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AMENDMENT OF ARTICLE XVIII A AND RULES FOR TARIFF NEGOTIATIONS

Proposals by the Brazilian Delegation

Since the Eighth Session of GATT, the Brazilian Delegation proposed a thesis according to which the juridical principle of equality of treatment, which is fundamental to the present Agreement, does not conform to the diversity of the economic structures of the contracting parties. The validity of this thesis was recognized by the CONTRACTING PARTIES at the Eighth Session as one of the reasons for the revision of the present Agreement. It was agreed, therefore, to revise the present Agreement in order that the future instrument comprises the requirements of the underdeveloped countries, when promoting their own economic development, not as exceptions to the general rules, but as one of the main objectives that the future Agreement should strive to fulfil and to satisfy.

In matters concerning tariff negotiations and adjustments, the juridical principle of equality of treatment has taken the form of a principle of equivalent concessions to be granted on the basis of sympathetic consideration. Moreover, this principle of equivalent concessions has been interpreted, as meaning concessions of equal value, in monetary terms.

If, however, the Brazilian Delegation thesis that the application of the principle of juridical equality of treatment is recognized as inequitable when applied to contracting parties whose economies fundamentally differ, then the principle of equivalent concessions, specially when this equivalence is assessed on the basis of equal value in monetary terms, must therefore be recognized as inequitable when applied to contracting parties in which the economic effects of a tariff are different because their economic structures are not similar. And, moreover, if the future Agreement recognizes the right of the underdeveloped countries to have their requirements for development considered on equal standing with the requirements of the industrialized countries when expanding their markets abroad, then the procedure for tariff negotiations and adjustments based simply on sympathetic consideration can no longer be applicable.

The consistent pursuance of this line of reasoning has conducted the Brazilian Delegation formally to put forward a twofold proposal.

The first proposal, already transmitted to the secretariat consists of an amendment to section A of Article XVIII, as presented by the secretariat in document W.9/17, of 17 November 1954. The Brazilian delegation proposed the deletion of the words: "including any compensatory concessions involved", in the ninth and tenth lines of the English text of the proposed paragraph A 4 and their replacement by the words: "and by so doing compensatory concessions may not necessarily be involved". The Brazilian delegation proposed, furthermore, the deletion of the words: "and that the compensatory adjustment offered is adequate", in the thirteenth and fourteenth lines of the same text. Finally, the Brazilian delegation proposed the deletion of the words: "at the same time as it introduces the compensatory adjustment", in the fifteenth and last lines of the text, and their replacement by the words: "at the same time as a compensatory adjustment, if any, is introduced".

The proposed article should then read as follows: "If a contracting party operating under this Article considers it desirable, in order to achieve the objective set forth in paragraph 2 above, to modify a rate of duty which has been bound under Article II of this Agreement, it shall enter into negotiation with any other contracting party with which such rate of duty was initially negotiated, and with any other contracting parties which the Organization determines to have a substantial interest in the proposed action. If agreement is reached between the contracting party concerned, the Schedule of the contracting party which proposes to change the rate shall be considered as modified to give effect to such agreement, and by so doing compensatory concessions may not necessarily be involved. If agreement is not reached within a period of sixty days after notification of the proposed action has been received by the Organization, it shall promptly consider the matter and, if it finds that the contracting party which proposes to modify the rate has made every effort to reach an agreement, that contracting party shall be free to modify the rate, at the same time as a compensatory adjustment, if any, is introduced."

The second proposal. It deals with the procedure to be followed by the contracting parties when granting compensatory concessions in the two following cases: (a) at the moment of negotiating concessions, and (b) at the moment of negotiating new concessions to modify their bound tariff Schedules, in accordance with the revision of Article XVIII A or XXVIII.

For the first case, which deals with the procedure to conduct negotiations for concessions, the Brazilian delegation proposes the following rule: the equivalence of the compensatory concession, expressed in monetary terms, will be determined, in the case of the importation of raw materials and basic products, after the percentage of this concession is weighted by the co-efficient of the price-elasticity of demand for the importation of the specific raw material or basic product which is the object of the negotiation of the concession, and, in the case of the importation of manufactured goods, after the percentage of this concession is weighted by the co-efficient of the income-elasticity of demand for the importation of the specific manufactured product which is the object of the negotiation of the concession.

For the second case, which deals with the procedure to be followed at the moment of negotiating a modification of bound tariff Schedules, the Brazilian delegation proposes the following rule: the equivalence of the compensatory concessions, expressed in monetary terms, will be determined after the percentage

of the adjustment to be introduced and the percentage of the compensatory adjustment to be offered are weighted by the coefficient of the income-elasticity of demand for the importation of specific manufactured products, and by the coefficient of the price-elasticity of demand for the importation of specific raw materials and basic products, which are the object of the renegotiation of bound tariff rates.

In order to clarify these procedures, the Brazilian delegation begs leave to resort to the following numerical examples, of which the first will illustrate the procedure to be followed in the case of the negotiation of concessions never bound before, and the second will illustrate the same procedure in the case of the renegotiation of previously bound tariff rates.

Negotiations: Suppose that country A wishes to negotiate with country B a concession for the coffee it exports to country B in return for a concession on tractors it also imports from country B. Suppose, moreover, that the coefficient of the price-elasticity of demand for coffee imports in country B is 0.8, and that the coefficient of the income-elasticity of demand for tractor imports in country A is 2. If country A is willing to grant a tariff concession on its present unbound tariff rate for the importation of tractors of 20 per cent, then country B must grant a tariff concession of 50 per cent on its coffee imports to keep the balance of the equivalence of the concessions mutually granted. ($20 \times 2 / 0.8 = 50.$)

Renegotiations: Suppose now that country A wishes to revise upward by 20 per cent its tariff rate on ceramics imported from country B, and that country A is willing to offer a tariff compensation on the importation of electric generators also imported from country B. Suppose, furthermore, that in country A the coefficients of the income-elasticity of demand for the importation of ceramics and generators are 0.5 and 5 respectively. If the extent of the concession to be granted to the importation of generators is weighted by its coefficient, which is 5, the resultant concession of 2 per cent is sufficient to compensate for the increase of 20 per cent in the tariff rate on ceramics, and the weighted equivalence of concessions is thus maintained. ($20 \times 0.5 / 5 = 2.$)

The theoretical basis for these proposals is contained in the statement made in plenary session, in the stage of general debate. That statement is attached in full to supplement the above proposals.

Note: The coefficient of income-elasticity of demand for imports is obtained by dividing the variation of the real national income by the variation in the real value of the imports of a specific merchandise the elasticity of demand for the importation of which one wishes to determine.

The coefficient of price-elasticity of demand for imports is obtained by dividing the variation of the price of a certain imported product by the real value of the total importation of this imported merchandise the price-elasticity of demand for the importation of which one wishes to calculate.

Statement by the delegate of Brazil on 16 November,
summarized in SR.9/16.

The General Agreement is based on two fundamental principles: the unconditional application of the most-favoured-nation clause and the competence of the tariff as the only permissible instrument for the regulation of international trade. Both these principles are essentially juridical, and are not applicable to the diversity of the economic structures of the contracting parties to the Agreement.

Unconditional application of the most-favoured-nation clause is only possible, with reciprocal advantages, if the international economy were modelled upon the hypotheses of classical economics: all countries have similar economic structures; the international economy is static; international competition is perfect, and the elasticities of supply and demand are either zero or infinite. Under this general principle, the Agreement inconsistently recognizes the institutional element of the coexistence of two groups of contracting parties: one group which accepts obligations under the unconditional clause, and another group which has the privilege of applying it conditionally.

But it is to the second principle that the Brazilian delegation wishes to draw the attention of this plenary at this stage of the general debate.

With regard to the concept that the tariff is the competent instrument for the regulation of international trade, the Agreement does not recognize the possibility of different effects of the tariff, when applied in underdeveloped countries, which export raw materials and import manufactured products, and when applied in industrialized countries, where the régime of imports and exports is the opposite.

Based on these two principles, the Agreement tends to perpetuate the state of economic underdevelopment by understanding that countries with different economic structures, at different degrees of expansion and at different levels of national production acquire equality of opportunity for economic development, simply because the Agreement guarantees them a juridical equality of treatment vis-à-vis the industrialized countries.

The Brazilian delegation defends, on the contrary, the notion that the Agreement should be modified in order to create, in the economic sphere, the equality of opportunity that it establishes as between industrialized and underdeveloped countries.

The Agreement, moreover, is based on consideration of short-run static price equilibrium, and not on considerations of long-run dynamic disequilibrium. This tends to prevent the access to the future expansion of the internal market in the underdeveloped countries, which intend to develop their present internal resources. The problems of international trade of underdeveloped countries, mainly those which refer to the substitution of their present imports for internal production, do not find the support of the Agreement if their solutions are meant to be permanent, and not simply exceptions to the general rule.

By including rules of a permanent character, the future Agreement may substantially contribute to the adequate solution of these problems, and thereby it may cooperate fundamentally to the constant evolution of the present status quo in underdeveloped countries, as well as it will incentivate, by means of a more lively competition, the technological development of industrialized countries. It may acquire the necessary flexibility to take care of really dynamic situations, as well as to promote the long-run expansion of international trade, by means of commodity agreements, without infringement of its general code of ethics.

In order to introduce in the future agreement these elements of flexibility, the Brazilian delegation defends the view that the principle of equivalent tariff concessions, when negotiated between industrialized and underdeveloped countries, should be interpreted on more realistic terms. The Brazilian delegation wishes to emphasize the economic inequalities among contracting parties, which, on the one hand, did not protect their industries because they had none, and are now called to protect them because they now have industries to protect, and, on the other hand, the contracting parties which do not need to protect their industries when they protected them, without international obligations, on their infant phase of development.

The Agreement, by adopting the principle of equivalent concessions, asks for the payment of equivalent tariff concessions between countries where the effects of the tariff are not the same, because their economic situations are different. In underdeveloped countries, which import manufactures, their import demand reflects the rapid expansion of their national income. It exists, in these countries, a well characterized high income elasticity of demand for imports, which, being manufactures, have their price shaped by the production costs in industrialized countries under a régime of mass production. Contrariwise, in industrialized countries, which import raw materials, their import demand is a function of the price of these raw materials. It exists, in these countries, a well characterized low-price elasticity of demand for imports, which, being constituted of raw materials, are subject to a high supply elasticity, and thereby have their price determined by the import demand of the industrialized countries.

This market structure produces, in underdeveloped countries, a constant deficit in their balance of payments in relation to industrialized countries, because their propensity to import manufactures is higher than their capacity to import, which is determined by their export earnings. In the industrialized countries, contrariwise, their propensity to import is constantly lower than their capacity to import raw materials, which results in a perennial surplus in their balance of payments with underdeveloped countries.

These are the technical considerations upon which the Brazilian delegation bases its suggestion that the future Agreement should recognize the fundamental difference which exists between the effects of a tariff when imposed in an industrialized country upon raw material imports, and the effects of a tariff

imposed, in underdeveloped countries, upon manufactured goods. The future Agreement must recognize that a tariff changes the qualitative composition of an invariable import volume, in underdeveloped countries, whereas, in industrialized countries, a tariff reduces the volume of imports maintaining their qualitative composition invariable.

In these conditions the principle of equivalent concessions, when applied on exclusively monetary terms, is inequitable, and must be replaced by the concept of the promotional tariff, which, when applied in underdeveloped countries, tends to select imports towards the priority of importation of those goods which are investment goods generated by their external savings, and which will conduct to a deepening of their capital stock and result in a higher rate of increase of their real national product.

The future GATT must fully recognize the right of the underdeveloped countries, whose specific tariffs have become valueless, as a source of internal revenue and as an instrument of protection to infant industries, due to internal and external inflation, to transpose to their tariff rates their multiple rates of exchange or their margins of exchange depreciation, without payment of compensation, when converting their tariff system from a specific to an ad valorem basis. This conversion, which is not contemplated in the present Agreement, should be so contemplated in the future Agreement as a general rule in the transitional period.

This is the first point that the Brazilian delegation wishes to draw to the attention of the plenary at the present stage of the debate. The second point concerns itself with the questions of prorogation of the present tariff concessions. Brazil did not subscribe to an extension of non-application of Article XXVIII. In so doing, however, it does not intend to take advantage of this absence in order to renegotiate concessions. What Brazil intends is a general rule concerning tariff concessions based on real terms as outlined before.

