

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## FRENCH SPECIAL TEMPORARY COMPENSATION TAX ON IMPORTS

Report by the French Government submitted in accordance with  
the Decision of 30 November 1955<sup>1</sup>

At their Tenth Session the CONTRACTING PARTIES, having studied the report submitted by the French Government on the special temporary compensation tax, took note with satisfaction of the reductions and eliminations of the tax effected since the Ninth Session of the CONTRACTING PARTIES. They expressed disappointment, however, that progress towards the reduction and elimination of the tax had not been more rapid and that no steps had been taken to improve the position of contracting parties whose exports were subject to the tax, but to which the liberalization measures taken by the French Government did not apply. The CONTRACTING PARTIES reaffirmed the Decision of 17 January 1955, requesting the French Government to accelerate the process of reduction and elimination of the tax and of reducing its discriminatory effects, and called upon it to report to the Intersessional Committee on the further measures taken by it to implement the undertakings and recommendation contained in the aforesaid Decision.

In the report which it has the honour to submit to the Intersessional Committee in accordance with the Decision of 30 November 1955, the French Government has endeavoured, as in the instance of the preceding report, to give all statistical data enabling the contracting parties to determine the incidence of the application of the compensation tax on their trade, and to assess the full significance of the measures introduced by France since the Tenth Session towards the gradual elimination of the tax.

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<sup>1</sup> One copy of the seven annexes accompanying this report will be sent with this document to each of the contracting parties.

Measures taken towards the removal or reduction of the tax

Various texts have been adopted since 1 November last for the removal or reduction of the compensation tax; the most important reduction measures were published in the Journal Officiel of the French Republic on 24 May 1956.

The tables in Annexes I and II mention the products on which the compensation tax has been removed or reduced since 1 November last, giving the rate previously applied and the date when the measure was taken.

The volume of imports of products in regard to which the compensation tax was removed or reduced amounts approximately to 10 billion French francs (Base: First six months 1954 from all sources), broken down as follows:

- Products on which the tax has been entirely removed .... 1,913 m. francs

of which previously a tax of 15% was levied on:	136 m.	"
"                    11%          "      :	158 m.	"
"                    10%          "      :	488 m.	"
"                    7%           "      :	1,131 m.	"

- Products on which the compensation tax has been reduced:

from 15 to 11% .....	4,066 m. francs
from 15 to 10% .....	435 m. "
from 15 to 7% .....	64 m. "
from 11 to 7% .....	3,396 m. "
from 10 to 7% .....	146 m. "

The measures for removal and reduction affect more particularly imports in the following large branches of activity:

- Equipment products	4,160 m. francs
- Paper and cardboard	1,510 m. "
- Chemical products	1,350 m. "
- Agricultural and food products (mainly seed potatoes)	1,280 m. "
- Textile articles	730 m. "
- Hides and leather	490 m. "
- Semi-products of non-ferrous metals	200 m. "
- Other activities	300 m. "

When drafting the measures for reduction of the tax, the French Government gave particular consideration to the interventions by various Member countries received by it in regard to application of the tax to specific products. In a certain number of cases, it has been found possible, in view of the level of imports, to reduce the rate of the tax and even to remove it entirely.

The following table shows, on the basis of imports in the first six months of 1954 (monthly average), distribution according to rate of tax of imports of products subject to the tax at 1 April 1956, and the incidence of the measures taken to remove and reduce the tax since the Tenth Session.

Base: Monthly average first six months 1954  
(in million French francs)

	Distribution of im- ports not including reduction measures	Incidence of the re- moval and reduction measures taken since 1 November 1955	Distribution of im- ports inclusive of reduction measures
No tax	"	+ 319	"
7%	1,498	( + 601 ( - 189	1,910
10%	271	( + 72 ( - 106	237
11%	3,863	( + 678 ( - 592	3,949
15%	2,022	- 783	1,239
Total	7,654	-	7,335

The measures reducing the tax as shown by the above table therefore affect:

- 38.7% of the volume of imports taxed at 15%
- 15.3% " " 11%
- 39.1% " " 10%
- 12.6% " " 7%

Percentage of total imports of imported products subject to the tax

The table appearing under Annex III gives the breakdown for the various rates of the tax between imports (monthly average for the first three months of 1956) of products subject to the compensation tax, sub-dividing the imports from OEEC members and from non-OEEC countries. This breakdown has been effected on the basis of the tax system in force during the first three months of 1956 and therefore does not take account of the reduction and elimination measures taken on 24 May 1956.

Imports from all countries of items subject to the tax amount to 9 per cent of the total import trade; they may be sub-divided as follows:

- 7% tax .....	2.3%
- 10% " .....	0.3%
- 11% " .....	3.8%
- 15% " .....	2.6%

Imports from OEEC members and from non-OEEC countries represent the following percentages of total imports from each of these groups of countries:

	<u>OEEC countries</u>	<u>Non-OEEC countries</u>
- 7% tax	4%	0.6%
- 10% "	0.5%	0.01%
- 11% "	6.4%	1.2%
- 15% "	4%	1.2%
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	14.9%	3.01%

Changes in imports of products subject to the compensation tax

The statistical tables, which appear in Annexes IV and V and have been drawn up under the Standard International Trade Classification (SITC), enable comparison to be made, according to groups of products under that nomenclature, between imports subject to the compensation tax which have been carried out during the first quarter of 1956 and imports of the same products carried out during the first six months of 1954 (Base: monthly average). The change in nomenclature which took place at the beginning of 1956 made it particularly difficult to compare the statistical results of 1954 and 1956, and it has therefore been found necessary to transpose these results into a third nomenclature, the SITC.

Of these two Annexes, drawn up according to the same plan as applied in the preceding report, the first refers to imports from OEEC Member countries and the second to imports from non-OEEC countries.

The general table appearing in Annex VI enables a comparison to be made for all products subject to the compensation tax according to the system in force on 1 April 1956, between the monthly average of imports during the first six months of 1954 and the monthly average of imports for the first three months of 1956, both for OEEC Member countries and for non-OEEC countries.

This table will show that total imports of products subject to the tax increased during the first quarter of 1956 by 30.5 per cent, as compared with imports of the same products carried out in the first six months of 1954. It should, however, be noted that the imports of January 1956 are considerably lower than the normal monthly level, as a result of the change in nomenclature which took place on 1 January, and the repercussions which that change entailed on the general statement of customs statistics; on the basis of imports for February and March 1956, the rate of increase of import of products subject to the tax was 43.3 per cent, as compared with the first half-year in 1954.

Imports from OEEC members representing approximately 82 per cent of the total imports of products, taxed, showed an increase of 37 per cent. Imports from non-OEEC countries showed a relative increase of only 5.4 per cent; but of which and zinc, for which the level of imports varies very considerably in proportion to requirements, are left out of the calculation the rate of increase of imports for the other aggregate products subject to the tax amounts to 10.4 per cent.

#### Measures adopted in the field of liberalization of trade

Since the last Session, France has proceeded to two further liberalization "tranches": in January and April 1956, thus bringing the rate of liberalized imports from OEEC Member countries to 79 per cent and 82.3 per cent respectively. These liberalization measures were accompanied, in the case of most of the products, by the application of the compensation tax of 15 per cent or 10 per cent.

Further, France proceeded at the beginning of 1956 to liberalize a certain number of products from the dollar area representing 11 per cent of the volume of French private imports (Base: 1953). Parallel to these measures, the French Government relaxed its import system for the same products from other foreign countries, trade in them being on such a liberal basis, as to amount in almost all cases to a de facto liberalization.

These measures, which it has been possible to introduce as a result of improvement in the balance of trade and the position of currency reserves of France at the close of 1955, are a positive reply to the recommendation by the CONTRACTING PARTIES in the second paragraph of the Decision of 30 November 1955. The French Government would, however, point out that, in its view, discrimination against the products from non-OEEC countries does not reside in application of the tax, but in the existence of quantitative restrictions based on considerations relating to the balance of payments and monetary reserves. The problem of liberalization of trade between OEEC members should therefore be considered apart from that of the general removal of quantitative restrictions.

### CONCLUSION

Experience has proved that the compensation tax has in no way had the restrictive effects which certain foreign countries might have feared; imports of liberalized products subject to the compensation tax have increased very considerably, as compared with the reference period of 1954, the rate of increase of imports of these products (37 per cent) being definitely higher than that of imports of products still remaining under the quota system (25 per cent).

Further, the imbalance of France's foreign trade increased considerably between 1955 and 1956, as shown by the following figures:

#### Foreign trade all areas - except gold

- Monthly average -

(in billion French francs)

	<u>1st quarter 1955</u>	<u>1st quarter 1956</u>
Imports c.i.f.	98	110.8
Exports f.o.b.	88.2	85.8

#### Balance of payments to EPU (in million dollars)

January 1955	+ 6.3	January 1956	- 55.8
February 1955	+ 17.3	February 1956	- 8.7
March 1955	+ 26.3	March 1956	- 52.1
April 1955	+ 10.8	April 1956	- 34.2
May 1955	+ 8.2	May 1956	- 28.5

<sup>1</sup> Exclusive of products which come under State-trading

The percentage of imports as offset by exports which was 90 per cent for the first quarter of 1955, amounts only to 77.4 per cent for the corresponding period in 1956. Further, within the EPU, the balance of payments of France which had a surplus of \$70 million in the first five months of 1955, showed a deficit of \$179 million during the same period in 1956.

Under the present conditions of price discrepancy and taking account of the experience gained and the level of foreign trade, the French Government has gone as far as possible towards a reduction of the compensation tax. The statistical tables annexed to this Report are clear evidence that in the case of many products, total elimination, or even a sudden reduction of the compensation tax would, in the current economic position, bring about serious imbalance and might compromise the very basis of liberalization of trade.

The French Government intends to respond insofar as possible, however, to the concern expressed by the CONTRACTING PARTIES in the third paragraph of the Decision of 30 November 1955. Within the scope of the further measures it may find means of adopting in the early autumn, in the light of the results of the first half year in 1956, the French Government will endeavour to proceed to a reduction of the rate of the tax in the case of products liberalized during 1955, and which are still subject to the tax, as originally fixed.

Finally, the French Government will study carefully, as in the case of the series of reductions made on 24 May 1956, the specific complaints which may be forwarded to it by Member countries in respect of the incidence of the compensation tax.

