At its meeting of 25 June 1955 the Intersessional Committee examined the report (L/366) on the measures taken by the French Government to implement its undertaking to remove as soon as possible the special temporary compensation tax introduced by Decree No. 54-438 of 17 April 1954. The Committee expressed gratification with the action taken to reduce the scope of the tax, in particular with the action taken under the provisions published in the Journal Officiel of 23 June 1955. The Committee called upon the French Government to make further efforts and to submit a report to the CONTRACTING PARTIES on the progress achieved by 1 September 1955.

Furthermore, several members of the Committee expressed the desire that the report should include statistical data which would enable the contracting parties to determine the incidence of the tax on their trade, and to assess the full significance of the measures taken by France since 17 April 1954 towards the gradual elimination of the tax.

In the report which it has the honour to submit to the CONTRACTING PARTIES the French Government has endeavoured to supply to the greatest extent possible the information which had been requested. This report includes:

1. a statement of the circumstances and reasons which led to the introduction of the special temporary compensation tax;

2. indications relating to the measures taken towards the removal or the reduction of the tax;

3. information on the basis of which the incidence of the tax on French imports can be assessed;

4. details concerning the measures envisaged for the gradual elimination of the tax.

* * *

1 The Annexes will be issued separately in an Addendum to this Document.
When it signed the convention on European Economic Co-operation on 16 April 1948, the French Government undertook to liberalize part of its imports on private account from OEEC countries. Until February 1952 France fully met her obligations. In February 1952, the liberalization measures which then affected 75 per cent of French imports on private account from other OEEC countries had to be withdrawn for balance-of-payment reasons. However, in a resolution adopted on 30 October 1953, the Council of OEEC called upon the French Government to indicate what measures were envisaged for the purpose of retaining the implementation of the undertaking to liberalize 75 per cent of French imports from OEEC members.

The French Government then stated that it regarded the gradual liberalization of trade as a necessary stage within the framework of its plan for economic expansion, which had been approved by Parliament. However, anxious as it was to proceed with the necessary transitional measures in order to avoid a possible set-back the French Government was of the opinion that trade liberalization should be accompanied by the imposition of a provisional tax on imports, irrespective of their origin, the tax to be computed in such a way as to mitigate the consequences which might result from existing disparities between French and foreign price levels. The rate of the tax was fixed at 15 per cent, but it was recognized that the rate could in some cases be reduced to 10 per cent in order to promote traditional imports.

The purpose of the tax is in no way to substitute tariff protection for the incidental protection resulting from quota arrangements, nor to act as an increased incentive to exports; its sole objective is to enable France to eliminate quantitative restrictions on imports from other OEEC countries.

The French Government, basing itself upon the provisions of the General Agreement, had thought that the imposition of such a tax was permissible. The CONTRACTING PARTIES have ruled otherwise; they came to the conclusion that the effect of the tax had been to increase the rates bound under Article II of the General Agreement, and to increase the incidence of preferences in excess of the maximum margins permissible under Article I. The French Government has accepted this ruling and has undertaken to remove the tax as soon as possible; such had in fact been its intention already since a general measure was taken on 16 November 1964 to reduce the rate of the tax on items liberalized in April 1954 from 15 to 10 per cent and from 11 to 7 per cent respectively.

It was the application of this tax which made it possible for France gradually to raise her percentage of liberalization from 18 per cent in Autumn 1953 to 53 per cent in April 1954, 65 per cent in October 1954, then, on 1 April 1955, to 75 per cent for all imports, 61.6 per cent in the case of agricultural products, 93.6 per cent in the case of raw materials and 61.2 per cent in respect of manufactured articles.

* * *

* * *
THE MEASURES TAKEN TOWARDS THE REMOVAL OR THE REDUCTION OF THE TAX

Annexes I and II incorporate:

- the list of items in respect of which the compensatory tax has been removed with indications as to the rates previously in force and the date on which the measures were taken;

- the list of items in respect of which the rate of the tax has been reduced with indications as to the former rates and the new rates as well as the date on which the measures were taken.

A study has been made (see Annex III) for the purpose of determining to what extent the incidence of the tax has been reduced as a result of the removal or the reduction of the tax, as the case may be. On the basis of imports for the first six months of 1954 (monthly average), the object of the study was to make a comparison between the distribution of imports subject to the tax as on 1 September 1955 into various categories depending on the rate applicable, and the breakdown of imports which would have existed if the initial rates had been maintained.

The following table shows that the tax was removed or reduced on more than 70 per cent of the volume of items which were imported during the first six months of 1954 and which were submitted to the rate of 15 per cent when the liberalization measures were taken. In the case of items which were initially subject to the rate of 10 per cent, the reduction or the elimination of the tax has affected about 95 per cent of the imports of the corresponding products during the first six months of 1954.

On the whole, the removal of the tax has affected about 10 per cent of the volume of imports of the products to which the tax had been applicable.

Base: Imports first six months 1954
(Monthly average)
In million Frs.

<table>
<thead>
<tr>
<th>Distribution if initial rates had been maintained</th>
<th>Distribution under system in force on 1.9.1955</th>
</tr>
</thead>
<tbody>
<tr>
<td>No tax ..........</td>
<td>-</td>
</tr>
<tr>
<td>7% &quot; ..........</td>
<td>-</td>
</tr>
<tr>
<td>10% &quot; ..........</td>
<td>1,811</td>
</tr>
<tr>
<td>11% &quot; ..........</td>
<td>-</td>
</tr>
<tr>
<td>15% &quot; ..........</td>
<td>5,851</td>
</tr>
<tr>
<td>TOTAL ..........</td>
<td>7,662</td>
</tr>
</tbody>
</table>
The aggregate effect of the removal or of the reduction of the tax can be assessed if one multiplies the rate of the tax by the volume of imports (base, first six months 1954), and if one compares the figures arrived at in the two sets of circumstances referred to above (see Annex III). The general reduction effort can thus be expressed as follows:

\[
\frac{1,056 - 760}{1,056} = 28% 
\]

THE PERCENTAGE OF TOTAL IMPORTS SUBJECT TO THE TAX

The table which appears in Annex IV gives the breakdown for the various rates of the tax between imports (monthly average for the first six months of 1954) from OEEC members and from non-OEEC countries. This breakdown has been effected on the basis of the tax system in force on 1 June 1955. In other words, the breakdown system does not take account of the reduction and elimination measures taken after 1 June 1955.

Imports from all countries of items subject to the tax amount to 7.9 percent of the total import trade. They can be divided as follows:

<table>
<thead>
<tr>
<th>Rate of Tax</th>
<th>OEEC Members</th>
<th>Non-OEEC Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>1.8%</td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>11%</td>
<td>3.6%</td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td>2.4%</td>
<td></td>
</tr>
</tbody>
</table>

Imports of taxed products from OEEC members and from non-OEEC members represent respectively the following percentages of total imports:

<table>
<thead>
<tr>
<th>Rate of Tax</th>
<th>OEEC Countries</th>
<th>Non-OEEC Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>7% Tax</td>
<td>2.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>10%</td>
<td>0.2%</td>
<td>-</td>
</tr>
<tr>
<td>11%</td>
<td>6.9%</td>
<td>1.1%</td>
</tr>
<tr>
<td>15%</td>
<td>3.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>13.5%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
The measures concerning the elimination or the reduction of the tax which were taken in June and August 1955, and which have not been taken into account in the breakdown between OEEC and non-OEEC trade, represent roughly 11 per cent of imports from all sources of items which were subject to the tax as on 1 June 1955. On the basis of the system in force on 1 September 1955 imports of items subject to the tax can be divided as follows in relation to total imports:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Adjusted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>1.6%</td>
</tr>
<tr>
<td>10%</td>
<td>0.1%</td>
</tr>
<tr>
<td>11%</td>
<td>3.6%</td>
</tr>
<tr>
<td>15%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

* * *

CHANGES IN IMPORTS OF ITEMS SUBJECTED TO THE COMPENSATORY TAX

The statistical tables which appear in Annex V and VI make it possible, in the case of each group of items which has been the object of liberalization measures and for each rate in force as on 1 June 1955, to compare average monthly imports during the first six months of 1954 and imports during the second quarter of 1955. Annex V which concerns imports from OEEC members gives the corresponding figures for April, May and June 1955. Annex VI which relates to imports from non-OEEC members only gives the monthly average for the second quarter of 1955.

The general table which appears in Annex VII shows, for all liberalized items broken down according to the tax treatment applicable, average monthly imports during the first six months of 1954 and average monthly imports during the second quarter of 1955 from both OEEC and non-OEEC countries.

A comparison between the two sets of figures shows that total imports of products subject to the tax have increased by about 17 per cent during the second quarter of 1955 as compared with the first six months of 1954.

The relative increase in imports from OEEC countries which represents about 78 per cent of the total imports of items subject to the tax have increased by nearly 20 per cent. Imports from non-OEEC countries represent about 7 per cent.

* * *
THE FUTURE MEASURES ENVISAGED

The French Government wishes to confirm its intention to achieve the objec-
tive laid down in paragraph 2 of the Decision of the CONTRACTING PARTIES of
17 June 1955, that is the complete removal of the tax. Such elimination will
be gradually effected, but it is not possible, to establish a precise timetable
in advance.

The policy followed in this field consists, on the occasion of each new
liberalization "tranche", in submitting liberalized products to a 15 or a 10
per cent compensatory tax (part of the liberalized items being in fact exempt
from the tax), then in reducing the tax to 11 and 7 per cent respectively after
a sufficient period has elapsed to make it possible to assess the effect of the
liberalization measures supplemented by levy of the tax at the maximum rates.
This was done in November 1954 in respect of items liberalized in April 1955.
A similar measure will be introduced in the near future in the case of nearly
all the products which were liberalized in January 1955. As an exceptional
measure the present rates will be maintained in respect of some items in the
case of which the price disparity remains considerable.

On the other hand, the tax will be reduced or eliminated in anticipation
in respect of certain products for which it appears that imports have been
unduly restricted as a result of the tax or in the case of which a number of
member governments have made specific complaints which have appeared to be
justified.

The recommendation in the Decision whereby the CONTRACTING PARTIES called
upon the French Government to take the necessary steps to reduce the degree of
discrimination against the trade of countries whose exports are subject to the
tax while still submitted to quota measures, has not been lost sight of.

It should be noted that the removal or the reduction of the tax which has
been effected in the cases under consideration has resulted in mitigating the
discriminatory effects, which, it should be recalled, did not result from the
introduction of the compensatory tax, but from the institution of liberalization
measures within the framework of OEEC.

The French Government, however, is pursuing the examination of the condi-
tions in which its system of imports from non-OEEC GATT members can be made
more liberal.