Summary Record of the Third Meeting of the Tariff Negotiations Committee

held at the Marine Spa on Wednesday, 4 October 1950, at 10.30 a.m.

Chairman: The Honorable L.D. WILGRESS (Canada)

Subjects discussed:
2. Observers to Meetings of Tariff Negotiations Committee.
3. Continuation of Discussion on General Problems of Tariff Negotiations.


Mr. VAN BLANKENSTIJN (Netherlands) introduced and summarized the report which was concerned with:

(1) Negotiations under Article XXVIII

(2) Scheduling of further meetings for the opening of negotiations

(3) The situation in respect of negotiations with Korea

(4) The status of the German tariff

Mr. LE GHAIT (Belgium) said his delegation approved the second Report of the Working Party but wished nevertheless to make it clear that the notification concerning negotiations under Article XXVIII only related to the duration of the present conference. As had been stated by the Benelux Delegations at the Fourth Session, the decision of their governments concerning the prolongation of the assured life of the Geneva and Annecy Schedules for a further period of three years was dependent to a great extent on the results of the present conference which in their opinion should bring about a considerable decrease in the present disparity between tariff levels particularly in Europe.

Mr. HERRERA ARANGO (Cuba) and Mr. PASTORIZA (Dominican Republic) said that because of certain consultations in progress they would not be able to meet the deadline set by the Working Party.

The CHAIRMAN assured the two speakers that note would be taken by the Committee of their statements but he suggested that the procedure set out in the report be followed.

The second Report of the Tariff Negotiations Working Party was approved.

2. Observers to Meetings of the Tariff Negotiations Committee (GATT/TN.2/19).

Mr. LACARTE (Uruguay) proposed that invitations be sent to the Governments of El Salvador, Guatemala and Mexico to send observers to the Tariff Negotiations Committee and Sir Stephen HOLMES (United Kingdom) proposed the addition of the Government of Venezuela to the countries mentioned by Mr. Lacarte.
The Committee agreed to these proposals.

Mr. HERRERA ARANGO (Cuba) welcomed the decision of the Committee and suggested that the invitation should impress upon those governments the importance of the secrecy obligations imposed upon all participating governments.

3. Continuation of the Discussion on General Problems of the Tariff Negotiations

M. LECUYER (France) expressed his understanding for the point of view of the low-tariff countries. He agreed that the present negotiations would have no meaning if they did not result in a general lowering of tariffs. He also agreed that the low-tariff countries could not bind their tariffs unless the high-tariff countries substantially reduced theirs. Though it was true that tariffs could not easily be brought to exactly the same levels because of the varying needs for protection, it was equally true that high tariffs hampered the process of liberalization and consequently reductions would have to be made. For this reason his government had taken the path of tariff reduction and, though it might not be able to maintain all the concessions contained in the schedules, his delegation had received broad powers for the present negotiations.

Mr. PENTEADO (Brazil) wished to make clear, as a preliminary step to any negotiation or re-negotiation of tariff concessions, that his was a "low-tariff country". Brazilian tariffs, based on a system of specific duties, did not maintain the same level of incidence when fluctuations occurred in international prices or in the value of the national currency. Brazilian tariffs, already among the lowest in the world, had been made still lower by the continued rise of prices abroad, and by a decreasing buying power at home. As a result they found themselves in a position that had been adequately described on page 9 of "Liberating World Trade" in the following words: "The low tariff countries now fear that there are no further concessions of value which they can offer as their part of a bargain for obtaining significant concessions from the countries with high tariffs."

Their position as a low-tariff country was definitely established at Geneva, in 1947, when they were allowed to negotiate on the basis of their existing tariffs, adjusted by 40%. The Brazilian Congress, however, had not carried out an uniform increase of the whole tariff and, except for a few items, the bulk of the duties had been increased only by 10 or 20 per cent, which left them in a very disadvantageous position to negotiate at Annecy and at Torquay.

Despite her position as an economically under-developed country, Brazil was now aiming at a gradual elimination of the quantitative import restrictions which she had been compelled to adopt in view of a persistent disequilibrium in the balance of payments. However, once these restrictions were abolished, the full impact of GATT concessions would be felt by the Brazilian economy. Therefore the peculiar position of economically under-developed countries should be taken into consideration during the tariff negotiations now starting. It would be inconsistent - to say the least - that the U.N.O. should try to protect the economically under-developed countries through the Economic and Social Council with its program of Technical Assistance - and that the vital problems of the same under-developed countries should be ignored in the GATT negotiations.

Mr. PENTEADO said that the Brazilian Delegation would like to see immediately applied the rule that the binding of low tariffs or of duty-free treatment is to be considered as a concession equivalent to a reduction of high tariffs. As it is said in the report already quoted: "the Contracting Parties have drawn attention to the fact that this is a rule of particular importance and that observance of the rule is expected in the Torquay negotiations." Indeed, the observance of that rule constituted the only possibility for low-tariff countries to negotiate.
Mr. FÁSTOHIZA (Dominican Republic) made the following statement:

"The Dominican Delegation wishes to state that it is very sympathetic to the points of view regarding the relative weight of tariff levels as set forth by the Delegations of Benelux, the Scandinavian countries and especially by the representatives of India and Cuba. A major contribution to the development of world trade can only be made by giving every country equal chances to compete with all others in accordance with the time-honored law of the division of labor.

"Countries like the Dominican Republic which have specialized in the production of a few agricultural commodities for world consumption depend in their development on an unhampered access to the main markets of the world for these commodities, - unhampered not only by quantitative restrictions but also by direct or indirect barriers of excessive levels of duties, sometimes in the form of margins of preferences which are in practice tantamount to prohibitive tariff rates. It is the hope of the Dominican Delegation that during the tariff negotiations in Torquay ways and means can be found to lower, if not to eliminate, these barriers to trade which tend to deprive under-developed countries of the opportunity to make full use of their natural resources and to increase the standard of living of their population by their own efforts.

"The Dominican Delegation clings to the hope that during the tariff negotiations here the highly-developed countries will give earnest consideration to the fact that in some cases the under-developed countries are deprived by high tariff rates of the opportunity to process their own raw materials, but are forced to ship these to the highly-developed countries for processing notwithstanding the fact that technical progress has made possible the processing of these commodities as efficiently and as cheaply in the country of origin as in the highly-industrialized countries. While the value added by processing these commodities means very little in the highly-developed countries in terms of percentage of national income, it would mean a considerable increase of the national income in the under-developed countries. Thus it would mean a great step forward in achieving a higher standard of living in those under-developed countries.

"The Dominican Delegation is of course very realistic regarding the possibilities of removing at once these barriers to a sound industrialization of under-developed countries, but it firmly expects that during the negotiations in Torquay some progress will be made toward a partial solution of these urgent problems which are of vital importance to the under-developed countries."

Mr. ARGYROPOULOS (Greece) referred to the remarks of the delegate of France on the necessity for different countries of different levels of protection. The nature of his own country's economy was an illustration of the point. Concessions on industrial products might have very grave consequences, and it was difficult to see how concessions obtained from other countries on Greek exports could be considered as providing equivalent compensation. Their exports were mainly products which were commonly classified as non-essential and which in time of crisis could not easily be sold. He referred also to Greek tobacco, which because of its quality might receive relatively more lenient treatment, but this was not easy to obtain because of important interests.

He expressed his understanding of the aim of the conference, but he did not think that countries should be asked to reduce both quantitative restrictions and tariffs at the same time. At Annecy Greece had reduced the tariff to the level prevailing before the war when internal costs of production were much lower. The sharp rise in costs had resulted in a level of protection which was considerably below that of pre-war years.
Mr. PERERA (Ceylon) made the following statement:

"The Ceylon Delegation is unable to subscribe to the unqualified thesis that the binding of a low tariff should be regarded as sufficient compensation for the substantial reduction of a high tariff. Nor does it agree with the attempt that is now being made to make a simple division between high-tariff countries and low-tariff countries, for the purposes of tariff negotiations, quite irrespective of the stage of economic development of the countries concerned.

"We agree that highly-industrialized countries, and particularly those countries which have developed behind stiff tariff walls, and which still maintain them to a large extent, should give substantial reductions of tariffs in compensation for comparatively small reductions by a low-tariff country. But, to class an undeveloped country, which may maintain high tariffs, in the same category as a highly-developed country which maintains similar tariffs, and to demand from her substantial reductions of tariffs in return for a binding of free entry or of a low tariff by an economically developed country is not only unjustified but also contrary to the very objectives for which the G.A.T.T. stands. As was pointed out by the representative of India on Monday, an undeveloped country uses its tariffs for revenue purposes, because there is no other source of income which the country can tap, or for protective purposes. Even a small reduction of its tariff by such a country therefore may mean a very substantial sacrifice.

"It is incumbent on the Contracting Parties to concede this point, as a refusal to recognise it would be tantamount to an attempt to make the G.A.T.T. an instrument to freeze the existing pattern of industrialisation and to strengthen the advantage which advanced trading nations have over undeveloped countries. It is an historical fact that most advanced trading nations of the West have built up their economies by innumerable devices of trade restrictions and even of all-out protection.

"There is another point which we would like to bring to the notice of this Committee. A reduction of tariffs on raw materials, which are the main, if not the sole, export of undeveloped countries, may not have an expanding effect on their trade to the same extent as a reduction of tariffs on manufactured products - and this for three reasons. Firstly, in many under-developed countries a limit has almost been reached to the expansion of agricultural products which they export. Secondly, even if expansion is possible, it will take many years before such expansion can take place. And thirdly, the price of raw materials forms only a small part of the cost of the finished product which the raw material helps to manufacture; therefore, a reduction by, say, 10% of the duty on an industrial product is not quite the same thing as a 10% reduction of duty on an agricultural raw material. The expansionary effect on trade of the former reduction is much larger than that of the latter reduction. Here, therefore, is another reason why the indiscriminate application of the thesis that the binding of a low tariff should be regarded as compensation for a substantial reduction of a high tariff, is unworkable.

"In conclusion, we would like to remind this Committee that in the view of the Ceylon delegation a mere expansion of trade is not the sole purpose of the G.A.T.T. To repeat the preambles to the G.A.T.T.: "Relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment on a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods." To require an under-developed country to lower its tariffs substantially in return for freezing the existing low tariffs of economically advanced countries would be to act quite contrary to the aims of the G.A.T.T. Particularly, you would be freezing us - Ceylon - at the stage of low economic development in which we are at present."
Mr. MACFARLANE (Southern Rhodesia) said that newcomers in the field of industrial development lacked the experience of the older countries as to the form of industrial activity which could best be pursued by their countries. Southern Rhodesia had only recently established an iron and coal industry and was setting up a ferro-chromium industry.

The position of his country was complicated by the increase of native demand consequent upon the contact of African peoples with modern forms of life. The economic structure of countries which found themselves in this position was subject to continuous change. Caution was needed, and the principle that the binding of low rates of duty should be regarded as equivalent to substantial reductions of high rates could not easily be applied to his country; each country had special requirements and a special economic structure which made it difficult to apply a common rule to all.

Mr. von MALTZAHN (Germany) made the following statement:

"The various preceding statements have explained both the views of the countries with particularly low tariffs and those of countries with higher rates of duty. It might be useful to add the views of my government hereon. I would like to show the general lines of our Customs policy as well as the considerations on which the establishment of our new tariff was based.

"I wish to stress that the Federal Republic of Germany shares the views expressed by those representatives who were speaking on behalf of the countries with low rates of duty. This affirmation results from the fact that the Federal Government, in accordance with the basic principles of the Havana Charter, favours a removal of trade barriers with the aim of establishing a free multilateral trade system. We likewise welcome the other statements made by the representatives of the low-rate countries expressing the view that the level of customs duties in each country should be approximately equal. Otherwise, the countries with low rates of duty would be prejudiced. It is obvious that pressure of exports of all countries with comparatively high rates of duty will weigh on the countries with low rates of duty, a development which would automatically lead to an impeding rather than to promotion of trade. Naturally, this pressure would be less heavy if the level of duty in the various countries was approximately equal. In that case the export drives would be directed more evenly to all participating countries, thus increasing the volume of foreign trade.

"According to these principles, the Federal Government would be prepared to reduce its rates of duty, provided that the countries with comparatively high rates decrease their tariffs. But in view of the actual level of the duties of other countries, the German economy does not feel strong enough to adopt rates of duty lower than those proposed, all the more so since the rates of the Draft Tariff are mainly lower than the rates of countries with comparable economic structures.

"The Federal Government is likewise willing to continue its liberalisation measures initiated under the OEEC and, furthermore, to extend the present liberalisation to countries outside the OEEC, provided, of course, that full reciprocity be ensured. In that event, the effects of liberalisation should, in my opinion, not be compromised by any impeding measures of duty policy.

"When establishing the rates of duty of the Federal Republic's Draft Tariff as submitted to you, special consideration had to be given to the fact that the structure of the German economy is no longer what it used to be, and that owing to the well-known particular difficulties of post-war conditions. In addition to the changes of the economic structure there is also a transformation of the social order, particularly due to the constant influx of expellees. For all those reasons it was impossible to effect the necessary introduction of ad valorem rates instead of specific rates by a merely mathematical method. As this alteration had to be made with due consideration to the changed conditions it was inevitable that not only reductions but also
increases had to be introduced. The level of duties as a whole, however, has been maintained, if not even reduced. In this connection I should like to state that we have endeavoured to pursue a duty policy as moderate as the justified needs of our industrial and agricultural production allow, and I am glad to say that our Draft Tariff has repeatedly been recognised as a moderate one.

"Finally, I wish to recall the highly important statements made by the representatives of India and Cuba referring to the special situation of countries with undeveloped or underdeveloped industries. We are of the opinion that it would not be contrary to the idea of eliminating the disparity of protection if such countries were allowed higher duties during the period required for the development of their industries. On the other hand, it is assumed that these countries will admit that the supplying of producers' goods and highly developed consumer goods for industry, agriculture, mining, transport and other purposes, is of no less importance to them than their raw materials to the more highly developed industrial countries."

Mr. MOCTAMO (Philippines) presented the following statement:

"The Philippine Government is participating in these tariff negotiations for the first time. We want to start right by stating our position as explicitly as we can to this conference.

"Compatible with our present treaty obligations and our legitimate aspirations to make full use of our undeveloped resources, we subscribe to the desirability of gradually reducing tariffs and all other barriers to international trade. We share the views of the low-tariff countries in this particular regard when they voiced their pleas that in the current negotiations the principle that a binding of low tariffs be considered equivalent to a substantial reduction of high tariffs be fully applied in practice by all countries here negotiating, for that would go a long way towards hastening the realization of the objectives for which these conferences are held.

"As an under-developed country, the Philippines shares the position taken by the delegate for India regarding the effects of tariff concessions on the economic development of certain countries not as fully developed as others. It is recalled that the fuller use of the resources of the world and the expansion of production are as paramount objectives of the GATT as the reduction of tariffs. The fact that some requests for tariff concessions may not be granted by the Philippines need not imply that we are in any way adverse to the ideals of the GATT, but should be considered as an endeavour on our part to make full use of our resources with a view to expanding world production of certain products for which we have all the essential raw materials to industrialize. The retention of the tariff in this instance would be indispensable for us to overcome the temporary advantage in technology and other industrial advances enjoyed by others but who are less favorably situated than our country insofar as their raw-material availabilities are concerned.

"Within the scope of the above-described reservations the Philippines is for the gradual emancipation of world trade from all kinds of barriers to international commerce."

Mr. AZIZ AHMED (Pakistan), pointing out that his country was almost entirely dependent on imports for manufactured products, said that his Government had reduced or bound the duties on 20% of the tariff items covering industrial products. The tariff in his country had not only a protective but also a fiscal purpose. The reduction of the duties on tobacco, for instance, had represented for his country in the year 1948/49 a loss of substantially more than half a million pounds sterling. His country had very few manufactures, and therefore had little to demand from other countries; Pakistan's exports being essentially raw materials and primary commodities. He thought
he could safely say that the total value of their exports of manufactures was considerably less than the figure representing the loss of revenue suffered by them on the concessions they already granted. He therefore hoped that other countries would show an understanding of the situation of his country in the course of the negotiations.

Mr. ZORLU (Turkey) said he had heard with great interest the statements made by the various delegations. Turkey came to the Torquay negotiations with a relatively low tariff, and requests for concessions which concerned mainly items such as raw materials and consumers’ goods of primary necessity. Turkey, an under-developed country, had studied with the greatest sympathy the requests submitted by various countries, and had made considerable efforts to meet them within the limits of her possibilities. But the Turkish Delegation wished to call the attention of the Committee to the special situation of under-developed countries, a situation which had been so well explained by previous speakers, particularly by the delegates for Greece and India. He wished to stress particularly that the foreign trade of these countries was largely dependent on the export of a few products and that the advantages which might accrue to them as a result of their negotiations would be limited and would depend on the concessions that they received on those products. As far as Turkey was concerned these products were principally tobacco and dried fruit, which made up more than 50% of their exports. The Turkish Delegation was of the opinion that in the course of the negotiations they must avoid applying the same rules to all countries indiscriminately; each case must be examined on its own merits and in conformity with the provisions of the General Agreement, and due account should be taken of the effective balance that must be achieved as between the concessions granted and the concessions received.

Mr. KARTADJOEMENA (Indonesia), associating himself with the remarks of India and Ceylon, stressed the fiscal character of his country’s tariff which was their main source of revenue.

The CHAIRMAN said they had had a very useful discussion which constituted a suitable introduction to the tariff negotiations. Any further consideration of these problems could take place only in the course of the negotiations which were to be guided according to the principles already agreed upon and determined. The negotiations were being carried out on the basis of Article 17 of the Havana Charter which contained the rule, often quoted in the last two meetings, that: “The binding against increase of low duties or of duty-free treatment shall in principle be recognized as a concession equivalent in value to the substantial reduction of high duties….” Another important principle of Article 17 was that: “No participating government shall be required to grant unilateral concessions or to grant concessions to other governments without receiving adequate concessions in return.” Further, sub-paragraph (d) of paragraph 3 of Article 17 specified that: “In any determination whether a government had been reasonably prevented from becoming a contracting party to the General Agreement, ……..the organization shall have regard to all relevant circumstances including the development, reconstruction and other needs, and the general physical structures of the governments concerned and to the provisions of the Charter as a whole”.

Article 17, he repeated, provided the basis on which the negotiations were to be conducted and the Tariff Negotiations Working Party or the Tariff Negotiations Committee provided the machinery for ironing out differences which might arise as to the interpretation of these principles.

The meeting rose at 12.45 p.m.