

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES

INTERSESSIONAL WORKING PARTY ON THE REDUCTION OF TARIFF LEVELS

Memorandum by the French Delegation relating to the French proposal with a view to a general lowering of customs tariffs

Meeting of Sub-Group, London, December 1951.

At the Sixth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, on 19 September 1951, the French Delegation submitted a proposal with a view to a general lowering of Customs Tariffs (GATT/CP.6/23).

On 12 October 1951, the Contracting Parties took cognisance of a note (GATT/IW.2/5) which, as a first contribution, represented an initial attempt to specify certain methods of applying the French proposal.

On 25 October, the Contracting Parties approved the report of an intersessional working party which had been authorised to take account of the above mentioned proposal and the Contracting Parties thereby:

- extended the terms of reference of the intersessional working party to include the examination of any proposal concerning procedures likely to result in non-discriminatory reductions of tariff levels, in particular the proposals submitted by the French Delegation;
- decided that the intersessional working party should report to the Seventh Session;
- provided for the setting up of a sub-group of ten European countries (Austria, B.L.E.U., Denmark, France, Germany, Italy, the Netherlands, Norway, Sweden, and the United Kingdom) and the United States and Canada. The sub-group was entrusted with the task of undertaking a preliminary study of the French plan from the point of view of its application to countries participating in the sub-group, whereas the examination of its application to other GATT members fell within the competence of the Intersessional Working Party proper.

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The Contracting Parties further decided that the Working Party should henceforward be called "Intersessional Working Party on the Reduction of Tariff Levels".

It was decided that the sub-group would hold its first meeting in London starting on 13 December 1951.

It is the great understanding and the spirit of international co-operation of all the members of the General Agreement, and in particular of the Benelux Delegations which proposed for the time being to withdraw their plan for the reduction of the disparity of European tariffs, that made it possible to take account of a plan which, if it were adopted, would represent another step forward towards the lowering of customs barriers.

The object of this Memorandum is to give new suggestions and precisions to indicate how some problems involved in the application of the plan could be solved, not only from the theoretical angle but from a practical viewpoint.

This Memorandum is not meant to be exhaustive and still less final. The procedures or methods of application suggested therein will have to be examined, further developed and enlarged in the course of the discussions of the Intersessional Working Party. This Memorandum is therefore submitted as a mere working document.

PRECISIONS RELATING TO THE METHODS OF APPLYING THE FRENCH PLAN

I. DETERMINATION OF THE WEIGHTED AVERAGE LEVEL OF CUSTOMS PROTECTION

A. Division of economic activity into different branches

Document GATT/IW.2/5 envisages the division of production into five main branches: raw materials, semi-finished products, foodstuffs, capital goods, industrial consumer goods.

The need for grouping products as efficiently as possible in clearly defined branches was the reason why it was deemed desirable that the various tariff nomenclatures used in different countries should be transposed under one of the common nomenclatures already framed, either the Brussels or the United Nations Nomenclature.

It would seem that the latter, known to all contracting parties and followed by them to submit to the United Nations all statistical data relating to international trade and which further offers the advantage of greater contraction than the Brussels Nomenclature, could be taken as a basis for the determination of the main branches which would serve to compute the weighted average level.

It should be remembered that the United Nations Standard Classification includes the following ten main divisions.

- 0 - Foodstuffs
- 1 - Beverages and tobacco
- 2 - Non-edible raw materials
- 3 - Mineral fuels
- 4 - Animal or vegetable oils and fats
- 5 - Chemical products
- 6 - Manufactured articles (classified according to the raw materials involved)
- 7 - Machinery and transport equipment
- 8 - Miscellaneous manufactured articles
- 9 - Miscellaneous non-specified articles

However, in order to safeguard one of the basic principles of the French proposal, which consists in giving countries every possible leeway to apply the automatic lowering of duties to products selected by them within each main branch, and in order to achieve groups of products of relatively comparable significance, there would be every advantage in setting up large and comprehensive elements.

In order to achieve these two objectives it is proposed to reduce the ten chapters of the United Nations Nomenclature to four groups only:

Group A: Chapters 0, 1 and 4 (Foodstuffs - Beverages and Tobacco - Animal and Vegetable Fats and Oils)

Group B: Chapters 2 and 3 (Non-edible Raw Materials - Mineral Fuels).

Group C: Chapters 5, 6, 8 and 9 (Chemical Products - Manufactured Articles - Miscellaneous Articles).

Group D: Chapter 7 (Machinery and transport equipment).

Here again the various categories are suggested as an illustration.

B. Computation of Weighted Average Levels

The computation method proposed in Document GATT/IW.2/5 is self-explanatory and no further precisions seem to be necessary for the time being.

The determination of the weighted average level relating to each main branch of economic activity requires technical studies which should be undertaken without delay by each of the countries participating in the sub-group.

It is only after a minimum of preparatory work has been carried out that it will be possible to know the specific difficulties which the application of the proposed method may raise for a given country and that this method can then be made more flexible or re-orientated on the basis of the specific needs which this preparatory work has brought out.

Even at this stage, however, studies conducted in France indicate that the method originally proposed could be modified on two non-essential points:

- special measures relating to duties applicable to products which the importing country does not itself manufacture;
- duties of an essentially fiscal character.

It had been proposed that duties on products which a particular country does not itself manufacture would be excluded in calculating the average level of customs protection, to preclude the possibility that taking account of duties not involving actual protection should upset the mechanism of the lowering of customs tariffs by allowing the operation essentially to affect such duties.

Now, it is not indispensable so to exclude the above mentioned duties, at least in the first stage of the operation, because the application of the plan is limited to highly industrialized countries where production is diversified and includes practically all categories of products.

As regards duties of a revenue nature which should be the subject of a specific study with a view to possible specific solutions, it appeared that it would probably be preferable to regard them as ordinary duties and to incorporate them in the computation of weighted average levels on account of the fact that they are probably few in number in the tariffs of the members of the sub-group and above all because it is extremely difficult, if not impossible, in practice to distinguish them from protective duties.

In fact, as regards these two categories of duties (duties on products which a particular country does not itself manufacture and duties of an essentially revenue character) appropriate methods of application will no doubt have to be developed when the application of the plan to under-developed countries is envisaged.

C. Selection of the Reference Period

Preparatory work hitherto effected confirms that there would be every advantage, if the work of statisticians is to be alleviated, in selecting a single base year. The use of 1949 has been proposed because this is a period during which international trade was more normal than in any other post-war year.

II. PRODUCTS ORIGINATING IN COUNTRIES NOT MEMBERS OF THE GENERAL AGREEMENT

Under the French proposal, imports from non-GATT members should be excluded from the computation of weighted averages when they represent 50 per cent. or more of the total imports of the product in question.

Each country should therefore be requested to determine, on the basis of its own import statistics, any product it wishes to be excluded from the calculation of weighted averages.

As a result of such studies it might appear preferable to alter one way or another the figure of 50 per cent.

The gross figure method which has been proposed is not in fact the only one that can be envisaged and countries could conceivably agree on the choice of a method of actual determination which would consist in using as a computation basis only effective imports from GATT countries during the reference period.

III. SPECIAL WAIVERS OR SPECIAL METHODS

(a) As regards some branches of production in under-developed countries

As this point is not to be examined during the first stage of the study of the French plan, it is proposed for the time being to proceed along the main lines indicated in document GATT/IW.2/5.

(b) As regards exceptionally low duties or so-called prohibitive duties

Any scheme, if it were too automatic, might not provide for a fair solution as regards both exceptionally low duties and so-called prohibitive rates.

As regards exceptionally low duties, countries which hold the view that, on account of the low level of protection to certain products or to a whole branch of their economic activity, the reduction proposed might threaten injury to domestic producers, can request readjustment in the methods of application of the plan.

The possibility to meet their needs will be examined in an objective manner.

The solution to be achieved should not however fundamentally deviate from the principle of equal participation in a common effort.

The solution agreed to in such cases could therefore be based on the consideration that the fact for a given country to have exceptionally low duties as compared with rates generally applicable to the products concerned constitutes, so to speak, an initial effort made in advance.

As regards so-called prohibitive duties, the question arose as to whether a solution to the problem raised by certain countries in this connection should be sought within the framework of the French proposal or whether it should be the object of independent measures, such as the determination of a ceiling, viz, a maximum rate which should in no case be exceeded.

The studies undertaken brought out all the arbitrariness inherent in the determination of one single ceiling rate applicable to all products in all countries.

It, therefore, appeared preferable to endeavour to remain within the general framework of a lowering of tariffs, while envisaging special methods of application as regards so-called prohibitive rates.

The method proposed hereafter is based on an attempt to give a definition of prohibitive duties. Prohibitive duties could be defined as duties which, over a given period, e.g. from 1 January 1948 until now, have in fact made it impossible to import from any source whatever any quantity of certain products, or have made it possible only to import a very small amount representing a percentage to be determined of domestic consumption or of world trade in such products.

If it appeared that such duties exist, it would become obligatory to lower them and it should be agreed that if they were reduced by more than 30 per cent., the proportion of the reduction in excess of 30 per cent. could not be taken into account for the computation of the lowering of tariff duties relating to the group involved.