"A New Proposal for the Reduction of Customs Tariffs":
New GATT Pamphlet Published

1. At the GATT Eighth Session in October 1953 the plan of the French Government for a new method of reducing tariffs was presented as a technically feasible scheme and was submitted to governments for study so that they can give their views in the course of 1954.

The purpose of the pamphlet, "A New Proposal for the Reduction of Customs Tariffs", is to explain in simple language what the plan is and how it would work. The pamphlet also includes the Rules of the Plan, in which the commitments are set out and an Annex in which some of the technical regulations and definitions are formulated.

2. The first section of the pamphlet - Origin and Development of the Plan - refers briefly to the technique for tariff reduction which in the three postwar tariff conferences - Geneva in 1947, Annecy in 1949 and Torquay in 1950-51 - led to remarkable results: in all, some 58,000 concessions were negotiated among countries that conduct four-fifths of world trade. It states that "although this method of negotiation was responsible for the fruitful results of the postwar conferences, there was some feeling at Torquay ... that the time had come to search for new methods".

After explaining the technique of product by product bargaining on which the Geneva, Annecy and Torquay negotiations were based, the pamphlet states that "one of the principal reasons for the need to find a new approach to tariff reduction lay in the weak negotiating position of the countries
with relatively low tariffs ... At Torquay these countries considered that the renewed binding of their tariffs should be accepted as a concession equivalent to further reductions in the higher tariffs of other countries. But when they came to negotiate they found that the high tariff countries were not prepared to make further reductions merely in return for a rebindung of low rates .... Therefore, in their opinion, (i.e. the opinion of the low tariff countries) it was essential that the negotiating technique should be reconsidered if further progress was to be achieved in the process of tariff reduction. For this and other reasons efforts have been made since the close of the Torquay Conference to find new methods of reducing tariffs by collective action under the General Agreement).

3. The pamphlet reviews the history of the new plan. The first proposal was put forward by the Benelux Governments. Their scheme was directed mainly towards the reduction of the disparity in the tariff levels within Europe. But this would have involved the unilateral reduction of duties by high-tariff countries - reductions which would have had to be extended to non-European countries under the most-favoured-nation provisions of the General Agreement. As an alternative, the French Government suggested a plan of broader scope which, it was thought, would meet the difficulties of the Benelux Governments and which would, at the same time, require of non-European countries the same kind of reductions as would be required of European countries. This French plan called for an agreement among governments to reduce their tariff levels by 30 per cent in three years.

4. In brief, what are the main characteristics of the new approach to tariff reduction? "In place of bilateral negotiations between countries on a product by product basis aimed at a strict balance of concessions, there would be an obligation on all participating governments to reduce the protective incidence of their tariffs in accordance with a common standard .... The balance for any particular country is measured not by setting off specific concessions obtained against specific concessions granted, but by setting off overall reductions made by it under the common standard against overall reductions made by others under the same standard. Another feature of the plan is that it requires efforts proportionate to each country's tariff level. And, finally, it provides an additional obligation to reduce individual rates of duty that exceed given levels".

5. The Governments of Belgium, Denmark, France, the Federal Republic of Germany and the Netherlands have indicated their support of this plan in principle, but clearly, states the pamphlet, it cannot be brought into operation unless it is accepted by all the main trading countries in Europe and North America.

6. How the plan would work

(a) 30 per cent reduction in stages of 10 per cent

Each government participating in the plan would undertake to reduce the average incidence of its customs tariff in a base year by 30 per
cent, in stages of 10 per cent in each of three successive years. Governments would not be required to reduce every tariff rate by this amount, for within certain limits they would be free to choose the items on which to make reductions. The reductions would, however, have to be distributed throughout the tariff and not concentrated in any one part of it, thus ensuring that the benefits would accrue to all supplying countries even to one whose interest might be limited to products of a certain class. In order to achieve that object the tariff would be divided into sectors covering broad categories of related products, such as primary foods, products of the chemical industry, etc., and the 30 per cent reduction would be applied to each sector.

An example: The average incidence of the tariff in each sector is taken to be the percentage of the value of imports collected by the customs. If, for example, the value of the imports of the items in a certain sector of the tariff is 1 million francs and the duties on those items are 100,000 francs, the average incidence for that sector would be 10 per cent. In this example, assuming no change in the total value of imports in the sector, the plan would require reductions of duties sufficient to bring the duty collections down to 90,000 francs in the first year, to 80,000 francs in the second and, finally, to 70,000 francs in the third year.

(b) How the plan would work for low tariff countries

Reduction by 30 per cent is the general rule, but less than that is required of countries having comparatively low duties. This would be accomplished by the establishment of a demarcation line and, below that, a floor for each sector. A country whose average duty incidence in any sector was below the demarcation line would be required to make less than the 30 per cent reduction, and if the incidence was below the floor rate no reduction at all would be required.

(c) The special obligation to reduce all very high duties

Each participating government would undertake the further obligation to reduce all duties which exceed certain upper limits. If a country has some very high duties in a given sector it will have to reduce those duties to the level of the ceilings during the first three years. These reductions can be counted in the reduction of the average incidence for that sector, but will have to be carried out even if no reduction is required under the 30 per cent rule.

Ceiling rates to be fixed. It is proposed that a ceiling rate should be fixed for each of the four categories of imports, namely industrial raw materials, semi-finished goods, manufactured articles and
agricultural products. The ceilings tentatively suggested appear in paragraph 9 of the Annex to the Rules. If this additional obligation were not included in the plan there would be no guarantee that the high duties which are the greatest obstacles to trade would be reduced.

(d) **Freedom to select items for reduction in each sector**

Apart from their obligation to observe the ceiling rates, and to achieve a definite quantum of reductions in the course of each of the three years, governments would be free to select the items in each sector on which to make reductions and to determine the degree of reduction for each item. Moreover, the method by which the reductions would be effected would be left to the discretion of each government. In some cases reductions would be brought about unilaterally, while in others they might result from bilateral negotiations on the basis of reciprocity; in other cases again they might be made under regional plans for economic co-operation. No government would be obliged to make reductions on the same items in each of the three years; that is, a rate of duty which is reduced in the first year would not need to be further reduced.

(e) **Special arrangements for less advanced countries**

Governments of countries recognized as being in the process of economic development and which elect to be governed by special rules would not be required to make duty reductions on products included in their development programmes. The right to exclude any particular product from the operation of the plan would be granted for a fixed period of time. These exclusions would be limited to products covered by a country's programme of economic development on which production had started before the plan entered into operation or was expected to start soon after the exclusion was approved. Further, for these countries the average incidence of duties would be computed on the tariff as a whole instead of by sectors so that they would have ample freedom in the selection of items for the application of the percentage reduction. The same advantages would be available to overseas customs territories of industrialized countries which are recognized as being in the process of economic development.

(f) **Exclusion of fiscal duties and other items**

The plan also provides for the exclusion of certain items from the operation of the plan, i.e. governments could omit the value of imports of these items and the duty collections from the calculation of the average incidence and also omit those items from the obligations to reduce rates of duty. In the first place, governments would be permitted to exclude fiscal duties, i.e. duties which are imposed for
the purpose of raising revenue rather than to afford protection to domestic production. Secondly, they could exclude duties on goods imported mainly from countries which do not participate in the plan. This exclusion is provided for because governments would probably not wish to extend the benefits to countries outside the General Agreement and because the plan is based on the principle that every reduction of duty would have to be extended to all the contracting parties to the General Agreement whether they participate in the scheme or not.

(g) **Length and conditions of operation**

It is proposed that the plan should operate in the first instance for a period of five years. The reduced rates of duty and the reduced average incidences in the various sectors would remain bound until the end of that period. There is, however, an escape clause under which exceptions to this rule could be allowed. A government could ask for authority to modify a duty which had been reduced on the ground that the maintenance of the bound rate would involve serious economic or social dangers. In addition a government could be authorized in exceptional circumstances to maintain a particular rate above the ceiling fixed for goods of its category.

(h) **Administration of the plan**

Once in operation the plan would be administered by a permanent board composed of all participating countries. For administrative purposes, the board would be considered as a subsidiary body of the Contracting Parties. Unless all contracting parties should decide to participate, the plan would be embodied in a separate instrument governed by its own provisions, but in order to safeguard the benefits to be derived from the duty reductions this instrument would incorporate some of the provisions of the General Agreement such as those relating to margins of preference and the imposition of other duties or charges. The plan would not affect the obligations of contracting parties under the General Agreement, it would merely impose additional commitments.

*Note:* Those who find they need more detailed information should ask the GATT secretariat for copies of the full report on the plan, adopted at the Eighth Session of the GATT in October 1953.