I. INTRODUCTION

1. In accordance with its terms of reference, the Working Party examined the proposal submitted by the French Delegation on 19 September 1951, relating to the automatic lowering of tariff levels.

2. With the approval of the CONTRACTING PARTIES, the Working Party set up a sub-group composed of: Austria, Belgium, Canada, Denmark, France, Germany, Italy, Luxemburg, the Netherlands, Norway, Sweden, the United Kingdom and the United States; the Sub-Group considered the French plan from the point of view of its application to the countries represented on it, and elaborated the technical aspects of the plan with a view to facilitating its more thorough consideration by the CONTRACTING PARTIES at the present Session. The report of the Sub-Group is reproduced as Annex I to this report. The Working Party considered this report and gave an opportunity to the representatives of countries not members of the Sub-Group to express their views on the technical points described in that document. The remarks of those members on these points are summarized in Section II of this report.

3. The Working Party then addressed itself to the consideration of the French proposal in its more general aspect and examined whether and to what extent its main features would have to be adjusted in order to take into account the disparities between the economic and social conditions in different countries. The French Delegation made specific proposals regarding the special treatment which might be granted to under-developed countries and countries in process of industrial development. Those proposals are contained in an Annex II to this report. The Working Party, after a preliminary exchange of views on these suggestions, agreed that they required to be considered more carefully by governments.

4. The Working Party also discussed the questions which might arise in respect of compensation from contracting parties which would not be in a position to participate in a plan for an automatic reduction of tariff levels. The views of the members of the Working Party are contained in Section IV of this report.
II. TECHNICAL ASPECTS OF THE FRENCH PLAN

5. The Working Party reviewed the various technical points discussed in the Report of its Sub-Group. Although the Report contained a comprehensive analysis of the specific problems of a technical nature which might arise if the French Plan were put into force, it was pointed out that on certain important points, the plan under discussion was not finally elaborated and several members of the Working Party reserved their right to re-examine the plan from a technical point of view should subsequent developments introduce new technical aspects.

6. As regards the method suggested by the Sub-Group for the selection of the base year in paragraph 13 of the Report, the representative for Brazil, supported by the representative for Australia, pointed out that if a year such as 1951 were selected as a base year, the average incidence of the tariff of industrialized countries would appear lower than it is normally, since their imports of raw materials and other goods on which low tariffs are levied were exceptionally high in that year and the high prices prevailing on world markets of primary products in that year would have similar effects on those calculations.

7. Referring to the suggestions contained in paragraph 15 of the Report regarding the valuation of imported goods, the representative for Australia pointed out that this question should be examined with particular care in order to ensure that the countries using the f.o.b. basis of valuation should not be less favourably treated than the countries applying the c.i.f. system.

8. The proposals contained in paragraph 17 and in paragraphs 19 to 22 regarding the division by sectors were considered as of particular interest by the representatives of countries mainly exporting agricultural products, who stressed that the division by sectors of the trade in agricultural products would determine to a large extent the attitude of their Governments. The representative of Cuba pointed out that it would be necessary to provide at least four sectors as suggested by the Danish representative to the Sub-Group to cover the agricultural sectors; in the absence of such a provision, the exporters of agricultural products would not be in a position to expect any substantial reduction in the tariffs levied by industrial countries on imports of agricultural products.

9. The suggestions made by some members of the Sub-Group with a view to separating the purely fiscal element of the so-called revenue duties from the protective element of those duties were supported by the representatives for Brazil and Cuba.

10. Regarding the suggested inclusion of preferential duties in the exercise, the Working Party agreed that the problem was of particular importance and deserved further consideration.
II. The representatives for Cuba and Brazil stressed that the proposals set forth in paragraphs 34 and 37 of the Report by the Sub-Group regarding the levelling-off of high tariffs were an essential part of the proposal for a reduction of tariff levels and indicated that their delegations attached particular importance to any proposal resulting in a reduction in the high duties which are levied in many countries on agricultural products.

12. Members of the Working Party discussed the suitability of the figure of 30 per cent for the application of an automatic reduction and indicated that the acceptance of the Plan might be facilitated if a lower percentage were contemplated or if the process of reduction could be spread over a longer period. The representative for the Union of South Africa also pointed out that it might be difficult for certain countries which consider proposals for tariff changes as a budget secret to indicate in advance to other governments the cuts proposed for successive years as it was suggested in paragraphs 40 and 41 of the Report.

13. The Working Party took note of the proposals concerning the binding effect of the commitments entered into under the French Plan and the representative for Australia pointed out in this connection that the acceptance of the plan by countries in process of industrial development would be more difficult to secure if it involved the acceptance of rigid commitments valid for a period of years.

14. The Delegations of Australia, India and South Africa pointed out that the application of the French proposals to their tariffs was also of concern to those contracting parties whose goods enjoyed preferential treatment thereunder.

III. APPLICATION OF THE PLAN TO COUNTRIES IN PROCESS OF INDUSTRIAL DEVELOPMENT

15. In the Report submitted at the Sixth Session, the Working Party had already emphasised "that under-developed countries will not be able to participate fully, if at all, in the scheme, because of the importance to them of their tariffs as, e.g., sources of revenue and as a means of protecting industries in the course of development". When the report of the Sub-Group was discussed by the Working Party the representatives of Australia, Brazil, Cuba, India and the Union of South Africa gave further illustrations of the type of difficulties which the application of the plan as evolved by the Sub-Group would create for their countries. These representatives stressed that the requirements of a policy of economic development prevented their governments from abandoning their freedom to introduce protective import duties and to raise the level of duties on particular products which it might be advantageous for them to produce in future. The tariff structure of countries in the process of industrial development was far different from that of industrialized countries. As a rule, duties regarded as of a revenue nature accounted for a very high percentage of the whole tariff (95 per cent in the case of India), and the national budget relied to a very large extent on customs revenue, (the share of revenue in the total revenue representing 35 per cent in the case of Cuba) and protection duties were introduced gradually to keep pace with the progress of economic development.
countries in process of industrial development were mainly exporters of agricultural and pastoral products which, before entering industrialized countries had to overcome not only high tariffs, but also in many cases rigid quantitative restrictions and other protective devices, or of raw materials on which the importing countries, as a rule, found in disadvantageous to levy any significant import duties. In those circumstances, countries which rely mainly on the export of primary products would only derive substantial benefits from the operation of a plan along the lines of the French proposals if the exercise were to apply not only to tariffs but also to other forms of protection.

16. In an attempt to meet the special difficulties which were referred to by representatives of countries in process of industrial development, the French Delegation submitted concrete suggestions which are contained in the Annex II to this Report. The Working Party was generally favourable to the spirit in which the French Delegation had approached the question under the assumption that undertakings asked from non-industrialized countries should be less onerous than those required of industrialized countries. It agreed, however, with the French Delegation that the division of countries into two classes according to their degree of industrial development could not result from the application of a single criterion such as the per capita income of the various countries or the percentage share of primary products in their export trade. If the implementation of the French Plan would require such a division, it would be appropriate to take into account other criteria. As one of these criteria might be the particular structure and characteristics of the customs tariffs of the less-industrialized countries, the Working Party was of the opinion that the secretariat might be instructed to assemble additional information on these points and to consider whether it would be in a position to compile, with the assistance of the governments concerned, tables showing for the contracting parties not represented on the Sub-Group, similar data to those tabulated for the members of the Sub-Group, especially as regards revenue duties. The Working Party felt that, unless specific criteria were devised for the guidance of the secretariat, it would be difficult for the secretariat to go further and to prepare a list dividing contracting parties into industrialized countries and countries in process of industrial development.

17. Assuming that a satisfactory procedure could be devised to define or identify those countries which would be considered as in process of industrial development and be eligible for special treatment, the Working Party gave some consideration to the adjustments suggested by the French Delegation in the basic commitments under the plan. While recognizing that the French suggestions went a long way to meet certain of their objections, some members of the Working Party were not satisfied that those proposals were such as to eliminate the major difficulties to which they had drawn attention. It was pointed out, in this connection, that, even if the revenue duties were excluded from the exercise, any extensive reduction in tariffs might give rise to serious budgetary problems for countries which are not in a position to tap alternative sources of revenue; those countries would no doubt require some assurances that the application of the plan would bring benefits to all countries concerned. It was also stated that the protective duties cover, as a rule, a small range of tariff items in the tariff of countries in the process of industrial development and those rates are generally computed so as to limit the tariff protection to a minimum consistent with the vital requirements of the industries thus protected.
Any automatic reduction of duties would therefore affect practically all those branches of industry and impair the application of the programme of industrial development.

IV. QUESTIONS ARISING IN RESPECT OF COMPENSATION FROM NON-PARTICIPATING COUNTRIES

18. The Working Party agreed that any scheme for an automatic reduction of tariff levels within the framework of the General Agreement would have to be based on the principle of non-discrimination, which implied that any specific reduction of duty resulting from the operation of such a scheme would have to be extended to all the contracting parties, whether they participate in the scheme or not. On the other hand, the Working Party recognized that all negotiations directed to the reduction of tariffs within the framework of the General Agreement had to be conducted on a reciprocal and mutually advantageous basis.

19. Some members of the Working Party proposed, therefore, that, if some contracting parties were not in a position to participate in such a scheme, the other contracting parties participating in that scheme should be allowed to propose the exclusion from their calculation of their weighted incidence and from the exercise, specific products which are of particular interest to those countries, by analogy with the suggestions made by the Sub-Group in paragraph 27 of the Report regarding the exclusion of products mainly imported from non-GATT countries. It was pointed out by some members of the Working Party that, in many cases, such an arrangement would not meet with particular difficulties but recognized that if a participating country had a substantial interest in some product imported mainly from non-participating countries, that country would be entitled to make representations regarding the exclusion of such products and to invite the participating country or countries concerned to negotiate with the non-participating country or countries substantially interested in that product with a view to obtaining an equivalent tariff concession. To achieve such a result, it would be necessary to secure a general understanding that it would be open to countries which participate in the Plan to approach non-participating countries having a substantial interest in the products on which duty reductions are contemplated, and ask them to enter into negotiations with a view to obtaining from them tariff concessions on a reciprocal and mutually advantageous basis in consideration of the tariff reductions involved in the implementation of the scheme. Such requests should be considered sympathetically if such negotiations were essential for the implementation of the scheme.
ANNEX I

Report of the Sub-Group

I. INTRODUCTION

1. The Sub-Group, composed of the representatives of Austria, Benelux, Canada, Denmark, France, Germany, Italy, Norway, Sweden, the United Kingdom and the United States, held three sessions under the chairmanship of M. G. Cassiers (Belgium) and of M. E. Le Ghait (Belgium) to consider the plan laid before the Contracting Parties by the French delegation at their Sixth Session.

2. In accordance with its terms of reference, the Sub-Group elaborated the technical aspects of the French plan, with a view to facilitating its more thorough consideration by the Contracting Parties at their Seventh Session. These technical points are discussed in Part II of the Report.

3. It examined the plan from the point of view of its application to the countries represented at its discussions, on the understanding that participation in the Sub-Group did not in any way imply a commitment to reach agreement on the principle of the French plan. Nevertheless, the Italian representative felt it necessary to stress that, in his opinion, the application of the French plan should be linked up with the elimination of barriers to international trade, with a view to making the plan practicable and achieving an assured, durable increase of foreign trade. Part III of the Report summarises the main views expressed by various members of the Sub-Group on a number of points of substance on which a decision would have to be taken before the plan could be put into effect. The Sub-Group has not examined the problems raised by the application of the French plan on a worldwide basis such as it has been conceived by the French delegation, since the Working Party reserved for itself the examination of these problems.

4. The Sub-Group based its study on the text of the original French plan (GATT/GP.6/23) and on the additional proposals submitted by the French delegation on certain aspects of the plan (GATT/IV.2/5, MGT/73/52, MGT/77/52 and Add.1) as well as on alternative proposals submitted by other delegations, in particular those submitted by the Benelux delegation concerning the levelling-off of high tariffs, and the treatment of moderate and low duties (IV.2/15, Annexes C and D), and the Danish proposal concerning the division by sectors of trade in agricultural products (MGT/78/52). The Sub-Group also had at its disposal the extensive factual and statistical information submitted by the members of the Sub-Group on the incidence of their tariffs for each of the 570 items of the United Nations Standard International Trade Classification, on the relative importance of imports in the various sectors of trade, on the fiscal duties for which exclusion from the exercise was suggested, as well as on the products mainly imported from non-GATT sources and for which a similar exclusion was requested.
II. ELABORATION OF CERTAIN TECHNICAL ASPECTS OF THE FRENCH PLAN

a) Method of computation of the weighted incidence

5. The main feature of the French plan is that the contracting parties should undertake to reduce their customs duties progressively so that by the beginning of the third year of application of the plan, the incidence of their tariff on their import trade would be reduced by 30 per cent, as compared with the incidence reported in a reference period prior to the adoption of the scheme. It was proposed, moreover, that the reduction would apply not to the incidence of the tariff as a whole, but to the weighted average incidence for each main branch of economic activity or "sector".

6. As the customs practices and statistical methods applied in the various countries are not uniform, it was necessary to give a definition of what the Sub-Group meant by "weighted incidence" so that the results obtained would be comparable.

7. The Sub-Group submits that the following formula would meet these requirements and would be regarded as practicable:

The weighted incidence for a sector would be the ratio having:

(i) as its numerator, the total duty collected on imported goods during the period under consideration;

(ii) as its denominator, the value of the goods on which the duty in the numerator was charged plus the value of goods exempt from duty which have gone into home consumption in the period, irrespective of whether the exemption of these goods was dependent upon their intended use or destination or not.

8. The numerator should include not only the duty levied on imported goods entering the internal market immediately upon importation, but also the duty levied on imported goods entering the internal market after passage through a bonded warehouse or a free port or as a result of diversion from transit or other arrangements under which the duty is temporarily suspended. No deduction should be made for duty drawback.

9. Notwithstanding (ii) of paragraph 7, countries will not be required to deduct the value of exempt goods which are subsequently re-exported; nor should any deduction be made from the denominator in respect of goods re-exported on drawback.
10. The Sub-Group agreed that in certain cases a country might be free to adopt a different method to calculate the numerator, when for instance, duties had been temporarily suspended during the period under consideration or when substantial changes had been introduced prior to the time of adoption of the scheme. The Sub-Group suggests that the following formula could meet these special cases:

A country would be free to replace in the numerator the duties actually collected by the duties which would have been collected if the rates specified in the tariff in force at the beginning of the base year, subject to such reductions as have been granted through the General Agreement on Tariffs and Trade, or bilateral agreements, had been applied. (1)

11. A member of the Sub-Group stated that a country which has not actually put into force its legal tariff but applied a "tarif d'usage" during the base year should also be allowed to base its calculations on the rates specified in the legal tariff and proposed that the formula set forth in paragraph 10 should be amended as follows:

A country would be free to replace in the numerator the duties actually collected by the duties which would have been collected if the rates specified in the legal tariff enacted prior to the beginning of the base year, subject to such reductions as have been granted through the General Agreement on Tariffs and Trade or bilateral agreements, had been applied during the period considered.

12. Two representatives requested that tariff reductions granted through bilateral agreements with non-GATT members should be excluded from the operation. The Sub-Group was of the opinion that this question deserved a further examination.

b) Selection of the base year

13. The Sub-Group agreed that the weighted incidence for the base year which would serve as the basis for the 30 per cent reduction should be computed on data relating to the same year for all countries concerned. It suggests as an appropriate common basis the last calendar year for which data would be available for all those countries at the time the plan were accepted.

c) Computation of the weighted incidence during the successive stages of reduction

14. The Sub-Group examined how the reductions in the weighted incidence during the successive stages should be computed and came to the conclusion that the simplest method would be to assume that the composition of the import

(1) One member drew the attention of the Sub-Group to the fact that the formula as suggested would raise difficulties for his government as it had reserved in tariff negotiations the right to convert its rates to an ad valorem basis corresponding to the pre-war level.
In other words, the weighted incidence during the successive stages would be deemed to be the ratio having as its denominator the values of the base year and as its numerator the rates as reduced multiplied by the weighting values of the base year. It was pointed out that the full implementation of this part of the plan would involve technical difficulties for certain countries.

d) Valuation of the imported goods

15. The Sub-Group examined whether the participating countries should valuate the imports according to their own system of valuation or whether they should be requested to use a common system, either on an f.o.b. basis or on a c.i.f. basis. It was agreed that so far as the application of the 30 per cent reduction is concerned, each country would use its own basis of valuation provided that this would be applied consistently in the calculation of its weighted incidence.

e) Authorized exclusions from the weighted incidence

16. Various proposals have been put forward to the effect that countries should be allowed to exclude certain products from the exercise. These proposals which involve points of substance are discussed in Section III below. From a technical point of view, the Sub-Group agreed that, if a product is excluded from the exercise, the duties which have been or would have been collected on that product would be excluded from the numerator of the weighted incidence, and the value of the imports of that product from the denominator.

f) Division by sectors

17. The Sub-Group agreed that the division by sectors should be based on the United Nations Standard International Trade Classification, which is of more general application than any other classification or nomenclature and a majority of the Sub-Group considered that, as far as possible, the division should be made along the following lines:

(i) the sub-division by sectors should follow as closely as possible the divisions of the SITC;

(ii) the groups should contain products of the same nature, i.e., raw materials, semi-manufactured goods, or manufactured goods;

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

The specific proposals for a division by sectors are discussed in Section III below.
(c) **Basis of valuation for the averaging of national rates for the purpose of computing upper and lower denarcation lines**

18. This question arose in connection with the proposals concerning the levelling-off of rates and the treatment of moderate and low duties. It was agreed that, in order to obtain comparable incidence figures for the computation of averages (either simple or weighted) under those proposals, the value should be on a c.i.f. basis and that the countries applying an f.o.b. basis for valuation purposes should convert their incidence figures to a c.i.f. basis. In this connection reference was made to the adjustment of 10 per cent which is used in the statistical publications of the United Nations.

**III. VIEWS EXPRESSED BY MEMBERS OF THE SUB-GROUP ON THE MAIN FEATURES OF THE FRENCH PLAN**

a) **Division by sectors**

19. At its February meeting, the majority of the Sub-Group had considered as a practical basis for discussion a division into 14 sectors (IW.2/15 Annex A). At its last meeting, the French representative submitted a revised version of this proposal which provided for 11 sectors. This proposal is summarized in the Annex.

20. Two representatives considered that this new proposal made more inflexible the original French plan, which contemplated four main branches of economic activity, and that the adoption of such a large number of sectors would reduce the chances of the plan being accepted by their governments.

21. On the other hand, other representatives stressed that, unless a sufficiently large number of sectors were accepted, the French plan would not enable the participating countries to assess the benefits which their export trade would derive from the scheme and consequently it would be difficult to induce their governments to accept a substantial reduction of their tariffs.

22. As regards agricultural and food products, some members proposed to divide this trade into four sectors instead of two as proposed by the French representative (see Annex A). It was also suggested that in view of the importance of the trade in manufactures of metal, division 69 of the SITC should not be included in Sector IX and should form a separate sector; for that reason, it was proposed that Sector X - Machinery and Transport Equipment - should be divided into two or three sectors.
b) Fiscal duties

23. Some members had presented lists of goods which they wished to see excluded from the exercise on the grounds that the duties chargeable thereon were fiscal duties. They emphasised that the receipts from these duties represented a substantial percentage of the total budgetary revenue of their governments; that the duties in question were of long standing; and that they were imposed for the purpose of raising revenue at rates determined only by this consideration and with no regard to any incidental protective effect which might arise. These members expressed the opinion that the curtailment of the freedom of action of governments which would be entailed by the inclusion of those duties within the plan would seriously prejudice the chances of the plan being accepted. Two members of the Sub-Group preferred that, for the sake of simplicity and fairness, all import duties should be included in the plan and that no exception should be made for duties of a revenue nature. These members considered that, in certain cases, the duties listed were more of a sumptuary nature than of a purely revenue nature and that in other cases, even if the main object were to produce revenue, the duties had a distinctly protective effect and restricted foreign trade the same way as other duties. They held that this was particularly the case when there was a substantial domestic production of a like or directly substitutable product and when the tax on the latter was less than the import duty or the import duty plus the internal tax levied on the imported product.

24. The Sub-Group attempted without success to draw up a general rule for deciding whether a duty could be excluded on the grounds that it was a revenue duty. On the other hand, the Sub-Group discussed, without arriving at a conclusion, whether it would not be preferable that the requests for the

1 The following formula was put forward but has not been discussed as it did not appear to be acceptable to the majority of the Sub-Group:

A participating country would be authorised to exclude an item from the computation of the weighted incidence:

1) if the import duty levied on that item brings to the State Treasury substantial revenue and represents at least ..., per cent. of the total customs collections, and

2) if there is no substantial domestic production of that product or any directly substitutable product.

When there is an internal tax, or other charge on either of those products, and this tax or charge is not levied as such on the imported product, the part of the import duty equivalent to the internal tax or charge may be excluded from the computation of the weighted average, the other part alone being included in the computation.

In exceptional cases a special decision by the Contracting Parties or a committee empowered to do so by the Contracting Parties, may authorise the exclusion of import duty from the computation of the weighted average incidence.
exclusion of particular fiscal duties should be examined on an empirical
basis, with a view to the compilation of a common list which could be
generally acceptable, being understood that countries would be free to
submit for examination and approval the exclusion of goods not included
in that list.

25. In the course of the discussion it was suggested that the Contracting
Parties should encourage governments to convert that part of the fiscal duty
which is equivalent to the internal tax levied on the like domestic product
into an internal tax which then would apply equally to domestic and imported
products. The other part of the duty would remain in the tariff and would
no longer be considered as a fiscal duty. Certain delegations pointed out
that the methods of charging taxes on home produced goods were not necessarily
applicable to the levying of duties on imported goods and stressed the
inconvenience of charging both internal taxes and import duties on the same
imported goods. In certain cases, international commitments would prevent
the levying of an internal tax on the domestic product.

26. Two representatives pointed out that it might be essential to provide
that the exclusion of fiscal duties should be obligatory, in order to avoid
reductions in fiscal duties having the effect of absolving a country from
the necessity of reducing the protective duties on the remaining goods in
the sector.

c) Exclusion of items originating principally in non-GATT countries

27. Some members of the Sub-Group stated that it would be essential for
them to reserve their freedom of action regarding the duties levied on items
originating mainly from countries which are not parties to GATT. It was
generally agreed that this request was justified, but the majority of the
members of the Sub-Group felt that it would be preferable to achieve this
result by excluding from the exercise goods which are of particular interest
to non-GATT countries, rather than by excluding from the computation of the
weighted incidence the duty reductions granted to non-GATT countries as a
result of bilateral negotiations as proposed by some members of the Sub-Group
(see paragraph 12). The Sub-Group agreed that the following rule could
form a practical basis for such exclusion:

A country would be allowed to exclude goods of which 50 per
cent or more in value were imported in a base period from
non-GATT countries provided that a GATT country was not the
principal supplier.

This formula could, if necessary, be adapted to deal with the case of goods
mainly imported from any GATT countries which might not be participating in
the plan.
d) **Other proposed exclusions**

28. One representative stated that he might propose that his country be free to exclude from the calculation of the weighted incidence and therefore from the exercise certain food items of an agricultural origin, which would be indicated at a later stage.

e) **Other adjustments suggested**

29. One representative stated that, as domestic products are subjected in his country to a more onerous fiscal regime than imported products, it would be fair to consider that, in many cases, a part of the import duty is in effect a compensatory duty, and to allow a country in that position to deduct, for the purpose of the exercise, that part of the duty which is equivalent to a tax.

f) **Inclusion of preferential duties in the exercise**

30. Certain members of the Sub-Group stated that in their view, the level of protection granted to their domestic industry had to be measured not by the incidence of the most-favoured-nation rates applicable, but by the actual incidence of their tariff on their total import trade, part of which entered at most-favoured-nation rates and part at preferential rates. They felt therefore that any participating country should be free to include in the weighted incidence for the base year the amount of duties collected at preferential rates and the value of the preferential trade and to reckon reductions on preferential as well as on most-favoured-nation rates in the computation of the reduction by 30 per cent of the weighted incidence.

31. Other members were of the opinion that the inclusion of preferential rates and in particular the inclusion of reductions on preferential rates in the calculation of the 30 per cent reduction would enable countries having a substantial trade at preferential rates to grant on most-favoured-nation rates a reduction substantially less than that which a country having no such trade would have to make and suggested the following solution:

As a rule, the preferential trade would be included in the exercise provided that the percentage of reduction on collections on most-favoured-nation trade within a sector shall not be less than 30 per cent. Any country should be free to exclude the preferential trade with dependent territories and non-GATT members.

The preferential trade with GATT members could only be excluded with the consent of GATT members concerned in that preferential trade.

The Sub-Group was of the opinion that the question required further examination.
g) Special treatment of low tariffs

32. Certain members of the Sub-Group stated that, in their opinion, any plan for the reduction of tariff levels should recognise that a contribution to the general reduction of tariffs had been made already by those countries whose duties are below a certain level. Various proposals have been put forward to provide for a special treatment of low tariffs. The Benelux proposal provided for a system of credits to be granted in respect of the rates applied to individual SITC items whose incidence would be below or at a lower demarcation line. A new proposal, submitted by the French delegation, provides for the application of smaller rates of reduction when, in a given sector the weighted average incidence is below a predetermined level. The main difference between the two proposals is that the first provides for special treatment whenever the rate on goods falling within an SITC item is below a certain level whereas the second reserves that privilege to the case when the weighted average for a sector is below a certain level.

33. It was generally agreed that it would be fair to provide a special treatment for low tariffs. The Sub-Group was not in a position to complete the technical examination of the methods suggested to give effect to that proposal, but most members of the Sub-Group, including the Benelux representatives, were of the opinion that the French proposal deserved further consideration in view of its simplicity.

h) Levelling-off of high tariffs

34. Certain members of the Sub-Group considered that the French plan was not such as to ensure that particular high duties of a prohibitive or near-prohibitive character on items in which trade remained insignificant would be reduced, and consequently the plan should be supplemented by an obligation to reduce individual duties exceeding a certain level.

35. The proposal submitted by the Benelux delegations in February 1952 (Document IW.2/15, page 10) and which provided for the compulsory reduction by 30 per cent or the levelling-off to a certain level of tariffs exceeding that level, met with strong opposition on the part of members of the Sub-Group who felt that such a proposal would make the plan unduly inflexible and reduce its chances of acceptance by their governments.

36. Some members suggested that the Benelux proposal might be accepted in principle but qualified so as to limit the obligation to reduce duties exceeding a certain level to a given percentage of the number of those duties and to provide that the percentage should be progressively increased over a period of three years without, however, reaching 100 per cent.

37. As other members of the Sub-Group were not prepared to accept that proposal or any other proposal involving an obligation to reduce individual
rates on the ground that they exceeded a certain level or to consider a possible levelling-off of high tariffs except on a selective basis, as a result of negotiations, the Sub-Group was not in a position to reach an agreement on the problem of the levelling-off of high tariffs.

i) Remarks on the computation of demarcation lines

38. Certain members of the Sub-Group expressed doubts as to the suitability of a simple average of duties for the computation of any demarcation lines and stressed that this average should at least be adjusted.

j) Implementation of the 30 per cent reduction contemplated in the French plan

39. The French plan provides that, for each sector of their import trade, countries would reduce the weighted incidence of their tariff by 10 per cent in each of three successive years, and that each country will be free to select the items on which reductions would be made and to change them at will.

40. The majority of the Sub-Group, while agreeing that, as a rule, each country should be free to select the duties on which it decides to make a reduction, were of the opinion that each country should disclose at or before the time the plan were accepted, the items on which reductions would be made as well as the extent of those reductions. They felt, moreover, that it was essential that the reductions announced should remain bound against increase at least until the end of the three-year period contemplated in the French plan.

41. Various proposals were put forward in order to achieve this result. It was suggested, for instance, that each country should disclose, by the time the plan were accepted, its full programme of tariff reduction for the three successive years, or the programme for the first two years, or only the programme for the first year. If the full programme were not disclosed, the programme for the remaining period or periods would be notified before the commencement of that period or periods. All these proposals provided that the reductions thus notified would be bound until the end of the three-year period contemplated for the completion of the reduction programme.

42. These proposals were examined but the Sub-Group felt that the problem required further consideration and that an agreed formula might be found along the lines indicated above.
43. In the course of the discussion, it was suggested that the plan should provide that no increase in tariffs would be allowed as part of the three-year programme of tariff adjustment.

k) **Binding effect of the commitments entered into under the French plan**

44. The majority of the Sub-Group considered that the reductions to be granted under the plan for the reduction of tariff levels, should not cease to be operative after the completion of the reduction programme at the end of the first three-year period.

45. It was suggested that the simplest solution would be to incorporate the tariff reductions granted under the plan into the GATT schedules so that these reductions would be governed by the same provisions as the reductions made in the course of the normal GATT tariff negotiations.

46. Some members of the Sub-Group objected to this proposal on the ground that the essence of the French plan was to keep the weighted incidence of the tariffs at a certain level, and that the incorporation of the reductions in the GATT schedules would not ensure the stability of the weighted incidence. They felt that the commitment regarding the level of the tariff and not the commitments regarding individual rates should be given firm validity. In any case, they were of the opinion that if the rates reduced under the plan were to be bound, the rates which had not been reduced under the plan, and in particular the low tariffs for which special treatment was requested should also be bound or at least subject to a procedure similar to Article XXVII of the GATT.

47. A member of the Sub-Group pointed out that if the reductions under the plan were to be governed by the provisions of Article XIX of the GATT, it might be desirable to modify the operation of the escape clause so as to oblige a country wishing to withdraw a given reduction to grant instead an equivalent reduction on other items in the same sector, or, in exceptional circumstances, in another sector of its import trade.

48. Other members suggested that the commitments under the plan should be tacitly renewed for a further period of three years. Before the renewal takes place, each country would be free to modify its schedule of reductions, provided that the weighted incidence in each sector would remain at the required level. The new concessions would then be bound for a further period of three years.

49. Another suggestion was that, after the first period of three years, the commitments would be indefinitely continued along the lines of Article XXVIII of the GATT in its original form, but that any country would be free to modify individual reductions in accordance with a procedure similar to that of Article XXVIII of the General Agreement.
50. The Sub-Group did not reach an agreement on any of these proposals but came to the conclusion that the problem of the duration of the commitments and of the modification of these commitments would have to be examined in detail at a later stage, as well as other legal problems relating to the binding of duties during the first three-year period.

1) General Comments

51. The United Kingdom delegation pointed out that the applicability of the scheme to the United Kingdom tariff was of concern to those contracting parties whose goods enjoyed preferential treatment thenceforward and who were, with one exception, not represented in the Sub-Group.

52. The United Kingdom delegation deprecated, quite apart from the inflexibility of the scheme, the excessive complexity which, in their view, it would have, especially if it were to include certain of the provisions referred to in sections III (g) and (h).
ANNEX A

Synopsis of the Main Proposals submitted to the Sub-Group

1. Reduction of the weighted average of the tariffs

The countries undertake to reduce by 30 per cent in three years the weighted incidence of their tariff on their import trade in each of the following sectors:

2. Division by sectors

Sector I - Agricultural (1) products (animal and vegetable)

Sector II - Food and seafood products

Sector III - Live animals, meat, (2) dairy products, eggs and honey

Sector IV - Cereals, feeding stuffs, sugar, coffee, tea, cocoa, spices and manufactures, miscellaneous, beverages, tobacco, oil seeds

Sector III - Fruit and vegetables, seeds, flowers, etc.

Sector IV - Fish and fish preparations

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1 For further details, see Appendix I.
2 " " " " Appendix II.
Sector III - Crude materials, including mineral fuels and lubricants and related materials

Sector IV - Chemicals, manufactured fertilisers, explosives and miscellaneous chemical materials and products; dyeing, tanning and colouring materials; medicinal and pharmaceutical products; essential oils and perfume materials; toilet polishing and cleansing preparations

Sector V - Leather, rubber, plywood, agglomerated cork materials, paper and paperboard

Sector VI - Manufactures of leather, of rubber, of wood, of cork, of paper and of paperboard

Sector VII - Textile yarn and thread

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

Sector IX - Base metals, unwrought; base metals, other than unwrought; manufactures of metal

Sector X - Machinery and transport equipment

Sector XI - Non-metallic manufacture-
3. **Exclusion of certain items**

In the calculation of the weighted incidence for a sector and of the reductions to be made, all the products of the sector and duties levied on these products should be included with the exception of:

a) products mainly imported from non-GATT countries

b) products on which fiscal duties are levied

(no exception in favour of fiscal duties)

4. **Inclusion of preferential trade**

Reduction on preferential as well as on most-favoured-nation rates will be taken into account in the calculation of the reduction of the weighted incidence.

The reduction on preferential rates will be taken into account only if the reduction on most-favoured-nation rates in a sector is at least 30 per cent each.

5. **Special treatment of low tariffs**

If the weighted incidence in a sector is below the lower demarcation line, the reduction required would be less than 30 per cent and would be on a decreasing scale; if the incidence is 50 per cent or less of the demarcation line, no reduction would be required.

If for any SITC item (or part of an item) the rate of duty of a country is at or below the lower demarcation line, it will be considered as having been reduced by 30 per cent; any levelling-off to that demarcation line by reduction of less than 30 per cent would be counted as a reduction by 30 per cent.
6. Levelling off of high tariffs

(Rates exceeding the upper demarcation line should be brought down to that line or at least reduced by 30 per cent. These reductions would be counted in the overall reduction of the weighted incidence of the sector.)

Any country might be allowed to reduce only a given percentage of the number of duties above the upper demarcation line and might choose to make these reductions in three yearly stages.

7. Implementation of the French plan

(The weighted incidence would be reduced by 10 per cent in each of three successive years. No indication would be given in advance as to the individual tariff reductions contemplated. During the three year period of implementation, individual reductions might be replaced by others provided that the weighted incidence does not exceed the agreed level.)

Each country should notify by the time the plan is accepted its programme of individual reductions for the three year period of implementation. All such reductions as well as low tariffs enjoying special treatment would be bound against increase until the end of that period.

The programme of individual reduction for the first year (or the first two years) would be notified by the time the plan is accepted; those reductions would be bound until the end of the three year period. The programme for the subsequent year or years would be notified before the beginning of the period; the reductions would also be bound until the end of the three year period of implementation.
8. Extension of the commitments after the period of implementation

After the end of the first three year period, the weighted incidence would remain at or below the level reached at the end of that period; individual reductions could be withdrawn and replaced by equivalent reductions on other duties in the same sector.

At the end of each three year period, each country would be free to replace individual concessions by equivalent reductions of other duties in the same sector.

The new reductions would be bound against increase for a new period of three years.

Low tariffs enjoying special treatment would be bound against increase.

Safeguards might be devised to ensure that increases in duties not reduced under the plan do not impair the benefits derived from the scheme.

All tariff reductions under the plan would be embodied in the GATT schedules and governed by the GATT provisions.

The level of the weighted incidence in the sectors would no longer be bound and no specific safeguards would be devised against increases in the rates of duty which have not been reduced under the plan and therefore not embodied in the GATT schedules; the provisions of Article XXVIII would be relevant if such increases were to impair the benefits expected by any country.
### APPENDIX I

French Proposal for the Division by Sectors

**Sector I**

Agricultural products (animal and vegetable)

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### Sector II

**Food and seafood products**

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### Sector III

**Crude materials, including mineral fuels and lubricants and related materials**

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### Sector IV

Chemicals, manufactured fertilisers, explosives and miscellaneous chemical materials and products; dyeing, tanning and coloring materials; medicinal and pharmaceutical products; essential oils and perfume materials; toilet polishing and cleansing preparations

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### Sector V

Leather, rubber, plywood, agglomerated cork materials, paper and paperboard

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**Sector VI**

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

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**Sector VII**

Textile yarn and thread

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**Sector VIII**

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

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### Sector IX

Base metals, unwrought,
Base metals, other than unwrought,
Manufactures of metal.

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Machinery and transport equipment

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### Sector XI

Non-metallic manufactures

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and miscellaneous articles, not included in the preceding sectors.
# APPENDIX II

## Sector 1)
- **Division 00**: Live animals, chiefly for food
- **Division 92**: Live animals other than for food
- **Division 01**: Meat and meat preparations
- **Division 02**: Dairy products, eggs and honey

## Sector 2)
- **Division 04**: Cereals and cereal preparations
- **Division 08**: Feeding stuff for animals
- **Division 06**: Sugar and sugar preparations
- **Division 07**: Coffee, tea, cocoa, spices, and manufactures thereof
- **Division 09**: Miscellaneous food preparations
- **Division 11**: Beverages
- **Division 12**: Tobacco and tobacco manufactures
- **Division 22**: Oil-seeds, oil nuts and oil kernels
- **Division 41**: Animal and vegetable oils, fats, greases and derivatives

## Sector 3)
- **Division 05**: Fruits and vegetables
- **Division 292/05**: Seeds for planting
- **Division 292/06**: Bulbs, tubers and rhizomes of plants
- **Division 292/07**: Cut flowers and foliage

## Sector 4)
- **Division 03**: Fish and fish preparations
ANNEX II

PROPOSALS BY THE FRENCH DELEGATION CONCERNING THE
APPLICATION OF THE FRENCH PLAN TO COUNTRIES IN PROCESS
OF INDUSTRIAL DEVELOPMENT

1. Division into industrialised countries and countries in process of
   industrial development.

   The criterion previously proposed by the French Delegation, that is, the
   existing ratio between customs receipts and total budgetary income, has been
   abandoned because it might have led to somewhat illogical results.

   The tables prepared by the secretariat (W.7/31) which are based:
   - the one on the per capita income of GATT countries
   - the other on the percentage share of foodstuffs and crude raw materials
     in the exports of GATT countries in 1950
   would make it possible to classify countries differently on the basis of the
   criterion adopted.

   It is therefore clear that in the circumstances it is very difficult to
   develop a precise criterion which would make it possible to divide countries
   rationally as between the two main categories, i.e., industrialised countries
   and countries in process of industrial development. It might therefore be more
   expedient to adopt the following empirical method:

   The Executive Secretariat would draw up a list of sufficiently industrialised
   countries on the basis of their knowledge of the situation of each of the GATT
   members and not in accordance with either of the criteria mentioned above.

   Those countries that were not included in the list and with respect to
   which the members of the Working Party would have to pronounce would be regarded
   as countries in the process of industrial development for the purpose of the plan
   for a general reduction of tariff levels.

2. Efforts to be requested from countries in the process of industrial
devvelopment.

   (a) Countries in the process of industrial development would be authorised
   to exclude from the exercise:
- their fiscal duties
- their duties affecting products included in their economic development programme.

They would be required to reduce their other duties by thirty percent as provided for in the French Plan.

(b) The general waivers provided for in the case of low tariff countries could also be applied in appropriate cases to countries in the process of industrial development.

(c) The thirty percent reduction of the weighted average level of customs protection would be computed on the national tariff as a whole and the countries concerned would then be free to select those items to be reduced.

(d) Countries in the process of industrial development would be required to submit regular reports to the Arbitration Committee set up by the participating countries regarding the results achieved under their industrialisation programme. On the basis of such reports the Arbitration Committee would decide whether the waivers granted should be maintained, modified or terminated.