

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

IW.2/15
6 March 1952

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INTERSESSIONAL WORKING PARTY ON THE REDUCTION OF TARIFF LEVELS

Record of the Second Meeting of the Sub-Group (Geneva, February 26 to March 1, 1952)

Having further examined certain technical aspects of the French Plan the Sub-Group came to the following conclusions:

1. The Scope of the Plan

(a) It was agreed that import duties of a distinct fiscal character, and the trade in the products to which these duties apply, would be excluded from the calculation. Each member will submit together with supporting data a list of items which it desires to exclude for that reason, or revise the list already submitted. The Sub-Group will examine this information at the next meeting with a view to establishing for each member a list of the items which would be excluded.

(b) It was agreed that duties on products which the importing country does not produce should not be excluded for that reason from the computation of the weighted average level of tariffs.

(c) It was agreed that, as a general rule, the total trade in all products, except as provided in sub-paragraph (a), should be included. However, it would be open to any government to ask for the exclusion of a product of which more than 50% of the value imported comes from countries not parties to GATT. A member wishing to avail itself of this possibility is to submit a list of items which it wishes to exclude together with supporting data. The Sub-Group will examine these lists at the next meeting.

2. The Number of Sectors

A majority of the Sub-Group agreed that a division of sectors, as given in Annex A, would provide a practical basis for the application of the French Plan. This division was based as far as possible on the following principles:

- (i) The sub-division by sectors should follow as closely as possible the divisions of the SITC of the United Nations.
- (ii) The groups should contain products of the same nature, i.e. raw materials or semi-manufactured goods or manufactured goods.

- (iii) A substantial part of the trade between the participating countries should be covered by each sector.

Several members recorded reservations to the proposed division:

- (a) The Italian Delegation stated that the division would deprive the Plan of the necessary flexibility, which is inherent in the principles of the French Plan, and contended that the weighted average should be calculated on the tariff as a whole.
- (b) The United Kingdom and German Delegations considered that the proposed grouping by sectors failed to take sufficiently into account the interrelationship between the different tariff rates applicable to the products of individual industries, and for this and other reasons proposals were submitted to combine Sectors 5 and 6, Sectors 7 and 8, Sectors 10, 11 and 12 and Sectors 9 and 14.

On the other hand, proposals to split some of the sectors were put forward:

- (a) The German Delegation suggested splitting Sector 13 (Machinery and Transport Equipment) into 3 sectors.
- (b) The Sub-Group did not decide whether Sector 1 (Food and Agricultural Products) should be sub-divided, and, if so, what would be the number and the composition of the sub-divisions. These questions were reserved for further consideration. The Danish representative submitted a proposal for the splitting up of Section 1 (See Annex B) which is submitted to the governments for consideration.

3. The Binding Effect of the Reductions

The Sub-Group examined again the question of the status of tariff reductions which would result from the implementation of the French Plan. The French Delegation considered that the only commitment of the governments would be not to exceed, for each sector, the average incidence resulting from the 30% reduction and that the governments should not be prevented from changing the actual duty rate applicable to individual items. The Netherlands Delegation indicated that in their view all the individual tariff rates resulting from the operation should be embodied in the GATT schedules and enjoy the same protection against increase as the other tariff concessions. It was recognized that this important question should be considered further. The majority of the delegations considered that some means would have to be found to ensure the stability of the tariff reductions.

4. Proposals by the Benelux Delegations concerning the Levelling-off of Tariffs and the Treatment of Moderate and Low Duties

The United Kingdom Delegation questioned whether it was wise at this stage to make provision in the Plan for the compulsory reduction of so-called "high" duties.

The Italian Delegation expressed the view that the combined result of the Benelux proposals would be an alignment of tariffs rather than a reduction of high duties.

Nevertheless the Sub-Group discussed these proposals in order to clarify their technical aspects. The proposals, as revised as a result of the discussion, are reproduced in Annexes C and D.

The Sub-Group was generally of the opinion that, in order to enable the governments to appraise the implications of the proposals and to define their attitude, it would be essential to compute the average incidence of the tariffs of the participating countries for the 570 items of the SITC. This computation could of course be made by the Secretariat only if all members of the Sub-Group were able and willing to calculate and communicate the average incidence of their tariffs for all or substantially all these items. Most of the members of the Sub-Group felt that, if a demarcation line had to be provided for in the Plan, a formula based on existing rates would probably be preferable to a system of ceiling rates arbitrarily fixed. It was for that reason that those members attached the greatest importance to the submission by all the members of the Sub-Group of the documentation requested.

The Secretariat was therefore instructed to communicate with the governments represented at the Sub-Group and to invite them to indicate by cable before 14 March whether they would be prepared to undertake that statistical work if all members of the Sub-Group agreed to participate in the exercise. The communication of the Secretariat should include the technical instructions drawn up for the calculation of the averages, (see Annex E).

5. Suspended Duties

The Sub-Group agreed that in cases where the legal duty has been temporarily suspended, the average incidence should be based on that duty irrespective of the suspension. However, the Sub-Group did not decide whether this rule should apply to the cases in which the legal duty had never been applied in practice and agreed that this question would require further study at the next meeting.

The Italian Delegation indicated the situation in respect of the Italian tariff and reserved the position of its government.

6. Communication by the Council of Europe

The Swedish member indicated that his Government would support the proposal that the recommendation adopted by the Consultative Assembly of the Council of Europe should be examined within the framework of GATT and would be prepared if necessary to ask the Intersessional Working Party to put this item on its agenda.

7. Programme of Work

The Sub-Group decided to meet again towards the end of May and it was agreed that the members would furnish the information set out in Annex F. It was, however, understood that if it proved impracticable to compute an average of the tariff rates of the participating countries for the 570 items of the SITC and if alternative proposals for the establishment of the demarcation line contemplated in the proposals reproduced in Annexes C and D were then put forward, the chairman would be authorized to convene a special meeting. The convening notice as well as such alternative proposals should be sent to the members of the Sub-Group at least three weeks before the date of the special meeting.

ANNEX A

The Proposed Regrouping in 14 Sectors
of the 52 Divisions of the SITC.

<u>Sector 1</u>	Food and agricultural products	<u>SITC</u> <u>Section</u> 0 1 <u>Division</u> 41 92 <u>Item</u> (22-05 06 07)
<u>Sector 2</u>	Crude materials, including mineral fuels and lubricants and related materials	<u>Section</u> 2 3
<u>Sector 3</u>	Chemicals, manufactured fertilisers, explosives and miscellaneous chemical materials and products	<u>Division</u> 51 52 56 59
<u>Sector 4</u>	Dyeing, tanning and coloring materials; medicinal and pharmaceutical products; essential oils and perfume materials; toilet polishing and cleansing preparations	<u>Division</u> 53 54 55
<u>Sector 5</u>	Leather, rubber, plywood, agglomerated cork materials, paper and paperboard	<u>Group</u> 611 621 631 <u>Item</u> 633-01 <u>Group</u> 641

IW.2/15
Page 6

Sector 6 Manufactures of leather, of rubber, of wood,
of cork, of paper and of paperboard

Group
612
613
629
632
Item
633-09
Group
642
Item
841-06
Division
85
Item
841-12
842-01
Group
892

Sector 7 Textile yarn and thread

Group
651

Sector 8 Textile fabrics, clothing and made-up articles
of textile materials

Group
652
653
654
655
656
657
841 (excluding
items
841-06
841-12)

Sector 9 Non-metallic mineral manufactures

Division
66

Sector 10 Base metals, unwrought

Item
681-01
681-02
681-03
682-01
683-01
684-01
685-01
686-01
687-01
689-01

Sector 11 Base metals, other than unwrought

Item
681-04 to 681-15
682-02
683-02
684-02
685-02
686-02
687-02
689-02

Sector 12 Manufactures of metal

Division
69

Sector 13 Machinery and transport equipment

Division
71
72
73

Sector 14 Miscellaneous articles, not included in the preceding sectors

ANNEX B

Proposal by the Danish Delegation
for the Subdivision of Sector 1

The Danish Delegation is of the opinion that in order to achieve further substantial results as far as tariff-reductions are concerned, multilateral negotiations are necessary, it being thereby understood that it is necessary that all participating countries should at the same time try to meet the requirements of all the other parties.

The Danish Delegation has noted that the problem of splitting up the tariffs in groups as far as Sector 1 in the Benelux proposal is concerned, was reserved for further consideration by the Ministries concerned. The Danish Delegation deem it of importance, nevertheless, to indicate now in a preliminary way how the sector mentioned might be split up.

The Danish Delegation suggest therefore the following six sectors:

Sector No. 1.a.

Live animals, chiefly for food; meat; dairy products, eggs and honey.
This sector would include:

<u>Division (SITC)</u>	<u>Group (SITC)</u>
00	001
ex 01	011 - 012
02	021 - 022 - 023 - 024 -
	025 - 026 - 029

Sector No. 1.b.

Cereals; sugar; feeding stuff for animals.

<u>Division (SITC)</u>	<u>Group (SITC)</u>
ex 04	041 - 042 - 043 - 044 -
	045 - 046 - 047
ex 06	061
08	081

Sector No. 1.c.

Fruits and vegetables.

<u>Division (SITC)</u>	<u>Group (SITC)</u>
05	051 - 052 - 053 - 054 -
	055

Sector No. 1.d.

Fish and fish preparations.

<u>Division (SITC)</u>	<u>Group (SITC)</u>
03	031 - 032

Sector No. 1.e.

Animal and vegetable oils, etc.

<u>Division (SITC)</u>	<u>Group (SITC)</u>
41	411 - 412 - 413

Sector No. 1.f.

Miscellaneous food preparations and animal products; beverages and tobacco.

<u>Division (SITC)</u>	<u>Group (SITC)</u>
ex 01	013
ex 04	048
ex 06	062
07	071 - 072 - 073 - 074 - 075
09	091 - 092
11	111 - 112
12	121 - 122

ANNEX C

The system for the levelling-off of high rates of duty

1. Rates exceeding a certain demarcation line should be levelled off, but no country should be required to reduce such duty rates by more than 30% of their initial amount. (See paragraph 2 of the examples)
2. The Benelux Delegations suggest that a simple average for the duty rates of participating countries should be established for each of the 570 SITC items. The demarcation line for each item should be fixed at 30% above the simple average thus determined. (See paragraph 1 of the examples)
3. For the purpose of the computation of such simple averages, those tariff rates which are recognized by participating governments as being essentially of a revenue nature should not be taken into account. If the tariff of a participating country is recognized as being essentially of a revenue nature, the participating governments may decide to leave it out of account in its entirety.
4. In cases where a SITC item consists of several products in the tariff of a participating country, the duty rate for the whole of the item would be deemed to be the simple average of the rates of duty levied on the products classified under that item. (See paragraph 4 of the examples)
5. In cases when an item in the tariff of a participating country consists of several products, the lowering should apply to those rates which exceed the demarcation line. (See paragraph 4 of the examples)

ANNEX D

The system applicable to the reduction of moderate rates of duty.

1. A demarcation line shall be fixed for each of the SITC items at 30% below the simple average of the tariff duties of participating countries applicable to each such item. (See paragraph 1 and 3A of the examples)
2. In cases where an item in the tariff of a participating country consists of several products, the duty rate applicable to the item should be the simple average of the rates of duty levied on the products classified under that item. (See paragraph 4 of the examples)
3. Any rate of duty which is already at or below the level of the demarcation line, and those duty rates which, by a reduction of less than 30%, would be levelled off to the demarcation line, should be deemed to have been previously reduced by 30% and should be taken into account on the basis of that percentage for the purpose of the computation of the reduction of the average level of the sector. (See paragraph 3A of the examples)
4. In cases where an item in the tariff of a participating country consists of several products, only the duty rates which would be reduced to the level of the demarcation line, or which were already at that level at the beginning of the operation, should be taken into account for the purpose of the application of paragraph 3. (See paragraph 4 of the examples)
5. The application of the system of paragraph 3 gives rise to two special questions. One concerns those items which are exempt from duty and the other concerns those items which are already at or below the demarcation line and which might be lowered in the course of the reduction of the average level of the sector. (See paragraphs 3A and 3B of the examples)

Examples submitted by the Benelux Delegations and referred to in Annexes C and D

1. It is supposed that the rates of duty of the participating countries for a certain SITC item are 40, 35, 30, 26, 24, 20, 18, 15, 14, 10, 8 and 0 %. Then the simple average, calculated for that item, will be 20 %. Consequently the upper demarcation line will amount to $(1.3 \times 20) = 26\%$; the lower demarcation line will be fixed as $0.7 \times 20 = 14\%$.

To simplify the calculations made in this example it is supposed that each country has imported under that position for a value of \$ 10,000.-

2. According to the rule for levelling of high duties, the country applying the rate of 40, will be compelled to lower that rate by 30 %, so that that rate must be fixed at 28 %. For the purpose of the computation of the reduction of the average level of the sector, this will count for \$ 1200.

The country applying the rates of 35 and 30, will be compelled to lower those rates to 26, i.e. a reduction of approximately 26% and 13%. That will count for \$ 900 and \$ 400. Of course, if those countries should lower those rates by more than 26 or 13%, that should also be taken into account.

The countries applying the rates of 26 % and lower will not have to lower their rates unless they so wish.

3. A. According to the rules proposed for the reduction of moderate rates of duty, those countries applying the rates of 14 % and lower, will be deemed to have reduced their rates already by 30 %. Without changing these rates, they will be able to take into account their rates, as if they were reduced from respectively

20 to 14
14.3 to 10
11.4 to 8

Therefore they can take into account

$3/7 \times 1400 =$	approximately	\$ 600
$3/7 \times 1000 =$	"	\$ 430
$3/7 \times 800 =$	"	\$ 340

A difficulty arises for the country that applies the rate of 0. It is suggested, that in such case there will be taken into account 3/7 of the amount, which would have been collected by that country if it had applied the lowest rate that is applied by any of the other participating countries; that will, in our example, be the rate of 8.

B. If the country applying the rate of 18, voluntarily reduces that rate by 10 %, i.e. changing it to 16.2 % that reduction will account for \$180. If that rate should be reduced by 20 %, i.e. changing it to 14.4 % that reduction would account for \$360. Lowering that rate to the lower demarcation line, i.e. to 14 % will however account for 30 % i.e. for \$ 540.

If the country applying the rate of 15, reduces that rate to 14, that will account for \$ 450, i.e. 30 % of the duties levied according to the rate of 15. If, however, that country reduces its rate of 15 to 12, i.e. a reduction of 20 %, that will be taken into account as if that country had reduced its rate by 40 % namely from 20 % to 12 %. In that case the reduction will account for \$600 (40 % of the duties levied according to the rate of 15 %). A similar fiction should be applied, if the rates of 14 %, 10 %, or 8 % are reduced; for instance if 10 % is reduced to 7 %, that will count as if the rate of 20 % had then reduced to 7, i.e. by 65 %, consequently the reduction will account for 65 % of the duties levied according to the rate of 10 %, i.e. \$ 650.

4. The application of these systems in case of SITC items which are covered by several positions of a national tariff would be the following :

Let us suppose the rate of 40 % which is taken into account for the computation of the simple average, is the result of 5 positions, resp. 80 % 30 %, 20 %, 20 % and 10 %. Then that country would only be compelled to reduce the rates of 80 % and 30 % but not those of 20 % and 10 %. Moreover the rate of 10 % should be taken into account as if it had been the result of a reduction from 14.3 to 10 % (see paragraph 3A). The rate of 14 % could also be the result of 5 positions, resp. 50 %, 10 %, 6 %, 4 % and 0. In that case the country concerned would be compelled to reduce the rate of 50 for one position, though the rates of the other positions would be taken into account as mentioned above in paragraph 3A and B.

ANNEX E

Calculation of the Ad Valorem Incidence of the Duties
of each Country for the 570 SITC Items

The calculation gives rise to special difficulties only when there is not a single ad valorem rate appropriate to the SITC Item.

Let us take, for instance, the case of a country whose tariff includes 3 items (items a, b, and c) for which the ad valorem rates are 6%, 8% and 10% respectively, and which are grouped under one item (item A) in the U.N. nomenclature.

The rate to be entered is A $\frac{6 + 8 + 10}{3} = 8\%$

Difficulties appear when the whole or part of the duties to be transposed are specific duties, or combined specific and ad valorem rates (for instance 10% but not less than 50 Fr. per kilo). In this case the calculation should take into account the amount levied on the goods concerned cleared for consumption during a reference period, and that amount should be divided by the global value of those goods.

The reference year should be 1950.

The application of this rule concerning the amount of duty levied in 1950 is possible, however, only to the extent that the rate applicable to the item concerned has not been altered since that date. Now, it has been decided in London that the duty rates to be taken into account for the work of the Sub-Group should be the rates resulting from the most recent negotiations undertaken under the GATT, that is, the Torquay negotiations. In the case of a simple specific rate, this causes no difficulty.

In the case where the duty is a combined specific/ad valorem rate and was modified in 1951, there are two possible methods of calculating the ad valorem incidence.

The first would consist in taking into consideration the imports recorded during the last quarter of 1951, and calculating the average ad valorem rate by dividing, as in the case referred to above, the amount levied by the value of the goods. This formula may lend itself to criticism in certain cases, in particular when dealing with seasonal imports.

The alternative would be to calculate what the amount levied would have been if the post-Torquay rate had been applied to the 1950 imports. This can, however, be done on only a very approximate basis.

ANNEX F

Data to be furnished by Members of the Sub-Group

1. A list of the articles subject to duties imposed for fiscal purposes which the government would wish to exclude from the calculation of the weighted average level of customs rates, together with a statement of the reasons for proposing exclusion and the amounts of such duties collected in 1950 as well as the total customs revenue in the same year. (It is understood that the data furnished by the Government of Italy will relate to the period July 15, 1950 - July 31, 1951.)

2. A list of articles which the government would wish to exclude from the calculation of the weighted average level on the ground that more than 50% by value is imported from countries which are not parties to the General Agreement, together with statistical data for imports in a representative period in support of the proposed exclusion.

3. A list indicating, for each sector in Annex A, the value of imports and the percentage of such imports in the total value of imports in 1950 or in a more recent period.

Five copies of the data enumerated in paragraphs 1, 2 and 3, in either English or French should be addressed to each member of the Sub-Group (see names and addresses below) and 10 copies to the Secretariat not later than April 20, 1952.

4. If, as a result of the consultation to be undertaken by the Secretariat, it is agreed that it would be practicable to compute a simple average in respect of the tariff rates of the members of the Sub-Group for the 570 items of the SITC, each member of the Sub-Group shall communicate to the Secretariat (10 copies) and to each other member of the Sub-Group (5 copies) as soon as possible and if practicable by May 1, 1952, the incidence of its customs duties for each of the 570 items of the SITC. The incidence shall be computed in accordance with the rules contained in Annex E.

¹ Addresses to which the information, requested from participating governments in Annex F, shall be forwarded:

<u>Country</u>	<u>Name</u>	<u>Address</u>
Austria	Dr. Josef Stangelberger	Directeur Général Ministère Fédéral des Finances 1 Johannesgasse 5 Vienne

IW.2/15
Page 16

<u>Country</u>	<u>Name</u>	<u>Address</u>
Belgium	M. l'Ambassadeur Le Ghait	Ministère des Affaires Etrangères et du Commerce Extérieur 5, rue de Louvain Bruxelles.
Canada	Mr. A.F.W. Plumptre	Department of External Affairs East Block Ottawa.
Denmark	Mr. T. Dahlgaard	Ministry of Foreign Affairs Copenhagen.
France	-	Ministère des Affaires Etrangères Service de coopération économique Quai d'Orsay Paris.
Germany	Dr. F. Eichhorn	Bundesministerium für Wirtschaft Bonn,
Italy	Dott. S. Parboni	Ministero Commercio Estero Servizio Tariffa Doganale Roma.
Netherlands	Drs. Th. C. Hÿzen	Ministry of Economic Affairs Bezuidenhout 30 The Hague.
Norway	-	Ministry of Foreign Affairs Solplassen 1 Oslo.
Sweden	-	Chief of the Commercial Division Ministry of Foreign Affairs Stockholm 16.
United Kingdom	Mr. John Leckie	C.R.E. Department Board of Trade Horse Guards Avenue Whitehall London, S.W.1
United States	Mr. Carl D. Corse	Chief, Commercial Policy Staff Department of State Washington 25, D.C.