

GENERAL AGREEMENT ON TARIFFS AND TRADE

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FRENCH SPECIAL TEMPORARY COMPENSATION TAX ON IMPORTS

Report by the French Government under the Decision of 16 November 1956¹

The following report, dated 19 August 1957, has been received from the Government of France which also describes the new measures taken on 10 August 1957:

In document L/312 of 24 January 1955, the CONTRACTING PARTIES recommended that the French Government should reduce progressively the special temporary compensation tax and remove it as soon as possible.

In order to comply with this recommendation, the French Government established a system of progressive reduction of the tax tending towards its complete elimination in a relatively short time (see the French memorandum of 18 July 1956, document L/495). This system became effective on 22 January 1956.

In fact, however, this system of progressive reduction proved impracticable. It could have succeeded only if French prices in general had declined to international levels expressed in French francs at the current rate of exchange. In fact, no such decrease occurred. The systematic disparity between foreign prices, expressed in French francs, and the prices of like products on the domestic market in general continued at the level prevailing when the tax was first imposed.

Experience in liberalizing imports has shown that even the maximum rate of the tax, i.e. 15 per cent of the customs value, was not sufficient to compensate for the disparity. In fact, products which were liberalized and taxed at the maximum rate were imported in clearly abnormal quantities, to such an extent as to threaten the general equilibrium of the French economy and more particularly France's balance of external payments.

¹ Fifth Supplement to the BISD, pages 27/28.

Since it therefore proved impossible to eliminate the tax by means of progressive reduction, the French Government decided to adopt a different method.

The new method provided for simultaneous and complete elimination of the tax rather than progressive and partial elimination. To this end, it was necessary first to bring the tax to a uniform rate and then to extend it to all commercial transactions. Once the stability of the balance of payments had been restored on this new basis, the Government would be in a position to take appropriate steps which would make it unnecessary to maintain the tax.

In accordance with this method, the rate of the tax was levelled up at the higher figure on 15 March 1957 (see document L/622) and the tax was extended to certain products which had previously been exempted.

A careful study of the problem as a whole led to two findings. On the one hand, the rate of 15 per cent was not sufficient either to permit trade liberalization to be maintained, - and liberalization had to be suspended on 18 June 1957 - or to make it possible in the more distant future to carry out reforms which would enable the tax finally and completely to be eliminated.

On the other hand, it became apparent that if the tax was immediately extended to all imported products without exception, there would inevitably be serious consequences in the economic and social field. Any such extension of the tax might cause a general round of domestic price increase, more particularly in the sectors which determine the official cost-of-living index to which the level of wages in France is legally pegged. Any increase in prices and wages would, however, make the level of the tax even more inadequate. Furthermore, any such increase which occurred in these circumstances would necessitate an upward revision of the adjustment made in the prices of exported products, expressed in foreign currency, and the tax ceiling would hamper this revision.

During the discussion of the special temporary compensation tax, after France had suspended trade liberalization measures, some delegations claimed that the French Government could have deferred the application of a new system until trade liberalization had been restored. In fact, the restrictive or protective effect of the import tax is non-existent in a system of complete quota restriction as severe as that currently applied in France. All import quotas will obviously be used up, including the quota for taxable products. According to this contention, the tax could therefore have been eliminated completely.

This is not the case, however:

Firstly, there is no doubt that professional importers would take advantage of the current price disparity on the French market and would not pass on to consumers any advantage resulting from the elimination of the tax. Instead of going to the State, the proceeds of the tax would therefore remain in the hands of the importers; this would be contrary to the French Government's anti-inflation policy.

Secondly, direct importers would naturally have a preference for imported goods rather than like domestic products. Competition would thereby be impaired, and there would result an additional burden for the balance of payments.

In view of the deterioration of the situation and of the balance of payments crisis in particular, the French Government decided on 10 August 1957 to eliminate the special temporary compensation tax on all products to which it previously applied, and to substitute:

1. A uniform levy (tax) amounting to 20 per cent of the value, expressed in French francs, of all imported products paid for in foreign currency;
2. A levy (tax), also of 20 per cent, on the purchase in France of foreign exchange for non-commercial transactions;
3. This levy (tax) is suspended in the case of certain imports.

This re-adjustment of the system applicable to external trade of the French franc area also includes a 20 per cent payment on all export transactions, whether visible or invisible.

These measures were announced by decrees published in the Journal Officiel of the French Republic on 11 August 1957 (89th year, No. 186). The Journal Officiel also gives the lists of products which are temporarily exempted from the levy (tax).

In suspending the levy (tax) on certain products for the time being, the French Government's purpose was two-fold. In the first place, it was necessary to enable average French domestic prices to be maintained at their present levels. Secondly, it was necessary to try to achieve equilibrium in the balance of payments by means of a monetary adjustment on exports identical to that applicable to imports.

However, the general level of prices in an advanced modern economy depends primarily on the cost of all types of energy as well as on the cost of iron and steel products; while the cost of living depends largely on the cost of textile products, which in turn depends to a considerable extent on the purchase price of the relevant raw materials.

The following products have therefore been exempted temporarily from the levy (tax):

- all energy sources (Tariff item Nos. 27.01, 27.02, 27.04, 27.05 bis, 27.08, 27.09, 27.10 and 27.17);
- all iron and steel products, as well as most products used for their manufacture (Nos. 73.01 to 73.20);
- textile raw materials, as well as the principal products used for manufacturing artificial fibres (Item Nos. 50.02, 50.03, 53.01, 53.02, 53.03, 53.04, 54.01, 55.01, 55.02, 55.03, 57.01, 57.02, 57.03, and 57.04).

Furthermore, the list of products which are temporarily free of tax includes:

- sulphur and sulphur products, because the probable incidence of the tax on certain agricultural products seemed out of proportion with the disadvantages that would result from a temporary suspension of the tax;
- cereals, on which the levy (tax) has been eliminated when the products concerned are intended for consumption by the people of the overseas territories of the franc area, because of the very low purchasing power in those territories.

Taking into account the disparity in prices, the measures taken on 10 August restore the effect of the customs tariff.

The suspension of the levy may therefore be considered to be virtually equivalent to the suspension of tariff protection.

The suspension of the levy cannot be considered as equivalent to a subsidy except in cases where the customs tariff applied is less than 20 per cent.

In this connexion, it should be noted that, to the extent that the suspension of the import levy can be compared to a subsidy, this subsidy affects all imported products, regardless of their final destination. In particular, no preferential treatment is granted to products destined for re-export after processing (except in cases of temporary duty-free admission or of importation under the so-called IMEX procedure).

Although the iron and steel and textile industries continue to enjoy tax-free importation of the raw materials which they require, they do not benefit from the new export adjustment system. With regard to these industries, the present system is to be maintained throughout the duration of the tax suspension; (furthermore, the aids previously granted to certain iron and steel exports have been discontinued).

In various statements the French Government has stressed the fact that the amount of the payment and the tax is at a fixed rate of 20 per cent. With regard to possible modifications to the list of duty-free items, however, the French Government will of course endeavour to eliminate distortion as far as possible in the circumstances. Whether the reform is judged from the monetary or the commercial point of view, it therefore reflects a considerable effort to achieve a balanced system on a sound basis in which monetary stability, the elimination of price disparity, and the restoration of the balance of payments will make it possible to eliminate the corrective measures to which France has had to have recourse.