The French Plan for the Reduction of Tariff Levels: General Discussion

Introduction: At the three GATT tariff conferences in 1947, 1949 and 1950-51, tariff negotiations were conducted on a basis of strict reciprocity. But in recent years it has been widely questioned whether this method would not yield substantial results in the future, largely owing to the difficulties encountered when so-called high tariff countries negotiate with so-called low tariff countries which have exhausted in the preceding tariff conferences the possibilities of reducing their tariffs any further. For this reason new methods and new techniques for conducting tariff negotiations have been sought, and, in particular, an expert committee appointed by the Contracting Parties has been examining a plan which was put forward by the French Government at the Seventh Session. This plan—now generally known as the French Plan—has undergone some modifications since it was first introduced, and today the main features of the Plan may be summarized as follows:

Main Principles of the French Plan:

(a) The participating countries would undertake to reduce by 30 per cent in three years, at the rate of 10 per cent each year, the average incidence of their tariffs in each of the main sectors of their import trade, the reduction being less for low tariffs and tapering down to nothing where tariffs are very low. Countries would therefore have a degree of latitude in choosing the tariffs on which reductions would be made.

(b) The countries would also undertake to reduce individual rates of duty to prescribed levels in that period. These levels would be determined separately for agricultural products and for industrial products, the latter being subdivided into raw materials, semi-finished and finished products.

(c) The Plan would remain in operation for a period of five years, the reduced tariffs remaining bound until the end of the period.

(d) Countries in process of economic development would not have to make reductions affecting their development programmes.

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(e) The obligations under the Plan would be in addition to the undertakings under the General Agreement; but countries wishing to reduce their tariffs either unilaterally or through negotiation, would be encouraged to do so, since any such reductions would count under the Plan.

The expert group has elucidated many of the technical problems to which the implementation of such a Plan would give rise. They have devised a set of Rules setting out the commitments involved and have added a series of detailed technical Regulations. Among the problems which are dealt with are such complex factors as the computation of the average incidence of a tariff, the definition of fiscal duties (which are to be excluded from the Plan), the binding of duties reduced under the Plan, special provisions for countries in the process of economic development and the appointment of a Board to administer the Plan — the Board to be considered as a GATT body.

It should be noted that the expert group, proceeded on the understanding that its work did not in any way imply a commitment on the questions of substance raised in the Plan.

The Rules. The Eight Rules set out the commitments involved for the participating countries in the eventual application of the Plan.

Rule I embodies the principle, stated in paragraph (a) above, that the participating countries would reduce by 30 per cent in three years the average incidence of their tariffs in each of the main sectors of their import trade. It is contemplated that the reduction would be less than 30 per cent when the average incidence for a given sector for any participating country would be less than a certain figure. Further, the reduction will taper down to nothing when the incidence in a sector is at or below an agreed floor. (This provision is designed to go a long way towards meeting the difficulties which low tariff countries have encountered in the course of negotiations conducted along the traditional rule of strict reciprocity.)

Rule II authorizes exemptions from the operation of Rule I. Participating countries would be free to exclude fiscal duties (duties intended to secure revenue for the Treasury) in accordance with certain procedures; they would also be free to exclude any duty levied on goods of which 50 per cent or more in value were imported from countries not participating in the Plan.

Rule III deals with additional commitments regarding the reduction of high tariffs. The participating countries would also reduce tariffs which exceed certain agreed levels. This principle, which is a new development in schemes for tariff reduction, will assist in narrowing the gap of disparity between high tariffs and low tariffs.
Rule IV deals with the implementation of the reductions under Rule I, and states that each country would be free to select the items on which tariff reductions would be made. Thus, for each sector of their import trade, participating countries would have to reduce the average incidence of their tariff by the required percentage in each of the three successive years without being under an obligation to make reductions on the same items in each successive stage. In other words, a duty on an individual item may be reduced during the first year and not be modified in either of the next two stages.

Rule V contains the principle that all the concessions made under the Plan would remain valid for a period of five years from the date on which the Plan enters into force. The acceptance of this principle would involve both the binding of the average incidence resulting from the operation of the Plan and binding of all reductions of duties made under it. To meet exceptional circumstances an escape clause has been introduced.

Rule VI sets up a Board of representatives of the participating countries.

Rule VII contains special provisions applicable to countries and customs territories in the process of economic development. The idea that such countries should be entitled to special terms and lighter obligations is a new one, since no such special régime in favour of less-developed countries, exists in the present rules of negotiation.

Rule VIII makes it clear that in the operation of the Plan, participating countries would be governed by certain GATT rules.

The "Low Tariff Club" Proposal of the Council of Europe. The Council of Europe has submitted to the Contracting Parties their proposal concerning a common policy of lowering tariff barriers in Europe. This plan is intended as the first step towards the formation of a European customs union whereas the French Plan is designed for acceptance on a world-wide scale. Under the Council of Europe proposal the participating countries would accept an upper limit of 35 per cent as a maximum for all customs duties, to be observed immediately, and also three duty ceilings - 5 per cent for raw materials, 15 per cent for unfinished goods and 25 per cent for finished goods and food products, to be observed for progressively larger proportions of total import trade up to 90 per cent in the third year.

Since the Eighth Session opened, on 2nd September, the Consultative Assembly of the Council of Europe passed a resolution "expressing the hope that the work of the Contracting Parties on the various plans for tariff reduction submitted to them will lead at an early date to constructive proposals, so that a further step may be taken towards lowering customs barriers."
The Intersessional Committee, to which further consideration of the French Plan has been referred, has been authorized to consider any proposals, including the Council of Europe scheme, that may be referred to them.

The General Discussion. The report of the Working Party, which contains the Plan referred to above, was introduced by the Chairman of the Working Party, Dr. P.R. Botha, South Africa. He said that during the period between the Seventh and Eighth Sessions a number of European countries had agreed, in principle, to the new approach put forward by the French Government and drew attention to the communication from the French Government dated 22 July 1953, in which the Governments of the Federal Republic of Germany, Belgium, Netherlands, Denmark and France stated that it appeared to them that the French proposal would afford the best method to pursue efforts towards a general lowering of tariffs, provided that this proposal should remain of world-wide application.

After reviewing the main principles embodied in the Rules, Dr. Botha stressed that neither the Working Party nor the expert group had passed any judgment on these principles. He said that progress had been made in the consideration of the French Plan in the sense that Governments now had before them a scheme which indicated in definite terms the actual commitments which the acceptance of the Plan would involve. Progress had also been made in the sense that a number of European countries had concluded that the new method offered a fair promise of contribution to the solution of some of the main difficulties in conducting tariff negotiations both in a European and in a world-wide context. Governments would, however, need a considerable time to study the principles and technical implications of the Plan and would first have to see the effect of applying the Plan on their tariff structure.

Mr. Andre Philip, France, said that when his Government had originally introduced the Plan in 1951 they had recognized that it was open to improvement and would require exhaustive study. As a result, the general principles of the French Plan had been respected but the Plan had been given a more concise form and certain gaps had been bridged over. He said that while the Plan was being studied it became apparent that the objective would not be achieved if countries, while carrying out reductions under the Plan, were allowed to maintain certain rates of duty at a very high level, sufficient to paralyse trading in certain goods: therefore, the proposal for ceiling rates (Rule III) had been worked out.

Mr. Philip said that the Plan as it now stood was a practicable scheme which had been sufficiently examined to justify its submission to all governments. He wished to stress two specific characteristics of the Plan. First, its automatic character: in practice, multilateral negotiations as stipulated under the GATT were becoming increasingly difficult and were tending to degenerate into bilateral arrangements. The new formula, however, would oblige all participating countries to make tariff reductions without subordinating them to
concessions having a direct and immediate effect on their economy. Only the rule entailing automatic application would enable barriers to be lowered in a way which no agreement based on compensatory advantages could achieve. Turning to fiscal duties, Mr. Philip said the French Government continued to be convinced that in fully developed countries, in all events, all duties have, in fact, protective effects and that, in order to make the Plan operative, these countries should waive the concept of fiscal duties.

The second distinctive characteristic of the Plan was its world-wide scope. It was clear, he said, that all countries which play an important part in world trade must apply the Plan. If some countries abstained, unjustifiable inequalities as between those which applied and those which did not apply the Plan would be introduced, because non-participants would benefit from all the tariff reductions applied by participating countries. To be effective, the Plan would have to be applied in full by France, the United Kingdom, the Federal Republic of Germany, Italy, Benelux, the three Scandinavian countries, the United States and Canada. He did not think it legitimate to establish intermediary statuses between participation and abstention: this would enable certain important countries to stand aside and reap all the advantages through the most-favoured-nation clause in return for a few compensations.

In conclusion, Mr. Philip said that as it stood, the Plan was a compromise, thanks to the understanding and co-operation which had gone into shaping it. He felt that it would enable the governments to give a favourable answer after it had been further examined by the Intersessional Committee appointed to draft the Plan in its final shape.

Mr. Gunnar Seidenfaden, Denmark, said that the principle of equalization of all tariff levels was of the greatest importance to his Government, as being the only way to obtain a sound division of labour and to attain a really high rate of productivity and a rational pattern of production followed by an increase of living standards for everybody. The earlier rounds of tariff negotiations had had the effect of removing that upper part of the protectionist duties which were, in the opinion of the different countries, not necessary for maintaining a substantially unaltered degree of protection. Since very few results could be expected from the present system of negotiating tariffs the Danish Government welcomed the attempt to find a new system. The value of the French Plan in its present form was that for the first time a detailed, technically developed scheme could be presented to governments and each country could evaluate to some extent what would be its actual obligations.

Turning to the agricultural aspects of the Plan, Mr. Seidenfaden said that as it now stands there was no fair balance between the benefits to be derived by industrial exporters on the one hand and by the exporters of food-stuffs and agricultural products on the other. When the Danish Government, in the last instance, came to decide on their acceptance of the Plan, in its final form, it would be influenced by the wishes of its exporters of agricultural

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products and by the development of international co-operation on agricultural policies. And it was hoped, too, that the finalization of the Plan would coincide with the review of those parts of the GATT that deal with commercial policies affecting agriculture. With regard to the less developed countries he approved of the special arrangements for them under the Plan but urged that they should not use the freedom and the escape clauses to establish behind high tariff walls industries and development programmes which were quite out of balance with conditions in the outside world. In his view the low productivity of agriculture and the low standard of living of a large sector of the farm population in countries with high agricultural protection were caused by the protectionist policies, not vice versa. In conclusion Mr. Seidenfaden said that for Denmark the question of tariff reduction, which was the starting point in co-operation between GATT members, must in future remain a corner stone for their co-operative efforts.

Mr. Werner Hagemann, Germany, said that his delegation considered that the German Federal Government could accept the French Plan in principle, although in their view, certain amendments of detail were required, particularly in the composition of sectors of trade and in the lines of demarcation. He hoped that these questions could be satisfactorily solved and that the Plan would be finalized so as to be applicable to the tariff negotiations which might begin at the end of next year. He said that any reductions of tariffs which might take place in the intervening period should be counted towards the reduction of tariffs foreseen under the Plan.

Mr. Stig Sahlin, Sweden, agreed that the Report (setting out the Plan) should be referred to an intersessional body, and suggested that the Council of Europe plan, which in his view formed an important part of the efforts to reduce tariffs, should in future be formally linked with studies of the French Plan. His Government had some further suggestions to make concerning some of the technical solutions. Turning to more general matters, Mr. Sahlin said that it became obvious during the Torquay negotiations that the low tariff countries were increasingly placed in a more unfavourable position. This was one of the main reasons why it was found necessary to reconsider the adequacy of the present negotiating procedures. In the report of the Working Party some regard had been paid to the special position of low tariff countries, but there was still some way to go. He stressed that the general attitude of the Swedish Government towards the results which may emerge from the further studies will be influenced by the success, or lack of success, in reducing high tariffs and thereby in achieving a more acceptable balance between low and high tariff countries.

Mr. Olyntho Machado, Brazil, said that the French Plan was evidence of how far GATT had moved away from its original task of lowering tariffs and other barriers to trade. While on one day they were studying a plan for tariff reduction, on another day they were considering a request for a waiver related to an increase of tariffs. The reason why GATT had not progressed further was
that the machinery of the International Trade Organization had never been brought into existence. The world, he said, was divided into high tariff countries and "no tariff" countries, rather than into developed and under-developed countries. Brazil could not at this juncture accept the Plan, for national reasons. Brazil could not grant concessions, she could not possibly reduce her tariffs today. Prices had increased, but Brazil had a specific tariff based on weight. Mr. Machado said that his Government could accept the intellectual element of the Plan, but could not accept it in fact. He agreed that the Plan should be kept alive and sent to the Intersessional Committee.

Mr. Sergio Pirboni, Italy, said that from the point of view of his Government, the Plan still had certain imperfections; in particular the Plan was excessively rigid in the application of tariff reductions in a way that did not take account of the fundamental conditions in certain countries. He also criticized the method of determining whether a duty is prohibitive, and suggested that the "beheading" of high duties should be put forward as a recommendation. He also considered that the procedures under the Plan did not sufficiently relate high or low tariff countries with their varying economic and social structures. Nevertheless the Italian Government recognized the French Plan as a step forward in the right direction, thanks to the foresight of the French delegation and the willingness of other delegations to co-operate with them. The difficulties encountered should not discourage further efforts. There was, however, one point the Italian delegation wished to stress, namely that the application of the Plan should be accompanied by an effective liberalization of trade and the suppression of other barriers to trade. When the time came for the Italian Government to decide on its attitude towards the Plan, the solution to the above problems would be taken into account. As regards the proposal submitted by the Council of Europe, Mr. Parboni suggested that it be re-examined by an intersessional body.

Baron C.A. Bentinck, Netherlands, said that it was understandable that a definite solution could not be found for a number of problems which required not only a technical approach but also a decision on substance. The Netherlands Government, although agreeing with the main principles of the Plan, would not be in a position to take any definitive decision in the matter until the open points in the Plan had been settled. He suggested that in place of a group of experts the Plan should now be submitted to an intersessional body, with a representative membership, where delegates would have as much freedom as possible to reach an agreement. The French Plan in its revised form, had benefitted from the inclusion of one of the basic principles of the Low Tariff Club, but he considered that the particular European aspects of the Low Tariff Club would best be left for consideration by other international bodies.
Shri S. Sen, India, said that the French Plan presented practical problems. First the timing factor: they were meeting, he said, in a state of flux; there were various delaying factors, such as uncertainty about United States policy and revision of GATT procedure. No one knew what the situation would be next year. The Plan, as it was, could not be pronounced upon finally this year — and then it might have to be revised to meet new conditions. He felt that the scheme having too many escape clauses and reservations, may involve detailed study of the problem of individual countries and might ultimately be no more satisfactory than the old system. The Government of India had no objection to an inter-sessional body studying the problem further, but unless this question was related to the difficulties arising from discriminatory import restrictions, no suitable solution could be found. Turning to the technical aspects, Mr. Sen said that it would not always be possible for India to separate protective elements from fiscal duties and there was no scope for reduction of these delicately balanced duties. He also pointed out that to make it work properly the French Plan would need very detailed statistics and statistical experts; it would be difficult for many countries to meet these requirements.

Mr. Claude Isbister, Canada, said that the present study would constitute a useful guide for any multilateral tariff negotiation which might take place in the future. There was still some room for doubt, he said, about whether statistical formulae could effectively supersede the system of across the table bargaining product by product. But the Canadian delegation was impressed with the usefulness of the discussions on the French scheme and was glad to be associated with the report on it. Turning to the question of future programmes, Mr. Isbister said that sufficient technical work had been done for the present by the committee of experts and the next step was to ascertain the international trade and financial policies which will be pursued by the governments concerned. Many governments were now reconsidering their financial and trade policies. In advance of making plans for any multilateral negotiations on tariffs and trade restrictions which may take place in the future, it would be necessary to have a clearer picture than is now available of future governmental policies on such important questions as financial and exchange policies, quantitative restrictions, agricultural policy and the responsibilities of debtor and creditor countries. The answers to these questions would provide the framework within which any further trade negotiations would take place. In the meanwhile it seemed premature to give further instructions to a group of experts to consider plans for future tariff negotiations. He suggested, therefore, that the Plan should be referred to the Intersessional Committee with very broad terms of reference to study the developing situation and to initiate further plans and studies which may be needed. The Report in its present form, he concluded, should be referred to governments for consideration.

Mr. J. Fletcher, Australia, said that governments should be given ample time to examine the Plan as to its practicability and acceptability. He reminded the delegates that many people in Australia think there is more to be gained by retaining tariffs to protect industries than from the effects of lowering tariffs in other countries. The Australian delegation, he said,
had no authority to give the Plan any measure of support. He agreed that the Plan should be submitted to governments for their consideration, but if there was to be continued work on the Plan, Australia would have to enter a reservation.

Mr. C.W. Sanders, United Kingdom, said that he regarded the Report on the Plan as a technical study without prejudice to policy issues, and the United Kingdom had participated in the working groups on this basis. At first sight the Plan seemed highly complicated and this left some doubt as to whether in its present form it would be acceptable and workable. He considered that some points, partly of a technical and partly of a policy character (fiscal duties, for example) needed further study. Turning to the wider aspects, Mr. Sanders said that future consideration of the proposal could not be divorced from the general question of the approach to further reduction of tariffs, having regard to the vital need to secure a better balance in trade between the dollar and the non-dollar world. The Intersessional Committee should be given powers to review, at the appropriate time, the techniques for future tariff negotiations including the French Plan, the Council of Europe scheme and any other suggestions which might be put forward.

Mr. Winthrop Brown, United States, said that the real achievement was that governments were now in a position to evaluate what the Plan would mean to them. He agreed with the Canadian delegate that it would be unwise to appoint a new working group, but that the Plan should be considered by an intersessional committee, working flexibly and on a broad base. The Plan should also be transmitted to governments. Mr. Brown said that the United States Government intended to study the Plan carefully and that it would be sent to the Randall Commission (Foreign Economic Policy Commission) to illustrate a line of thinking on the subject and a possible line of approach.

Mr. Aziz Ahmad, Pakistan, said that for countries in a certain stage of economic development there were several aspects about participation in GATT which were not fully realized by other contracting parties. Although under-developed countries did obtain indirect benefits from expanding world trade they received no quid pro quo for reducing or binding their tariffs. The tariffs in such countries, he said, are revenue tariffs - and they make a substantial contribution to the Treasury. It was important that such countries should be made to feel that they obtained a real quid pro quo for tariff reduction. Mr. Aziz Ahmad said that it was very important that the Plan would mature about the same time as the revision of GATT, because in present circumstances, until the GATT was revised, it would not be possible for under-developed countries to participate in the Plan. He felt that the problems of these countries must be studied more deeply and asked whether the Plan could really be made to work among countries with greatly varying economies.

Mr. Alexis Dubois, Belgium, said that the Belgian Government agreed with the main lines of the Plan, but could not take a definite stand until they knew how many governments would support it. He therefore supported the sending
of the Report on the Plan to an intersessional committee with sufficiently wide terms of reference to resolve outstanding problems. While his Government did not like every aspect of the Plan, it recognized that the Plan had the great merits of making future tariff negotiations more equitable, thus contributing to increased international trade.

Mr. J.J. Pansegrouw, South Africa, said that there could only be a full understanding of the Plan when governments have had time to evaluate it. Only then could governments express their views as to the feasibility of the Plan.

Summarizing, the Chairman said there was agreement that no decision on the Report on the Plan should be taken at this time but that it should be referred to governments for consideration and comments. The Intersessional Committee would, at the appropriate time, consider problems of substance arising from the Plan against the background of the adequacy of the present negotiating procedures, as well as any technical aspects, together with the views of governments when they had had time to study the Plan.

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