

AD HOC COMMITTEE ON AGENDA AND INTERSESSIONAL BUSINESS

(18 - 20 February 1954)

REQUEST BY THE GOVERNMENT OF INDIA FOR AUTHORITY TO
RENEGOTIATE SEVERAL ITEMS IN SCHEDULE XIIDraft Report to the CONTRACTING PARTIES

(Revised)

1. The Committee was convened, in accordance with the procedures agreed upon by the CONTRACTING PARTIES at their Eighth Session (cf. G/54), to examine a request from the Government of India for authority to enter into negotiations to modify the bound rates of duty on the nine items in Schedule XII, detailed in SECRET/7. During the discussions at the Eighth Session on the prolongation of the assured life of the schedules until 30 June 1955, it was agreed that the CONTRACTING PARTIES would, in exceptional circumstances, give sympathetic consideration to any request from a contracting party which felt the need to modify a bound rate of duty to enter into negotiations to that end.
2. The Committee examined the case submitted by the Indian Government and took particular account of the following points which were put forward by the representative of India. The Indian Government introduced a five-year plan of economic development which threw exceptional strain on the revenue as resources were needed for both the public and private sectors. India relied to a large extent on the proceeds of customs duties, including export taxes, for the financing of this plan. As a result of the fall in the prices of India's export commodities, the yield of export taxes was very substantially reduced and the Indian Government had to find other sources of revenue. The Federal Government is restricted in its sources of revenue. Over half of its revenue is derived from customs and excise; sales tax is reserved to the governments of the States. The fiscal policy of the Indian Government is that excise taxes are not levied on imported goods and are only introduced when there is a substantial production of the goods in India. The Indian representative stated, in this connection, that the introduction of excise duties on the items under consideration would not be consistent with those principles.
3. The Indian Government had come, therefore, to the conclusion that the necessary funds could be obtained only from an increase in revenue duties, and before seeking release on bound duties it had increased duties on unbound items over a wide front. The additional revenue obtained from this

source will however be insufficient to meet the need of the Federal Exchequer. For these reasons, the Indian Government had endeavoured to find other sources of revenue but, nevertheless, felt obliged to seek authority to modify some of its bound rates of import duties. Except for the fifth item where the proposed increase in duty results from a recommendation of the Tariff Commission and would give protection to a directly competitive product which is domestically produced in India, the request was primarily based on the need to meet difficulties in the financial of the five-year plan.

4. The Committee also noted that the Indian Government had given clear notice at the Eighth Session that it would shortly ask for readjustments in respect of a list of items on which, for revenue purposes, the bound rates of duties would have to be increased. Further it was indicated by the representative of India that, but for its desire to reduce its application to a minimum, the Indian Government would have submitted its request at the Session. It was recognized that these facts were taken into consideration by the CONTRACTING PARTIES when they approved the paragraphs of the Eighth Session Report on the continued application of the Schedules which refer to the intersessional procedure.

5. While some members reserved their opinion on other arguments adduced by the Indian Government - such as the need for increased protection in the case of revenue tariff items, the need to readjust specific duties by reference to current prices and the need to conserve foreign exchange - the Committee agreed to grant the requested authority. /Some delegations, however, expressed the view that it would have been more desirable for India to obtain the necessary revenue through methods consistent with the GATT obligations. Also views were expressed regarding the importance of safeguarding the integrity of the concessions negotiated under the Agreement and the dangers implicit in a widespread resort to renegotiation./

/6. The Committee came to the conclusion that as regards the eight items, for which the request was motivated by fiscal difficulties, the circumstances were of the type contemplated by the CONTRACTING PARTIES at their Eighth Session. Concerning the fifth item, however, where the proposed increase was of a clearly protective nature, some members of the Committee thought that it would have been preferable for the request to be submitted under Article XVIII of the Agreement. But recognizing that the procedures established below were very similar to those provided for in Article XVIII, it was agreed that this item should also be covered by the Committee's decision./

7. The Committee granted the authority to enter into negotiations on the understanding that, as a result of the negotiations, the concessions in Schedule XII would be no less favourable to the trade of other contracting parties than those at present contained in that Schedule. Further, it was understood that any failure to reach agreement as to the adequacy of the compensation offered by the Government of India would be referred to the Committee by the governments concerned.

8. Some members of the Committee and the observers for several other contracting parties claimed to be substantially interested in India's trade in these products and therefore requested the right to be consulted in the negotiations. The following list of contracting parties which have substantial interest in the negotiations was established:

<u>Tariff items to be negotiated (as listed in SECRET/7)</u>	<u>Contracting parties with which the concessions were initially negotiated</u>	<u>Other contracting parties having a substantial interest</u>
First item	Canada	
Second "	United States	
Third "	France	
Fourth "	United States	
Fifth "	Benelux	
Sixth "	Czechoslovakia and Germany	
Seventh "	United States	
Eighth "	Czechoslovakia	
Ninth "	United States	

other
Should any/contracting party wish to claim substantial interest it should communicate with the Government of India; if no agreement should be reached as to its right to be consulted in the negotiation the Committee would be asked to decide. Moreover, it was agreed that Japan, insofar as it had a substantial interest in any of the items, would be treated as a contracting party for the purpose of negotiation. The observer for Japan claimed that his Government had a substantial interest in the and items and the representative of India agreed that Japan would be consulted in these negotiations.

9. The Committee established the following procedures for the negotiations:

- (i) The negotiations will be based on the multilateral pattern of the GATT tariff conferences. They will be held in Geneva, commencing on Monday 5 April 1954, and will be serviced by the secretariat.
- (ii) The Government of India may arrange to conduct discussions in advance of the multilateral negotiations if it so desires, it being understood that no negotiation will be considered to be concluded prior to the opening of the negotiations in Geneva.

- (iii) As soon as possible (and in any case not later than the opening of the negotiations) India will submit its offer of compensation for each item to the contracting party with which it was initially negotiated.
- (iv) Copies of each such offer, submitted under (ii) or (iii), and of changes therein as the negotiation proceeds will be sent to the Executive Secretary who will distribute them to the other governments having a substantial interest in the item concerned. After the opening of the negotiations any delegation having a substantial interest in any item may seek consultation with the Indian delegation concerning the adequacy of the compensation offered.
- (v) When the negotiation on any item is completed the Indian delegation and the delegations of the governments to which the compensatory concessions are granted will submit a joint report to the Executive Secretary listing the changes to be made in Schedule XII under the following headings:

Withdrawal and Modification of Concessions

- a) Items to be withdrawn, and
- b) Concessions on which the bound rates of duty are to be increased.

New Concessions granted as Compensation

- c) Concessions on which bound rates of duty are to be reduced, and
- d) New items to be inserted.
- (vi) When the Executive Secretary receives the report on the negotiation on any item he will inform the members of the Committee and will send copies to other contracting parties. If no contracting party lodges an objection within 30 days the Government of India will be free to make the changes effective. In the event of an objection being lodged the Committee will be reconvened.
- (vii) If the Indian delegation reports to the Executive Secretary that no agreement has been reached in the negotiation on any of the items, a meeting of the Committee will be convened to consider the matter.