

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES
Tenth Session

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SUMMARY RECORD OF THE SIXTEENTH MEETING

Held at the Palais des Nations, Geneva
on Tuesday, 22 November 1955, at 2.30 p.m.

Chairman: Mr. F. Garcia OLDINI (Chile)

- Subjects discussed:
1. Report of the Samples Working Party
 2. ICCICA Chairman
 3. Report of the Working Party on Article XVIII
(Haiti)
 4. French Compensation Tax
 5. Brazilian Taxes

1. Report of the Samples Working Party (L/455)

Mr. ASHFORD (United Kingdom), Chairman of the Working Party, introduced the report. He called attention to the distinction that had been drawn by the Working Party between the two questions, the first of which concerned the matter of the intent of countries in drawing up the Samples Convention, and on which the members of the Working Party, representing countries which had ratified or acceded to the Convention, stated that it was not the intention at that time that adoption of the Convention should result in the restriction of any wider facilities which might be granted by any State. The second question concerned a more fundamental interpretation which was bound up with the interpretation of the Convention itself which could only be given by the parties to the Convention. The Working Party decided to recommend, therefore, that the Chairman of the CONTRACTING PARTIES invite those which had ratified the Convention to associate themselves with the view expressed on the first question, and that the Executive Secretary communicate with the Parties to the Convention as to the problem contained in the second with the request for a statement of views of the Government concerned on paragraph 1 of Article III of the Convention. The Working Party considered that the Secretary-General of the Customs Cooperation Council should be informed of this action and that he and the CONTRACTING PARTIES and the Parties to the Convention should be notified of the replies received. The CONTRACTING PARTIES could, in the light of those replies, consider the advisability of further action in this field.

The report of the Working Group on the Samples Convention was adopted.

2. ICCICA Chairman (L/442, MGT/140/Add.1 & 2)

The Chairman said that at their Eighth Session in 1953, the CONTRACTING PARTIES, at the request of the United Nations, had appointed Sir Edgar Cohen as Chairman of the Interim Coordinating Committee for International Commodity Arrangements. It was decided that his term of office be two years, and as this had expired the CONTRACTING PARTIES must again appoint a chairman for the Committee. They might wish at this time also to decide on a term of two years.

Mr. WARWICK SMITH (Australia) thought that the uncertainties in this field as to the proposed Commodity Agreement, the status and functions of the Economic and Social Council Committee, and so on, the outcome of which could affect the status of ICCICA, led to the conclusion that it would be preferable to limit the period of office of the new chairman to one year.

Mr. AZIZ AHMAD (Pakistan) supported the Australian proposal. The present uncertainties also included the entry into force of the Organization on Trade Cooperation. He suggested that the period of office be limited to one year, or to the coming into force of the Organization, whichever was the shorter period.

Mr. BARBOZA-CARNEIRO (Brazil) supported the Australian proposal.

Mr. PHILLIPS (United Kingdom) said that doubts expressed by various speakers as to the continued existence of ICCICA were not relevant to the term of office for which the Chairman was elected, and a decision on the latter committed no contracting party to any view on the former. There was a precedent for a two-year term which he suggested be followed. Once the election was made it would not be appropriate to review the term of office again in one year.

It was decided on a vote of fourteen in favour and seven against that the term of office of the Chairman of ICCICA be one year.

The CHAIRMAN stated that two candidates had been nominated for the office, Sir Edgar Cohen (United Kingdom) and Mr. O.M. Machado (Brazil).

Mr. PHILIP (France) nominated Sir Edgar Cohen. Since he had been appointed to the chairmanship in 1953 he had remained responsible for external relations in the Board of Trade, in which capacity he had charge of the conduct of the United Kingdom's commercial policy (including matters arising under the General Agreement) and of the negotiations by the United Kingdom of commercial treaties and trade agreements. He had been leader of the United Kingdom delegation at the Review Session. It would be in the general interest to reappoint a chairman of proved ability and whose experience permitted continuity in the

in the work of the Committee, the more so because of the present indefinite state of the ICCICA to which allusion had been made, and in the light of the decision that the term should be for one year.

Mr. BARBOZA-CARNEIRO (Brazil) referred to the Note by the Executive Secretary on the ICCICA (L/442). The information in that Note was incomplete in that no mention was made of the fact that from 1947 to 1952 the chairmanship was held by Sir James Helmore. The chairmanship had, therefore, been in the hands of a national from the same highly industrialized country since 1947. The Brazilian delegation had insisted since 1951 that there should be rotation in the chairmanship between nationals of industrialized countries and those of underdeveloped countries, particularly since the latter had so great an interest in primary commodity trade. This was a practice followed in all other international organizations.

The Brazilian delegation had been grieved to note that the procedure followed in connexion with this appointment of a Chairman did not conform to usual international practices. Contracting parties had only been notified today by the inclusion of this item on the agenda of the meeting that the election was to be held today, and consequently there was no opportunity for individual contracting parties to make any necessary arrangements. Moreover, documents had been circulated by the secretariat asking for candidates within a time-limit which he was not aware that the Executive Secretary had the right to set, and the documents submitting the candidature of Mr. Machado had only been circulated this morning. Moreover, it was stated in the documents that if there were no more than one candidate there would be no election, and finally, he did not understand why these documents were restricted.

With regard to the candidature of Mr. Cohen, the French representative had stated that the decision for a one-year term and the indefinite status of the ICCICA should lead to continuing in office the past chairmen. But it seemed to his delegation that it would be preferable not to persist in errors.

In presenting the candidature of Mr. Machado, Mr. Barboza-Carneiro stated that since 1926 he had been in charge of the technical advisory department of the Bank of Brazil's exchange and foreign trade sections under various administrations. He had been four times technical adviser to the Ministry of Finance in matters relating to commodity trade, exchange and customs rates. He was also delegate of the Brazilian Government at various international meetings, the General Assembly from 1945 to 1955, the Economic and Social Council in 1948 and 1949, the Economic Commission for Latin America in 1952 and 1953, the CONTRACTING PARTIES in 1953, 1954 and 1955, the High Commissioner for Refugees, the Inter-governmental Committee for European Migration, the Food and Agriculture Organization, 1950, the Seminar on Agrarian Reform, 1953, etc. He had also been a member of the Advisory Committee on Administrative and Budgetary Questions in 1946 to 1952.

The EXECUTIVE SECRETARY wished to comment on the observations that had been made about procedure and to express his personal regret at the underlying implication which appeared to exist in the criticism that had been voiced by a representative of a delegation with which he had always had the closest contact on matters of concern to them including the matter under discussion. It had been said that a brief delay was fixed for submission of the candidatures, but in fact no time-limit was fixed - only the CONTRACTING PARTIES having power to do that - and a date was merely mentioned by which time it would be useful to have notice of the candidatures for the purpose of scheduling a discussion. Moreover, this item had been on the Agenda for some two months and it had not seemed unreasonable to consider that delegations would be prepared to discuss it. As to the question of the election, that again was for the CONTRACTING PARTIES to decide as to whether or not it should be held today, or at any other time. The implication in the Note that if no more than one candidate was submitted there would be no election had been criticized, but the requirement was that the CONTRACTING PARTIES should nominate a Chairman for ICCICA. There was no requirement for an election. This procedure had been adopted on the occasion of the last nomination only because more than one nominee had been proposed. The document was restricted because he was governed by the regulations of the CONTRACTING PARTIES which provided that their documentation must be restricted. The delay in the circulation of the nomination of Mr. Machado, such as it was, had been because he was conducting consultations with a number of delegations, including the Brazilian delegation, in an effort to find a single candidate acceptable to all contracting parties. The Executive Secretary said that he must reject the suggestion that there was any improper motive in this delay or in any of the procedures suggested for handling this item.

Mr. PHILLIPS (United Kingdom) said that a disputed nomination like the present one was always a little embarrassing and did not contribute to the dignity of the CONTRACTING PARTIES. His Government had been aware that at least one delegation felt that the chairmanship had been held by a United Kingdom national for too long a period, and had indicated that they were prepared to ask the French delegation to withdraw the nomination of Sir Edgar Cohen if a candidate could be found who would have the support of the CONTRACTING PARTIES as a whole. It was of course a prior condition that all the contracting parties should agree to support such a candidate. Mr. Phillips proposed that the election be postponed in order to try to find an undisputed candidate.

Mr. VALLADAO (Brazil) emphasized that his delegation did not intend to impugn the impartiality of the Executive Secretary. The wording in the announcements circulated about this election had, however, seemed to them more mandatory than was permissible. Moreover, unless an election were held there would be no opportunity for contracting parties to express their views on the nomination as obviously desired by the Economic and Social Council. The Executive Secretary had not commented on the document circulated describing the background of ICCICA.

Dr. NAUDE (South Africa) expressed his surprise at the turn of the debate which he considered most regrettable and of a nature which he hoped would not be repeated in the future. He proposed that the debate be closed immediately and that the vote on this matter be held at some later date to be fixed. In connexion with what had occurred, he observed that it was not in the interest of the dignity of the CONTRACTING PARTIES to have nominating speeches, and that it might be worthwhile for the CONTRACTING PARTIES to give some thought between now and the next Session as to the method of nominations to various offices within their competence.

It was agreed to close the debate and defer the election of a Chairman of ICCICA.

3. Report of Working Party on Haiti request - Article XVIII (L/454)

Mr. WARWICK SMITH (Australia Chairman of the Working Party) presented the Report which was limited to the consideration of the release that was granted to Haiti in 1950 concerning measures applying to the importation of tobacco and certain products. The Working Party considered the statement of the Haitian representative at the plenary meeting on 3 November (SR.10/7), in which he suggested that the measures taken by Haiti were actually in conformity with the General Agreement, and that, therefore, the release granted in 1950 had not been necessary. As a result of the Working Party's examination, the representative of Haiti decided not to pursue the request for renewal, and Mr. Warwick Smith drew attention to the conclusion in paragraph 13 of the Report to the effect that the Working Party did not see anything in the measures maintained by Haiti affecting the importation of tobacco and certain products which would require a release under Article XVIII. This conclusion would not prejudge one way or another any question relating to the Haitian measures which might in the future come before the CONTRACTING PARTIES.

The Report of the Working Party on Article XVIII applications in respect of the Haiti Tobacco Monopoly was adopted.

4. French Compensation Tax (L/406 & Corr.1 and Add.1-5, L/412).

The CHAIRMAN drew attention to the report submitted to the Intersessional Committee by the French Government (L/366), to its second report under the Decision of 17 January 1955 and the report on this matter by the Intersessional Committee.

Mr. PHILIP (France) referred to the second report submitted by his Government, at the request of the Intersessional Committee, containing more details and in particular statistical information by which the incidence of the tax on exports and measures taken by France to conform to the Decision of the CONTRACTING PARTIES could be assessed. He recalled that it was through the institution of this tax that his Government had been able to liberalize its intra-European trade. The report showed that the percentage of liberalization of imports (from OEEC countries) had been increased to 77.5 per cent in the last months. The report also gave detailed information on the measures which had been taken to eliminate or progressively to reduce the tax. Annexes 1 and 2 contained respectively a list of products where the tax had been eliminated and those where the level of the tax had been reduced. These two lists had to be supplemented by the announcements in this regard in the Journal Officiel of 29 October 1955. The level of the tax had initially been fixed at 15 per cent with the possibility of fixing it at 10 per cent in respect of certain products. Independently of certain measures dealing with particular products, the initial rates of the tax had been reduced in November 1954 from 15 per cent to 11 per cent, and from 10 per cent to 7 per cent for the products which had been subject to liberalization before this date. The Decree of 29 October 1955 comprised a further general measure relating to a large number of products liberalized by the beginning of 1955 and the resulting position was that over 70 per cent of imports subject to tax at 15 per cent and over 95 per cent at 10 per cent had been abolished or reduced. On approximately 12 per cent of the volume of imports affected the tax had been abolished. It could be stated that one third of the way towards the complete abolition of the tax had been achieved. As to the incidence of the tax, it affected 7.4 per cent of total French import trade but its effect on imports from OEEC countries was approximately four times greater than that on imports from non-OEEC countries. Imports as a whole had increased substantially in comparison with the first half of 1954, which seemed to indicate that the application of the tax had not had such restrictive results as certain contracting parties had feared. In fact, imports of products subject to the tax had increased in the second half of 1955 by 17 per cent as compared with the first six months of 1954.

Turning to the measures published in the Journal Officiel of 29 October, the tax had been reduced from 15 per cent to 11 per cent and from 10 per cent to 7 per cent for about 80 per cent of the tariff items liberalized in January, and from 11 per cent to 7 per cent for a certain number of products liberalized in 1954. On the basis of the first six months of 1954, the tax had been reduced or eliminated on imports amounting to Frs. 5,500 million, including machinery, paper, cardboard, chemical products, semi-finished non-ferrous metal products, iron and steel products, electrical equipment, woollen yarn, and fish. The tax had been abolished on about ninety tariff positions.

amounting to some Frs. 1,200 million, and including chemical and plastic products, hides and skins and ceramic ware. The recent measures affected additional imports on a six-monthly basis of Frs. 6,700 million.

Mr. Philip referred to the CONTRACTING PARTIES' recommendation that the French Government should reduce the degree of discrimination against the exports of contracting parties subject to the tax but not benefiting from French liberalization measures. He observed that any discrimination came not from the application of the tax which was imposed indiscriminately on products from all sources but from the system applicable to various imports depending on their origin. The problem of liberalization within OEEC should be considered as distinct from the problem raised by the existence of the tax. In order to abolish all discrimination in the sense of the Decision it would be necessary either to eliminate the tax on liberalized products or to extend liberalization to non-OEEC members or to limit the application of the tax to imports from countries benefiting from liberalization. The last possibility should be excluded as it would have precisely the effect of treating these countries in a discriminatory manner in respect of the tax. In present circumstances it was also not possible to extend liberalization generally to non-OEEC members. His Government, therefore, preferred the first formula; the reduction and elimination of the tax on the one hand, and the policy of liberalizing quota regulations on imports from non-OEEC countries on the other, had contributed substantially to reducing the element of discrimination. His Government confirmed its intention to eliminate the tax as soon as possible but had to point out that this elimination would be progressive and it was not unfortunately possible to set a timetable for this in advance. It seemed unlikely that any general measure could be taken before the beginning of the next year when enough time would have elapsed and the statistics would be available to assess the experience of the liberalization measures in April 1955. At that time, taking into account the level of imports and of the incidence of higher wages in France and abroad, the Government would proceed with such reductions in the tax as seemed possible both in respect of products liberalized in April and of those liberalized previously. There might be a few measures before that date and studies were now being made with a view to the reduction or removal of the tax on certain products. Should further information be required he would be glad to supply it, and would also welcome discussion with individual delegations on their particular difficulties.

Mr. LEDDY (United States) said that his Government was concerned at the continued application of the tax to a wide range of commodities, particularly that it had in the last months been applied to a new group of items, and at the announcement of the intent of the French Government to apply it further as Intra-European liberalization was extended. This tax system bore especially heavily on countries like the United States whose exports were subject to quantitative restrictions. In theory the tax was intended to make possible the elimination of quotas but such elimination had not been applied to United States exports. From the documentation it would appear that the tax applied to a wide range of commodities and in general at a higher rate than a year ago

when the French Government had undertaken to remove it, and the degree of discrimination against contracting parties to which liberalization did not apply appeared to have increased. The action of the French Government in this respect therefore appeared retrogressive. He was glad to note the statement that the tax had been reduced on certain items and he hoped that this movement would continue more rapidly in future. One way to achieving this would be to avoid applying the tax to new products as they became liberalized. Mr. Leddy said his Government had received numerous complaints from American exporters that the level of exports was being reduced. This was difficult to evaluate on the basis of the statistics supplied by the French Government and he had suggestions in this regard which he would take up directly with the French delegation. There were obvious difficulties from the compensation tax system in connexion with the 1956 negotiations. It did not seem to him that it would be profitable for a working party to study the matter at this time but it would be appropriate for the CONTRACTING PARTIES, in the light of the Decision of 17 January 1955, to express their concern over the continuing difficulties in this regard.

Mr. JHA (India) said that discrimination by OEEC countries as between OEEC countries and countries whose payments only were made through EPU was inappropriate and indefensible. In this field discrimination operated even on the tariff plane. At the last Session, France had expressed the view that unless they imposed the special compensation tax it would be impossible for them to liberalize their trade to the degree required within OEEC. India, not benefiting from this liberalization, was not only suffering discrimination but also had to bear the burden of the tax which, although imposed to compensate for the liberalization measures, was applied on a non-discriminatory basis to all countries. The CONTRACTING PARTIES at the last session had recommended that the French Government take steps to reduce the present degree of discrimination; this had not been complied with. There was for example no mention in the documentation of any tax reduction on those items where tariff concessions had been negotiated between France and India. He agreed with the suggestion of the United States representative that the CONTRACTING PARTIES should express their concern at the continuance of the present situation.

Mr. HOCKIN (Canada) said that at the last Session his Government had expressed its concern at the imposition by France of the compensation tax. The French delegation had at that time stated that the tax was merely a transitional measure and declared its intention to adopt definite measures towards its elimination. The reductions and eliminations since then had been welcomed by his Government, but this satisfaction was more than offset by the extension of the tax to a further wide range of goods. The tax impaired the value of tariff concessions negotiated with France; even at the lowest level of incidence of the tax this was the case, and only complete elimination could restore the full value of the concessions.

restore the full value of the concessions. The discriminatory effect, in that the tax was applied to imports from all sources although the liberalization of quantitative restrictions did not apply to all countries, was also of serious concern to his Government. The Decision contained a recommendation to the French Government to reduce the present degree of discrimination but so far no steps in this direction had been taken, although the French Government had stated that it was pursuing its examination of the conditions in which its system of imports from non-OEEC GATT members could be made more flexible.

As to procedure, he thought that, at the present stage of the Session and in view of the Intersessional Working Party's difficulties in studying changes in the tax submitted late in its deliberations, the appointment of a working party would not be useful. However, he did not wish to preclude the possibility of such an appointment at the next Session if the tax were then still in effect. He hoped the CONTRACTING PARTIES would record at this Session their concern at the present situation with regard to the tax.

Mr. STUYCK (Belgium), although concerned at the effects of the tax on Belgian exports to France, recognized that country's economic difficulties. He had noted with satisfaction the measures taken towards reducing or eliminating the tax and the intention of the French Government to pursue this matter further. He suggested that the CONTRACTING PARTIES note these actions and intentions in whatever action they might take on the matter.

Dr. STANDENAT (Austria) said that his Government, whilst recognizing that there had been certain progress towards the progressive elimination of the tax, considered the general situation created by its introduction as remaining unsatisfactory, particularly as the French Government was not prepared to assume a firm obligation regarding a date for its elimination. It was two years since the tax had been instituted and it was showing signs of becoming a permanent fixture. As far as Austria was concerned the tax had, to a large extent, neutralized the effects of the French liberalization measures whereas France had fully profited from the liberalization measures taken by Austria, which were not subject to any tax. This was clearly demonstrated by the bilateral trade figures which were characterized by a relative stagnation of Austrian exports and a considerable increase in French exports which had led to an increase in Austria's trade deficit with France, influencing unfavourably the overall Austrian position with EPU. As the Intersessional Committee had not been able to examine the second French report in detail he would have favoured the appointment of a Working Party. However, if that was not the general desire, he would not press for such a procedure. The examination of the effects of the tax however, would be interesting both for France and France's trading partners. From the Austrian point of view the fact that the importation of liberalized products had shown a tendency to increase did not prove that the tax had not had damaging effects. This increase should, in fact, be attributed in the first place to the generally favourable economic conditions; the damaging effects of the tax had been camouflaged by the growth of internal demand in France.

The continuing application of the varying levels of the tax would lead to a distortion of demand and to a change in France's traditional pattern of trade which would be harmful to small exporting countries. The tax could only be surmounted by sacrifices on the part of exporters which only large exporters could afford. The end result would be to exclude the small exporter from the French market. Moreover the example of this form of protectionism in France might encourage demands for similar action by protectionist elements in other countries. He hoped that the French Government would resolve the problem in the spirit of the Decision in order to achieve as soon as possible the objective of the Decision which was the complete elimination of the tax. He had noted with interest the French statement of their willingness to discuss particular difficulties bilaterally with the countries concerned.

Mr. PHILLIPS (United Kingdom) had studied with interest the second report of the French government and recognized that some progress had been made toward achieving the elimination of the tax. He was not altogether clear as to the basis of some of the calculations in the second report. They had not yet been able to assess the importance of the further action taken in October. But, even if the present rate of elimination were maintained the tax would continue for a long time and it was disappointing that the French statement gave no indication on this point beyond the fact that the elimination would be gradually effected. While the tax had been reduced or eliminated on certain items on others it had been stabilized at the highest level. The French Government had stated that protection was not intended, but the maintenance of this level was likely to lead French industry to regard it as protection and thus make the ultimate removal more difficult. While recognizing that it might not be possible to give a precise timetable, something more than assurances that the process would continue was necessary. Any resolution on this subject adopted by the CONTRACTING PARTIES should require that the rate of reduction and elimination be accelerated in 1956, that the treatment of goods with regard to the tax reduction be more uniform, and should include some arrangement for the French Government to report in the middle of the year on action taken.

Mr. REINHARDT (Federal Republic of Germany) had noted the French report and the October measures and also the declaration of the French Government that it could not indicate a definite date for the complete elimination of the tax. He hoped that this endeavour would be continued, if possible at an accelerated rate. Concerning procedure, he did not think that a working party would be necessary to examine the report and the new measures taken at the end of October, but suggested that the CONTRACTING PARTIES should note the progress made to date and express the hope that the French Government would be in a position to reduce the tax as soon as possible with a view to its final elimination, and that the Intersessional Committee be charged with the review of further progress in this matter on the basis of a new French report.

Mr. KASTOFT (Denmark), said that at the last Session it had been clearly established that the French Government, by introducing the special compensation tax, was in breach of the Agreement. Even if the legal aspects had been in doubt, his Government would nevertheless have been of the opinion that the steps taken by France were retrogressive and hardly in accordance with their international obligations. Denmark had always maintained that liberalization measures were of doubtful value if quantitative restrictions were substituted by other restrictive measures such as increased tariff rates or state trading. The only extenuating circumstance in the French case was that they had given an assurance that the measures were temporary and would be abolished as soon as possible. The documentation submitted showed that some progress had been made, although he thought that the pace of the reductions could have been accelerated. It appeared that the tax in some cases had remained at the initial high level, and while they might understand the difficulty of reducing rates in the most sensitive cases, it was essential to reduce them as quickly as possible to avoid creating a permanent protection which it would be even more difficult to remove.

Without in any way indicating approval for the measures Mr. Kastoft said it would be more satisfactory if the French Government would apply an automatic system of reducing the taxes, as it would give an assurance that on particular products they would not be maintained over too long a period, and would remove the fear of discrimination to which the present system of arbitrary reduction might give rise. It had been his understanding that the tax would not be applied to commodities liberalized after the adoption of the Decision, and it was a matter of surprise, therefore, that the tax had not been levied also on goods liberalized after January 1955. This made the breach of the Agreement more serious than they had thought at the Ninth Session. Speedy reduction was, therefore, all the more imperative since, as progress was made in liberalization, the impact of the tax on trade would be increased. With regard to the positive tenor of the French statement he hoped that the French Government would make every effort to eliminate the measures as rapidly as possible. The CONTRACTING PARTIES should keep this matter under frequent review and he trusted that future French reports would be more satisfactory.

Dr. NAUDE (Union of South Africa) was also discouraged at the slow progress made towards removal of the measures. He was disturbed at the effect on South African exports which did not enjoy the benefits of OEEC liberalization but were subject to tax. The Decision contained an explicit recommendation regarding the discrimination against countries in the situation of his own and this had not been complied with. His Government was concerned that this situation continued.

Mr. NOTARANGELI (Italy) had found the French report useful in the amount of statistical data and information supplied. The items on which the tax had been reduced were numerous, but the same could not be said for those on which the tax had been completely abolished. The Italian delegation regretted that measures of liberalization had in every case been accompanied by the application of the tax and that its initial levels had remained unchanged. In these circumstances, he could only refer to the Decision and express his disappointment that the complete removal of the tax had not occurred by the present Session. He hoped, therefore, that the French Government, while striving to attain complete elimination of the tax as soon as possible, would take the necessary steps to accelerate the process of removal, would abandon the habit of applying the tax indiscriminately to all newly liberalized items and would reduce the initial amounts of the tax as well as its period of validity. His delegation made these statements in a spirit of broad understanding of the requirements of the French economy. It seemed superfluous to recall certain aspects of the problem which had been carefully examined by the CONTRACTING PARTIES at the previous Session. He hoped that a more flexible attitude by the French Government in respect of the tax would not slow down the process of liberalization, but that the French Government would find solutions as soon as possible which would on the one hand regularize the situation in regard to the General Agreement, and on the other permit it to achieve a higher level of liberalization of intra-European trade. It was particularly to be hoped that the French delegation could give to the CONTRACTING PARTIES some formal assurances before the end of the present Session, as to the criteria that the French Government intended to follow with regard to the tax. If such a declaration could be given it would facilitate the task of the CONTRACTING PARTIES of reaching a satisfactory outcome to this discussion without creating additional difficulties for the French Government which might render the realization of the common purpose more difficult.

Mr. FINNMARK (Sweden) said that it was important to remember the temporary character of this tax and he was anxious to be satisfied that the measures would not be extended over too long a period. He was concerned that new products were being subjected to the tax on the occasion of their liberalization. Moreover, it had remained at the same level on a number of products for a long time. Although he presumed that the tax would be eliminated within a reasonable time as foreseen in the Decision, his Government was interested to know the length of the period involved and would like some indication of the French intentions on this point. He associated himself with those who had asked that the matter be kept under review and that the French Government report further action in this field.

Mr. ABE (Japan) agreed with the view expressed by certain delegations of non-OEEC members. If the measures had been designed to compensate certain industries for the effects of liberalization, there was little justification for extending them to goods which did not benefit from liberalization. Japanese exports to France had noticeably diminished recently, a fact which did not accord with the comment of the French representative that since the imposition of the measures the volume of trade between France and other countries had not decreased. Naturally the effect of the tax could not be measured quantitatively. His delegation hoped that the French Government would take Japan's position specifically into consideration.

Baron BENTINCK (Kingdom of the Netherlands) agreed that some, although not entirely satisfactory, progress towards the elimination of the tax had been made. Elimination of the remainder should be accelerated. He supported the suggestion that the CONTRACTING PARTIES keep the matter under constant review since this was a case of measures inconsistent with the Agreement. He would not insist on a working party but did wish to call attention to certain marginal cases where the application of the tax was doubtful and to the risk that the tax would become merged with the existing tariff protection of French industry. Moreover, it seemed that application of the tax to imports under a tariff quota should be abolished. The CONTRACTING PARTIES could take note of the readiness of the French Government to consult on these various matters.

Mr. KOHT (Norway) associated himself with the concern expressed by the Danish and United Kingdom representatives as to the danger that this tax might become permanent and still more difficult to dismantle without replacing it by other protectionist devices. He supported the proposal of the United Kingdom representative as to the type of resolution to be adopted by the CONTRACTING PARTIES.

M. PHILIP (France) replying to some of the points raised in the discussion recalled the willingness of his delegation to discuss difficulties of individual contracting parties and would envisage the possibility of corrective measures even before the next general measure was taken. When the discriminatory aspects of tax as applied to non-OEEC countries were mentioned the scope of this must not be exaggerated. Figures showed that the tax affected 25 to 28 per cent of French imports from OEEC countries and only 7.4 per cent of France's total import trade; clearly the effect on imports from non-OEEC countries was much smaller. Moreover, France's total imports had increased by 10 per cent in 1953-54, admittedly the effect of the improvement of the general economic position; however within this increase only 6.77 per cent represented imports from the EPU area, 13 per cent from other countries and 19 per cent from the dollar area. The information available for 1955 showed an accentuation of this trend. Thus the differentiation between OEEC countries and others, to which allusion had been made was clearly diminishing.

He was prepared to admit that the position was not satisfactory but if he had refrained from giving more information on certain studies now in progress it was because he preferred to give encouragement on the situation only when he could be certain that any undertakings could be fully carried out. The argument that, if liberalization were imposed on the one hand and the tax on the other, these actions cancelled each other seemed to him dangerous and capable of being used against any liberalization at all as useless - and there were many who objected to liberalization in France. He agreed to the suggestion that his Government report to the Intersessional Committee in mid-1956 and that the latter follow in detail the development of the situation; he could not, however, undertake that the elimination and reduction of the tax would be accelerated. France's problem was that since 1952 French prices for a large number of products had been higher by 10 or 15 per cent than those of their competitors, both inside and outside Europe. To reach some equilibrium in present conditions, when the classical remedies could no longer be applied, changes in the structure of French industry were necessary. This structure comprised highly modern and efficient industries with relatively low profits and more backward ones with much higher profits. His Government believed that by maintaining the present value of the franc and by liberalizing trade gradually there would be a growing overall pressure forcing industries to re-organise and that this together with a general plan of conversion and state aid, would permit industrial firms whose techniques were out of date to adapt themselves to the new conditions. They did not wish to achieve a balance within the framework of the old structure. In these circumstances it was not possible to accept any automatic system as each industry or group of industries had to be analyzed separately. The compensation tax was only one element of the overall effort of economic reorganization and transformation. These were the criteria which guided his Government.

The CHAIRMAN said the debate had shown a general view that a working party would not be useful at this time but that the secretariat should be instructed to prepare a resolution for approval at a later meeting noting the reductions and eliminations of the tax with satisfaction although disappointed that progress had not been more rapid, reaffirming the Decision of 17 January and inviting the French Government to submit a report before 1 June 1956 for consideration by the Intersessional Committee.

5. Brazilian Taxes

The CHAIRMAN recalled that this question had been on the agenda of the CONTRACTING PARTIES since 1949. At the last session the representative of Brazil had stated that the Brazilian Parliament was considering a draft law under the terms of which the discrimination in the application of the internal taxes would be abolished.

Mr. BARBOZA-CARNEIRO (Brazil) reaffirmed that his Government recognized the validity of the complaint that these taxes were contrary to the provisions of Article III; his Government also recognized the right of countries affected to have recourse to the provisions of the Agreement to obtain compensation. He stressed, however, that the administrative department concerned continued its efforts to obtain parliamentary approval for the bill providing for the elimination of the discriminatory measures. The examination of the text had been delayed owing to the fact that Parliament was in process of considering a new fiscal code.

M. PHILIP (France) said that each year since 1949 the attention of the CONTRACTING PARTIES had been drawn to the discriminatory character of these taxes. He was aware that the Brazilian Government had been attempting to obtain Congressional approval to remove this breach of the Agreement since 1950. It was regrettable that the hope of the CONTRACTING PARTIES had not yet been realized, nor the hope expressed by the Brazilian delegation at the Ninth Session. He could only hope that the necessary steps would be taken before the next Session to bring the legislation into conformity with Article III, in accordance with the Resolution. It would be harmful to the General Agreement if this situation were not corrected. He thought that the CONTRACTING PARTIES should draw up a new resolution inviting Brazil to conform to the provisions of the Agreement. M. Philip said that his Government would reserve the right to invoke Article XXIII in the event that a satisfactory solution was not reached.

Mr. BARBOZA-CARNEIRO (Brazil) reiterated his recognition of the legitimacy of the complaint and said that he would not fail to draw the attention of his Government to this matter.

Mr. PHILLIPS (United Kingdom) supported the suggestion by the French representative for a resolution.

The CHAIRMAN said that a resolution would be prepared for approval at a later meeting, urging the Government of Brazil to bring its laws into conformity with the Agreement, and reaffirming the right of affected contracting parties to have recourse to Article XXIII.

The meeting adjourned at 5.30 p.m.