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CUBAN TARIFF REFORM

Communication from the Government of Cuba

The following letter and memorandum were transmitted to the Executive Secretary on 31 October 1957 with a request that they be distributed to the contracting parties. The Cuban delegation to the Twelfth Session will furnish, if possible, all additional information requested by other delegations.

"In 1954, in the course of the Ninth Session, the Government of Cuba informed the CONTRACTING PARTIES to the General Agreement on Tariffs and trade that for imperative reasons it had initiated the necessary preparatory work for a complete revision of its obsolete and inadequate customs tariff. Earlier this year, the Cuban Government notified the CONTRACTING PARTIES of its intention to apply the new tariff as from 1 January 1958, and expressed its readiness to enter into negotiations with the contracting parties with which concessions had been initially negotiated and with any other contracting party with a principal supplying interest.

"The purpose of both notifications was to place the matter before the CONTRACTING PARTIES so as to facilitate the introduction of the new Cuban tariff at the appropriate time as well as the holding of negotiations relevant to the circumstances of the case.

"The reasons which led the Cuban Government to replace its old customs tariff by a new one and the objectives pursued by the tariff reform are based on customs policy as well as social and economic considerations, as explained in the memorandum and the four annexes¹ appended hereto, which are submitted for the information of the CONTRACTING PARTIES."

¹ The annexes will be distributed in the form of addenda to the present document.

MEMORANDUM FROM THE CUBAN GOVERNMENT TO THE
CONTRACTING PARTIES TO GATT
REGARDING THE PROPOSED TARIFF REFORM

Since 1954, the Government of the Republic of Cuba informed the representatives of thirty-four nations from various parts of the world, meeting at Geneva, which were at that time the contracting parties to the General Agreement on Tariffs and Trade (GATT), as well as the Ministers of Finance and Economy of the other twenty American republics - including the United States of America - meeting at Petropolis, Brazil, on the occasion of the Fourth Special Session of the Inter-American Economic and Social Council, of the imperative need for the Republic of Cuba to replace its obsolete and inadequate customs tariff by a new one, as a fundamental part of an economic policy intended to simplify and expand Cuba's foreign trade, to avoid as much as possible the drain on dollar reserves, and to promote Cuba's economic and social development, with a view to raising the levels of employment and income of the growing Cuban population.

One year later, on 27 January 1955, the Cuban Government, prompted by such considerations, promulgated Decree-Law No. 2080, which afforded the legal basis for the tariff reform which was needed and conferred upon the Executive the necessary powers to carry it out. In this Law the bases and objectives of said reform were clearly stated. The objectives are as follows:

- (a) to bring the tariff up to date from a technical standpoint;
- (b) to organize a trade structure which would safeguard more adequately the position of Cuban exports on world markets, and
- (c) to stimulate the economic development of the country.

Objectives (a) and (b) are of a technical and commercial policy nature, and are connected with Cuba's urgent need to remedy the inadequacy of its customs and trade organization, in order to adapt it to present-day requirements and to facilitate trade relations with third countries. The last of these objectives is of a social and economic nature and is related to the need to overcome the structural disequilibrium of the Cuban economy.

The Technical and Policy Objectives of the Cuban Tariff Reform

From the technical point of view, the Cuban tariff reform is focused on five basic points:

1. The structure of the customs tariff.
2. The obsolete nature of the present tariff.
3. The nomenclature.
4. The nature of the customs duties.
5. The tariff policy set forth in the general provisions.

The Structure of the Customs Tariff

The Cuban customs tariff at present includes five columns: the preferential column, applicable only to the United States of America, which has been reduced as a result of frequent negotiations; the most-favoured-nation column, applicable to those countries with which Cuba has concluded tariff negotiations; and three other columns, on an increasing scale, applicable to countries with which Cuba has not entered into trade agreements. Of these last columns, the one corresponding to the minimum tariff, which in many instances has the same incidence as the most-favoured-nation tariff, is applicable to those countries with which Cuba has no trade agreements and whose purchases in Cuba represent, in terms of value, at least 50 per cent of what Cuba purchases from them.

Evidently, this tariff structure has fundamental defects. In addition to the difficulties which can arise from the application of a tariff with such a complex column system, this tariff regime has created for Cuba a trade disequilibrium which could have been avoided with a more adequate tariff. It is intended with the tariff reform to simplify the tariff structure, and in particular its column system, and to eliminate the elements or provisions which have made it possible for other countries to submit Cuba's foreign trade to an unjust and discriminatory treatment.

The Obsolete Nature of the Present Tariff

From the standpoint of its formation, the existing Cuban customs tariff is a likeness of the tariff which Spain introduced sixty-five years ago in its then colony. The 1900 tariff preserved the same structure, which was subsequently maintained in the 1927 tariff; the latter even maintained the same number of items, notwithstanding certain sub-divisions and the addition of certain sub-items.

The fact that the 1892 and 1900 tariffs were of a colonial and revenue nature determines the existence of a disequilibrium between the rates of duty on raw materials and on finished products, with the consequence that under the existing tariff quite a number of manufactured goods pay lower duty rates than the raw materials used for their preparation.

It is also a fact that the 1892 tariff, as amended in 1900, 1927 and 1934, does not take account of the changes which occurred since then in international trade as a result of increased communication facilities, technological progress and the emergence of new products.

The Tariff Nomenclature

The Cuban tariff includes 1275 items classified in accordance with a twenty-five year old classifying index which includes no more than 11,000 items. As a result, Cuba has to negotiate a great number of items which are not specially classified or which, even when specially classified, are grouped under the same heading with other items of a different nature and value. That is the reason why, because of the need to reconcile the customs classification of goods with the requirements of international trade, in response to the imperative need of

being in a position to negotiate on a footing of equality with other countries, and urged by the vital and pressing necessity to be in possession of an instrument that could promote its economic development, Cuba has decided to adopt the revised 1955 version of the Brussels nomenclature, established by the International Customs Co-operation Council.

The Nature of the Customs Duties

Out of the 1275 items which appear in the existing Cuban tariff, 976 are expressed in terms of specific duties. It is in the interest of Cuba, as indeed of all other countries engaged in trade negotiations, to negotiate a tariff level and not to discuss specific rates of duty, the incidence of which would vary depending upon price levels, because no country could accept that the basis of its economy of production should depend on price fluctuations. On account of said circumstances, the level of the Cuban tariff which was 22.8 per cent during the period 1935-1939, on the basis of the then prevailing prices, declined to 12.47 per cent in 1956.

The Tariff Policy Set Forth in the General Provisions

The general provisions governing the application of the tariff constitute a system which is of considerable importance as an instrument of trade and tariff policy. However, the existing general provisions present serious defects and shortcomings which must be remedied.

Furthermore, it is necessary to incorporate in the general provisions certain rules which are essential to the safeguard of our national economy and export trade, as well as the experience gained as regards the rules relating to the weighing of goods, the determination of value for customs purposes and other aspects of world customs practices.

(For further details as to the projections of the Cuban tariff reform, from the technical tariff standpoint, the accessory memorandum enclosed as Annex 1 should be consulted.)

The Economic and Social Objectives of the Cuban Tariff Reform

It is not necessary to invoke a great number of arguments to demonstrate a fact which is universally recognized: the unsatisfactory state of development of the Cuban economy. A direct examination of the Cuban economic structure, and of the various sectors which constitute its system of production, bring first-hand evidence that it is under-developed. Cuba is a country with an essential agricultural economy, where sugar production remains the dominant factor of its economic life. It is true that other branches of agricultural production have been developed to some extent, such as rice, coffee, tobacco, mining, livestock breeding; but, notwithstanding these efforts, Cuban agriculture has not yet reached a sufficient degree of diversification, and its indexes of productivity, income and employment are far from meeting the minimum requirements of the population which depends on this sector of the national economy.

From the industrial point of view, it cannot be denied that the Cuban economy has made some progress recently, particularly in those industries which are based on agricultural production, as well as in the chemical, food, textile, copper-wire and plastic industries, and the manufacture of rubber tyres and tubes

for automobiles and of rayon cord for pneumatic tyres, etc. But industrial production as a whole is still inadequate as a source of income and employment.

To summarize this situation it could be said that in Cuba, as in all other under-developed countries, the ratio between the level of foreign trade and the gross national product is extremely high, thus indicating a considerable degree of dependency upon foreign markets, not only as regards exports and basic national income but also from the point of view of imports considered as a means to cover many basic production and consumption requirements.

The analysis of the composition of our exports and imports confirms the under-developed character of the Cuban economy. Cuba exports only a limited number of items, mainly sugar, and this indicates that Cuba still lacks sufficient diversification and that our economic life depends to a great extent on the fluctuations of sugar prices in the world market. On the contrary, Cuba imports considerable quantities of a wide range of products for local consumption or for domestic production. Amongst the imports of consumer goods, these are still substantial amounts of agricultural foodstuffs which could be efficiently produced in the country.

But the most serious of all the shortcomings of the Cuban economy is its inability to provide adequate employment and per capita income to its steadily growing population, thus giving rise to considerable political, economic and social instability.

The unemployment and per capita income figures, as well as the average salary of the gainfully employed population, are also forceful elements of judgment which reveal with great precision, the difficult economic situation of the country.

The total labour force amounts to 2,204 million people, of which 1,843 million constitute the apparently employed population, and 361,000 (representing 16.4 per cent), the totally unemployed population.

This figure, though extremely high in terms of international comparisons, is not actually a faithful reflection of the social and economic situation, considering that from 1,843 million apparently employed people in the total labour force, 150,000 (representing 6.8 per cent of the total labour force) who work for less than thirty hours a week (under-employment) have to be deducted, thus leaving a fully employed and fully remunerated working population of 1,539 million individuals, representing 69.8 per cent of the total labour force, apart from some 154,000 people working for a relative and not receiving any remuneration.

The total unemployment (361,000) and under-employment (150,000 plus 154,000) figures reach 665,000 persons, i.e. 30.2 per cent of the total labour force.

This situation, which is very serious in itself, is even dramatic when one considers the overall income of the total labour force and finds that the remuneration of 68.2 per cent of the gainfully employed or self-employed population is less than 75 pesos per month. To understand completely this situation, it should be added that the average per capita income does not exceed some 300 pesos per year.

The above information indicates that present production and the rate of economic development of the country are extremely inadequate from two points of view: as regards the need to provide the country with the necessary levels of employment to meet the demand for employment of an increasing population and in order to afford the Cuban people the standards of living which a civilized community requires. In the light of the above considerations, it is clear that the national economic development is more than an aspiration towards progress; it is also a categorical imperative. It is absolutely essential for Cuba that the rate of development should be increased to a point where it will be possible not only to incorporate into the country's labour force the hundreds of thousands of people who are unemployed at present and who will remain unemployed if present conditions are maintained, but also to raise at the same time the national income and the standard of living of the population at least to a level compatible with the basic aspirations of the human being in respect of education and physical well-being.

The Cuban Tariff Reform is, in fact, one of the instruments at the disposal of the Government to speed up national economic development. The reform is not aimed at a general raising of tariffs because it is obvious that a mere increase in customs duties is not in itself sufficient to bring about productive activity, and in a country which still depends to a large extent upon imports and where the per capita income has been so low, such a policy could be dangerous and cause unnecessary prejudice to consumers.

Generally speaking, it can be stated that the Cuban Tariff Reform is being carried out on the basis of a balanced and reasonable criterion within the framework of the international obligations which the Cuban Government has undertaken, in particular under the General Agreement, and is limited to the actual production and development possibilities which exist in the country.

(The accessory memoranda enclosed as Annexes 2, 3 and 4 contain more detailed information on the social and economic reasons which have made the Cuban Tariff Reform indispensable.)

