apply not only to tariff but also to other forms of protection.

15. In an attempt to meet the special difficulties which were referred to by representatives of countries in process of industrial development, the French delegation submitted concrete suggestions which are contained in the Annex to this Report. The Working Party was generally favourable to the approach of the French delegation and to the assumption that undertakings asked from non-industrialized countries should be less onerous than those required of industrialized countries. It agreed, however, with the French delegation that the division of countries into two classes according to their degree of industrial development could not result from the application of a single criterion such as the per capita income of the various countries or the percentage share of primary products in their export trade. If the implementation of the French Plan would require such a division, it would be appropriate to take into account other criteria. As one of these criteria might be the particular structure and characteristics of the customs tariffs of the less-industrialized countries, the Working Party was of the opinion that the secretariat might be instructed to assemble additional information on this point and to consider whether it would be in a position to compile, with the assistance of the governments concerned, tables showing for the contracting parties not represented on the Sub-Group, similar data to those tabulated for the members of the Sub-Group, especially as regards revenue duties.

16. Assuming that a satisfactory procedure could be devised to define or identify those countries which would be considered as in process of industrial development and be eligible for special treatment, the Working Party gave some consideration to the adjustments suggested by the French delegation in the basic commitments under the plan. While recognizing that the French suggestions went a long way to meet certain of their objections, some members of the Working Party were not satisfied that those proposals were such as to eliminate the major difficulties to which they had drawn attention. It was pointed out, in this connection, that even if the revenue duties were excluded from the exercise, any extensive reduction in tariffs might give rise to serious budgetary problems for countries which are not in a position to tap alternative sources of revenue; those countries would no doubt require some assurances that the application of the plan would bring benefits to all countries concerned. It was also stated that the protective duties cover, as a rule, a small range of tariff items in the tariff of countries

in the process of industrial development and those rates are generally computed so as to limit the tariff protection to a minimum consistent with the vital requirements of the industries thus protected. Any automatic reduction of duties would therefore affect practically all those branches of industry and impair the application of the programme of industrial development.

IV. QUESTIONS ARISING IN RESPECT OF COMPENSATION FROM NON-PARTICIPATING COUNTRIES

17. The Working Party agreed that any scheme for an automatic reduction of tariff levels within the framework of the General Agreement would have to be based on the principle of non-discrimination, which implied that any specific reduction of duty resulting from the operation of such a scheme would have to be extended to all the contracting parties, whether they participate in the scheme or not. On the other hand, the Working Party recognized that all negotiations directed to the reduction of tariffs within the framework of the General Agreement had to be conducted on a reciprocal and mutually advantageous basis.

18. If, therefore, some contracting parties were not in a position to participate in such a scheme, the other contracting parties participating in that scheme should be allowed to propose the exclusion from their calculation of the weighted incidence and from the exercise specific products which are of particular interest to those countries. By analogy with the suggestions made in paragraph 27 of the Report regarding the exclusion of products mainly imported from non-GATT countries, the Working Party has agreed that, in many cases such an arrangement would not meet with particular difficulties but recognized that if a participating country had a substantial interest in some product imported mainly from non-participating countries that country would be entitled to make representation regarding the exclusion of such products and to invite the participating country or countries concerned to negotiate with the non-participating country or countries substantially interested in that product with a view to obtaining an equivalent tariff concession. To achieve such a result, it would be necessary to secure a general understanding that it would be open to approach non-participating countries having a substantial interest in the products on which duty reductions are contemplated, and ask them to enter into negotiations with a view to obtaining from them tariff concessions on a reciprocal and mutually advantageous basis in consideration of the tariff reductions involved in the implementation of the scheme. Such requests should be considered sympathetically if such negotiations were essential for the implementation of the scheme.

ANNEX

PROPOSALS BY THE FRENCH DELEGATION CONCERNING THE
APPLICATION OF THE FRENCH PLAN TO COUNTRIES IN PROCESS
OF INDUSTRIAL DEVELOPMENT

1. Division into industrialised countries and countries in process of industrial development.

The criterion previously proposed by the French Delegation, that is, the existing ratio between customs receipts and total budgetary income, has been abandoned because it might have led to somewhat illogical results.

The tables prepared by the secretariat (W.7/31) which are based:
- the one on the per capita income of GATT countries
- the other on the percentage share of foodstuffs and crude raw materials in the exports of GATT countries in 1950
would make it possible to classify countries differently on the basis of the criterion adopted.

It is therefore clear that in the circumstances it is very difficult to develop a precise criterion which would make it possible to divide countries rationally as between the two main categories, i.e., industrialised countries and countries in process of industrial development. It might therefore be more expedient to adopt the following empirical method:

The Executive Secretariat would draw up a list of sufficiently industrialised countries on the basis of their knowledge of the situation of each of the GATT members and not in accordance with either of the criteria mentioned above.

Those countries that were not included in the list and with respect to which the members of the Working Party would have to pronounce would be regarded as countries in the process of industrial development for the purpose of the plan for a general reduction of tariff levels.

2. Efforts to be requested from countries in the process of industrial development.

(a) Countries in the process of industrial development would be authorised to exclude from the exercise:

- their fiscal duties
- their duties affecting products included in their industrial development programme.

They would be required to reduce their other duties by thirty percent as provided for in the French Plan.

(b) The general waivers provided for in the case of low tariff countries could also be applied in appropriate cases to countries in the process of industrial development.

(c) The thirty percent reduction of the weighted average level of customs protection would be computed on the national tariff as a whole and the countries concerned would then be free to select those items to be reduced.

(d) Countries in the process of industrial development would be required to submit regular reports to the Arbitration Committee set up by the participating countries regarding the results achieved under their industrialisation programme. On the basis of such reports the Arbitration Committee would decide whether the waivers granted should be maintained, modified or terminated.