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, met under the Chairmanship of M. A. Dubois (Belgium), to consider the revised version of the Plan for the Reduction of Tariff Levels which was submitted to the CONTRACTING PARTIES by the French Government, with the support of the Governments of the Federal Republic of Germany, Belgium, the Netherlands and Denmark on 22 July 1953 (L/103).

2. The Sub-Group limited its consideration of the Revised Plan to an elucidation of the technical problems to which the implementation of such a plan would give rise, and to the submission of a technical elaboration of the revised Plan which, in its opinion, would facilitate the consideration of the principles embodied in the Plan by the CONTRACTING PARTIES at their present session, and by individual governments thereafter.

3. That technical elaboration takes the form of rules in which the commitments as defined and of an Annex in which the detailed technical regulations are formulated. Comments have been added whenever necessary to enable the reader to obtain a clear idea of the operation of the rules. This technical elaboration of the French Plan is contained in Part III of this Report.

4. It will be noticed that the Sub-Group has introduced modifications in the Plan, which without detracting from the main purpose of the scheme, would make its application more easy. This applies in particular to Section 1 of the Annex (treatment of goods on which a drawback is refunded upon re-export), and to Rule II, paragraphs (a) and (b) (treatment of fiscal duties).
5. The Sub-Group wishes to stress that the consideration of the revised version of the French Plan proceeded on the understanding that participation in the Sub-Group and in the elaboration of the Plan did not in any way imply a commitment to take a stand on the question of substance raised in the Plan or even less to reach any agreement on the principles embodied in that Plan. It wishes also to point out that the specific elaboration of the Plan which is contained in Part III of its Report, is given more as an illustration of the type of elaboration which may be considered than as a definite suggestion. While agreeing that this particular version is technically feasible and would not give rise to insuperable difficulties of application from a practical point of view, it is clear that this does not rule out alternatives and the Sub-Group recognised that the French plan could admit of other versions which would be equally applicable from a technical point of view. The reason why the Sub-Group selected this particular technical elaboration in preference to others was that this version conformed more closely than other alternatives to the structure of the revised plan submitted in July 1953 and which appeared to be generally acceptable to a number of governments.

6. As will be seen from the comments contained in Parts II and III of this report, the Sub-Group was of the opinion that it would be premature to reach definite conclusions, even from a purely technical point of view, on certain detailed provisions of the Plan, such as the precise contents of the sectors and the categories and the fixing of the demarcation lines and ceilings. To facilitate the consideration of the plan, it had felt it useful to insert in Part III tentative suggestions or figures which have been submitted by the Secretariat on the basis of the statistical material at its disposal as a result of the statistical exercises conducted on tariff incidences.
7. The Sub-Group suggests that if the CONTRACTING PARTIES, after they have examined the principles of the French Plan against a more general background, decide to set up an intersessional body, that body should complete the examination of those points in the light of the discussions of the CONTRACTING PARTIES.

8. It recommends that the intersessional body or any body entrusted with the task of demarcation lines provided for in Rule I should be guided by the following considerations:

(a) The demarcation lines should not be so high as to result in releasing practically some participating countries from any commitment to reduce the average incidence of its tariff, or so low as to bring no actual advantage to low-tariff countries;

(b) The demarcation lines should be, as far as practicable, determined in accordance with an agreed formula which would be applied in a more or less automatic manner, in order to avoid extensive negotiations between participating countries;

(c) The demarcation lines should be determined, having regard to the data which have been or may be received in the future by the Secretariat on the weighted average incidence of national tariffs.

9. In the elaboration of the French Plan, the Sub-Group started from the assumption 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", a principle which is laid down in paragraph 18 of the Report adopted by the CONTRACTING PARTIES on 8 November 1952.\(^{(1)}\) The acceptance of this principle led to the conclusion that, unless all contracting parties to the General Agreement

\(^{(1)}\) Basic Instruments and Selected Documents, First Supplement, Page 72.
chose to accept the commitments contained in the French Plan, that Plan should be embodied in a self-contained instrument which would be governed by its own provisions. Consequently, the elaboration of the French Plan, reproduced in Part III of this Report, is drafted as a collateral agreement. In this connection, the Sub-Group considered that the question of a possible merging of this agreement with the General Agreement was a question of substance which went beyond its terms of reference and which, in any case, could not be settled before it became apparent whether all contracting parties to GATT would participate in such a plan.
II. VIEWS EXPRESSED BY MEMBERS OF THE SUB-GROUP
ON CERTAIN ASPECTS OF THE FRENCH PLAN

10. Although the discussion in the Sub-Group was limited to the technical aspects of the French Plan, the Sub-Group recognized that it was sometimes difficult to separate the technical problems from questions of substance. The Sub-Group felt, therefore, that it was its duty to draw the attention of the CONTRACTING PARTIES to repercussions which the adoption or rejection of certain technical features of the Plan may have on its acceptability for certain governments. With this object in view, the relevant remarks, made by members of the Sub-Group have been summarized in this part of the Report.

11. The general principle laid down in paragraph (b) of Rule I, that, in the case of moderate or low tariffs, the reduction required should be less than that required of tariffs exceeding a "normal" level corresponds to the traditional GATT negotiating rule, according to which the binding of a low rate is equivalent to a substantial reduction of a high duty. Some members of the Sub-Group considered, however, that the acceptance of that principle depended to a certain extent on the level at which the demarcation lines and the floor would be fixed. This idea is elaborated further in paragraph ( ) below.

12. In the comments on Rule II it is indicated that a large majority of the Sub-Group were in favour of excluding fiscal duties from the operation. Those members felt that many governments would not be in a position to abandon sources of revenue which often represented a substantial part of their budget. Moreover, it appeared to them that the object of the Plan should be solely to reduce the degree of protection accorded to domestic industries through tariff measures. On the other hand, other members stressed that the proposed exclusion would reduce the scope of actual reductions and impair the benefits which international trade might derive from the operation of the Plan. They also feared that such a decision would make it more difficult for countries interested in the export of commodities such as sugar, coffee, etc. to accept the Plan.

13. While there was general agreement in the Sub-Group that a rule similar to the "principal supplier rule" as applied in the tariff negotiations under the General Agreement should be inserted in Rule II,
some members, emphasizing the importance for smaller countries of the inclusion of products playing a major part in their export trade, even if they are not the principal supplier of a specific import market, considered that the provision of paragraph (a) (ii) of that Rule was too rigid and the recommendation contained in paragraph (c) of the Rule did not go far enough to meet the legitimate needs of those countries. They suggested, therefore, that the following addition should be made: "Moreover, if a participating country can submit conclusive evidence that at least 35 per cent of its export trade in a commodity was directed in the base year to another participating country, that country would not be free to exclude that commodity from the operation".

14. As regards Rule III, certain members of the Sub-Group stressed that, in their view, the mandatory character of that Rule would give rise to serious difficulties, as it might interfere with the sovereign rights of countries and they suggested that the Rule should be drafted in the form of a recommendation.

15. It was also suggested that the "prior approval" procedure contemplated in paragraph (c) of that Rule would lay a heavy burden on the shoulders of the body entrusted with the task of deciding on waivers and might lead to protracted, difficult negotiations. It was recognized, however, that an alternative suggestion to the effect that a certain percentage of high tariffs be permitted to exceed the respective ceilings would also give rise to difficulties.

16. The Sub-Group was aware of the special problems raised by the application of the Plan, and, in particular, of Rule III to "specified" duties. The suggestion set forth in paragraph (a) reflects an attempt to find a practical solution for cases where the enforcement of rates exceeding the ceiling would create serious frictions, but the Sub-Group agreed that this question will have to be considered further by the Intersessional body, if appointed by the CONTRACTING PARTIES.

17. The Sub-group considered next whether it would be desirable to limit in any way the obligations of Rule III if the reductions made under that rule would have the effect of bringing down the average incidence for a sector by more than 30 per cent. It came to the conclusion that, in practice, the case was unlikely to arise, and that it would be more in
keeping with the principle set forth in paragraph (b) of the Rule to require a full implementation of Rule III in all cases.

18. After discussion of Rule IV, it was agreed that it would be preferable to give as much freedom as possible to the participating countries in the selection of duties to be reduced. While it would be in the general interest that a high proportion of mandatory reductions under Rule III should be effected during the early stages of the operation, the inclusion of detailed provisions to achieve that object would, in the opinion of the Sub-Group, give rise to serious practical difficulties.

19. It was suggested, in the course of the discussion of Rule V that it would be difficult in certain cases to accept an absolute bar on any increase of rates above the ceiling when these rates had been reduced in accordance with Rule III. In those cases, the rates have to be raised in order to avoid serious economic or social dangers and the Board would have given its consent. In order to meet that objection to a certain extent, the Sub-Group inserted in Rule V a provision allowing for the return of such a rate to the level obtaining before the Plan entered into force.

20. The question was raised whether the escape clause of Article XIX of the General Agreement, or the re-negotiation procedure of Article XXVIII would apply to the bindings under the Plan. The consensus of opinion was that the escape clause contained in paragraph (c) of Rule V should be the only procedure by which the bindings under the Plan could be altered during the five-year period. The Sub-Group recognized, however, that the co-existence of two sets of provisions, those of the Plan and those of the General Agreement, which might apply to items bound under the two instruments complicated the legal presentation of the Plan, but was not able to suggest any practical way of avoiding this duplication, so long as the two instruments were not merged.

21. The wording of paragraph (c) of Rule V differs from the French proposal set forth in L/103 insofar as it allows for the operation of the escape clause at any time during the five-year period. This amendment was reluctantly accepted by some members who wished to reserve the position of their government,
22. It was agreed that the Board provided for under Rule VI be governed by rules of procedure modelled on the GATT rules, and that it should be a GATT subsidiary body to all intents and purposes.

23. It was agreed to introduce some flexibility in Rule VII to enable additions to be made to the list of exclusions for developmental purposes. This was done on the understanding that the exclusion of products covered by a programme of economic development would be limited to those goods, the domestic production of which had already started at the time of accession or was expected to start soon after the exclusion was granted.

24. The Sub-Group did not try to determine the period for which the right to exclude specific items would be granted, as this might depend on the circumstances of the case; it was, however, of the opinion that it would be essential for all concerned if the period for which the exclusion of an item was authorized was clearly determined in each case.

25. The Sub-Group did not consider in detail what other provisions should be added to the Plan in order to safeguard the concessions granted under the Plan, as it did not feel competent to deal with those legal problems. It thought it advisable, however, to pose the problem in Rule VIII and to indicate a few provisions which it would appear useful to reiterate in the Plan if it were to remain a self-contained instrument.

26. In this connection, the Sub-Group agreed that so long as it was not certain that all contracting parties to the GATT would accept the Plan, it would be premature to consider whether the bindings under Rule V should be embodied in the GATT Schedules. It also felt that it did not come within its terms of reference to examine the procedures by which the concessions could be prolonged or renewed after the end of the five-year period.
27. Doubts were expressed by members of the Sub-Group as regards the advisability of enabling participating countries to use notional duties instead of actual duties for the computation of the average incidence in the base year, a possibility contemplated in Section 1 of the Annex. These remarks applied more particularly to the case of countries which have never put in force their legal tariff and to those cases in which duties not bound under the General Agreement had been bound as a result of bilateral negotiations with a non-GATT country.

28. As regards the division by sectors, proposed in Section 6(a) of the Annex, some members of the Sub-Group, while agreeing that from a technical point of view the division into ten sectors would be practicable, stressed again that the Plan would be more easily acceptable to certain governments if the number of sectors were reduced and if the average incidence were to be computed on three or four sectors instead of on ten.

29. Although there was substantial agreement on the proposed division into ten sectors, some members of the group felt that this division should not be considered as final, and certain suggestions were made in the course of discussion regarding the splitting of some sectors and the merging of others.

30. So far as the lines of demarcation suggested in Section 6(b) of the Annex were concerned, a substantial number of the members of the Sub-Group were of the opinion that the proposed figures represented roughly the level at which it would be reasonable to set these lines. Some members felt, however, that as a general rule the demarcation lines proposed were too low and they suggested that the figures should be increased by say 20 per cent, a proposal which would be more consistent with the original suggestions put forward by the Benelux delegations last year. On the other hand, some members felt that the proposed figures were too high and, without making any definite proposal, suggested that they should be deflated by a certain percentage.
III. TECHNICAL ELABORATION OF THE FRENCH PLAN AS REVISED IN L/103

Rule I - REDUCTION OF THE AVERAGE TARIFF INCIDENCE

(a) Each participating country shall reduce the average incidence of its duties in each sector of its import trade by 30 per cent, this reduction being achieved in 3 years by reductions of 10 per cent each year.

(b) If, for any given sector, the average incidence of the duties of a participating country is lower than the demarcation line, the reduction to be effected under paragraph (a) above will be proportionately reduced, and if that average incidence is equal to or lower than a floor which will be set at \( \frac{50}{20} \) per cent of the rate at the demarcation line, that participating country shall not be required to reduce the average incidence of its duties for that sector.

(c) The reduction of the average incidence under the provisions of paragraphs (a) and (b) above shall be made in accordance with the detailed regulations contained in the Annex.

Comments

(a) The definition of the average incidence and the method of computation of that incidence are set forth in Section 1 of the Annex.

(b) The practical method suggested for the computation of the incidence during the successive stages is set forth in Section 2 of the Annex.

(c) The suggestions for the selection of the base-year for the computation of the weighted average incidence are contained in Section 3 of the Annex.

(d) The proposals regarding the method to be used for the valuation of imported goods are contained in Section 4 of the Annex.

(e) The formula to be applied for the reduction of any average incidence which is lower than the demarcation line is given in Section 5 of the Annex.

(f) The proposed division by sectors is contained in Section 6 (a) of the Annex.
(g) The suggested figures for the demarcation lines applicable to the ten sectors are contained in Section 6 (b) of the Annex.

(h) The provisions relating to the inclusion or otherwise of the trade enjoying preferential treatment are contained in Section 7 of the Annex.

Rule II - AUTHORIZED EXCLUSIONS FROM THE OPERATION OF RULE I

(a) Each participating country shall be free to exclude from the operation of Rule I:

(i) any duty which is recognized as fiscal in accordance with the procedure laid down in paragraph (b) below;

(ii) any duty levied on goods of which 50 per cent or more in value were imported by it from non-participating countries in the base year, provided that a participating country is not the principal supplier, in the sense of the rules of negotiations under the General Agreement.

(b) For the purposes of paragraph (a) (i) above, a duty shall be considered as "fiscal" if the participating country levying that duty shows, to the satisfaction of the Conference Committee or of the Board, as the case may be, that the duty is predominantly of a fiscal nature.

(c) The participating countries agree that it is highly desirable that, in the selection of goods to be excluded in accordance with the provision of paragraph (a) (ii) above, participating countries should take into account the interests of other participating countries when the goods in question represent a substantial part of the export trade of those countries.

Comments

(a) The Sub-Group recognized that, irrespective of their purpose which is to secure revenue for the Treasury, fiscal duties could also afford direct or indirect protection for domestic products, and that, even
if the principle of excluding that part of the duties whose economic effect is similar to other forms of taxation it would, in theory, be desirable to include in the operation the part of the duty which has a protective effect. It came, however, to the conclusion that certain countries would find it impracticable to make that distinction unless they were able and willing to replace the fiscal element of those duties by a corresponding internal tax. In view of these difficulties, the practical solution outlined in paragraph (b) of the Rule has met with the approval of many members of the Sub-Group. It is suggested that a preliminary list of exclusions be compiled by the intersessional body which the CONTRACTING PARTIES may decide to appoint at this Session.

(b) The Conference Committee referred to in paragraph (b) of Rule II would be a committee composed of representatives of all the Governments taking part in the Conference to which the Plan for the reduction of tariff levels would be referred, and its functions would be similar to those of the Tariff Negotiations Committee of the Annecy and Torquay Conferences. The Board, on the other hand, would be the permanent body which would administer the Plan after it has entered into force and whose functions are defined in Rule VII.
(c) It is contemplated that the list of exclusions proposed by each participating country would be communicated to the other prospective participating countries at the Conference referred to above, or at an earlier date. A normal function of the Conference Committee might be to resolve any differences of views which might arise regarding the selection of the items excluded, as well as the application of the recommendation contained in paragraph (c) of Rule II.

Rule III - ADDITIONAL COMMITMENTS REGARDING THE REDUCTION OF HIGH TARIFFS

(a) Each participating country shall reduce every individual duty rate the incidence of which exceeds the ceiling referred to in paragraph (a) below, in such a way that before the end of the third year of the operation of the Plan, the incidence of that duty is brought down to the level of the ceiling.

(b) The undertaking set forth in paragraph (a) above applies to all participating countries irrespective of whether a duty higher than the ceiling is included in a sector for which the average incidence had been reduced or not, in accordance with Rule I.

(c) In exceptional circumstances, the Conference Committee or the Board, as the case may be, may, by a decision approved by a two-thirds majority of the votes cast authorize any participating country to maintain individual duty rates above the ceiling. Applications to that effect shall be circulated in advance to all participating countries.

(d) The participating countries agree to set, at the request of the Board, an ad valorem maximum for any specific duty the incidence of which is likely to exceed the appropriate ceiling, unless authority to maintain that rate above the ceiling has been granted by the Board in accordance with paragraph (c) above.

(e) For the purposes of this Rule, the ceilings applicable to each category of goods shall be those laid down in the Annex.

Comments

(a) The proposed division into four categories is contained in Section 8(a) of the Annex.
(b) The suggested figures for the ceiling rates of the four categories are contained in Section 8(b) of the Annex.

Rule IV - IMPLEMENTATION OF THE REDUCTIONS

(a) Each country shall be free to select the items on which tariff reductions will be made and to apportion the reductions as between those items for which duty rates have to be reduced in accordance with Rule III, and other items, provided that the aggregate average reduction made in the course of each successive year shall amount to 10 per cent in each sector and that the reductions to be made under Rule III shall be completed in the third year of operation of the Plan.

Comments:

(a) The Rule has been drafted so as to make it clear that for each sector of their import trade, participating countries have to reduce the average incidence of their tariff by 10 per cent 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 further modified in either of the next two stages. However, once a reduction has been made in one stage, it will not be possible to withdraw this reduction, except in accordance with the procedure laid down in Rule V.

(b) In order to enable all participating countries to know in advance the items on which reduction would be made while maintaining a reasonable degree of flexibility in the operation of the Plan, participating countries will be required to communicate in confidence, before the Plan is finally accepted, their programme of reduction for the first year of operation; before the end of each year, each participating country will communicate to the other participating countries the programme of reduction for the following year under the same conditions of secrecy.
The Sub-Group agreed that, by leaving to each participating country the freedom to select the items on which reductions have to be made and to determine the degree of reduction for each item, subject to the provisions of Rule III, a wide measure of flexibility would here be given to the Plan. In other words, each participating country would, under the Plan, be obliged to achieve a definite quantum of tariff reductions in the course of each year, but the method by which these tariff reductions are actually effected would be left at the discretion of that country. In certain cases, all the reductions may be effected unilaterally. In other cases, they may be made in accordance with certain agreed principles in order to achieve a specific economic object; in other cases again the reductions may be the result of bilateral negotiations conducted on the basis of reciprocity. The only commitment of each participating country in the Plan would be to implement the programme of reduction laid down in Rules I and III.

**Rule V - BINDING OF THE REDUCTIONS AND OF THE AVERAGES**

(a) The participating countries agree to bind against increasing the average incidence of their tariff for each sector of their import trade at the level resulting from the operation of Rule I until ............... 19.. (Period of five years starting from the beginning of the operation), provided that if the average incidence for a sector is below the floor for that sector, the incidence would be bound against increase at the floor level, and not at the actual level of that incidence.

(b) The participating countries agree further to bind against increase until ............... 19.. (same period as under (a)) all duty rates which have been reduced in accordance with Rule I or Rule III.

(c) Notwithstanding the provisions of paragraph (b) above, a participating country may modify a rate bound under that paragraph if it proves to the satisfaction of the Board that the maintenance of
the rate at the bound level would involve serious economic or social dangers. The participating country will then be free to modify the rate, provided that:

(i) the modification will be compensated by a further reduction on other items, so as to maintain the average incidence for the sector at the level bound under paragraph (a) above, and

(ii) the new rate shall not exceed the ceiling as determined under Rule III or the rate which was in force before the operation of the Plan, whichever is the higher.

(d) Participating countries shall be free to increase any duty which has not been reduced in accordance with Rule I or Rule III, provided that such increase shall not have the effect of bringing the rate above the ceiling determined under Rule III or the average incidence for the sector above the level bound in accordance with paragraph (a) above.

**Rule VI - THE BOARD**

(a) A Board composed of representatives of the participating countries shall meet from time to time for the purpose of giving effect to the provisions of this Plan which involve joint action

(b) [Voting requirements]

(c) [Waiver Procedure]

**Rule VII - SPECIAL PROVISIONS APPLICABLE TO COUNTRIES AND CUSTOMS TERRITORIES IN THE PROCESS OF INDUSTRIAL DEVELOPMENT**

Countries or customs territories which the CONTRACTING PARTIES to the General Agreement recognize as being in the process of industrial development can elect to be governed by the following provisions:

(a) for the purposes of Rule I, the reduction of the average incidence will be computed on the tariff as a whole and not by sectors; the demarcation line shall be fixed at 10%.

(b) for the purposes of Rule II, they will be authorized to exclude:

(i) all their fiscal duties, irrespective of the limitations contained in Rule II, paragraph (b), and
(ii) the duties affecting products included in their programme of economic development.

(c) The provisions of Rule III shall not be applicable to duties excluded from the operation under paragraph (b) above.

(d) The Conference Committee or the Board, as the case may be, shall approve the list of duties to be excluded under paragraph (b) above; it shall determine the period during which such exclusion would be operative and make arrangements for the submission of reports and other data that may be considered necessary.

(e) Applications for the extension of the period of exclusion of specific duties or the inclusion of duties affecting products included in new or revised programmes of economic development shall be addressed to the Board. The Board may agree to such an extension or to the exclusion of additional items from the operation under such terms and conditions as the Board may lay down.

Comments

(a) It was agreed that any participating country might except any separate customs territories from the application of the Plan along the lines of Article XXVI, paragraph 4 of the General Agreement.

(b) The wording "countries or customs territories" has been used to indicate that, for the purposes of the Plan, each customs territory shall be treated as though it were a participating country. This distinction appeared necessary since certain customs territories of participating countries may be in process of industrial development and would appear to be entitled to the same advantages as other under-developed countries.

(c) It was agreed that an overseas territory qualifying for the special treatment provided in Rule VII could claim the benefit of that Rule even though it belonged to the metropolitan customs territory (as is the case of Puerto Rico and of some French Departments d'Outre-mer). It is suggested that the Conference Committee or the Board, as the case may be, should consider sympathetically any request to that effect.
(d) The figure of 10 per cent suggested for the demarcation line is purely illustrative; the final figures could only be determined when the demarcation lines for the sectors have been finally approved.

Rule VIII - OTHER PROVISIONS

In the operation of the Plan, the participating countries shall be governed by the rules contained in the following provisions of the GATT which will apply mutatis mutandis:

(a) Article I, paragraphs 2 and 4
(b) Article II, paragraphs 1(b), 3 and 4
(c) Article VI
(d) ............
ANNEX

Section 1

DEFINITION OF THE AVERAGE INCIDENCE AND METHOD OF COMPUTATION OF THAT INCIDENCE

a) For the purpose of Rule I, the average incidence for a Sector shall be a ratio having:

- as its numerator, the total duty actually collected on goods imported and cleared from warehouse for home consumption during the period considered; provided that:

  (i) if the rate of duty actually collected on a given product is lower than the rate bound under the General Agreement, it would be permissible to substitute for the duty actually collected on that product the duty which would have been collected if the rate bound under the General Agreement had been applied, and that

  (ii) if the rate of duty actually collected on a given product is lower than the rate specified in the legal tariff of the country concerned and the duty is not bound under the General Agreement, it would be permissible to substitute for the duty actually collected on that product the duty which would have been collected if the rate specified as the legal tariff had been applied;

- as its denominator, the value of goods on which the duty in the numerator was or would have been changed, plus the value of goods exempt from duty which went into home consumption in the period considered, whether the granting of the exemption depended or not on specific legal requirements regarding the intended use of these goods or who receives them.

b) In computing the average incidence for a Sector, account should be taken of the exclusions made under Rule II.
Comments

a) The method outlined in Section 1 provides that, as a rule, the average incidence shall be computed on the basis of actual duty collections. It does, however, provide for an alternative method of calculation to cover cases where rates actually applied differ from the legal rates or rates bound under the General Agreement, such as the following:

(i) temporary suspension of the total or partial application of specific duties;
(ii) temporary application of a "tarif d'usage" providing for rates lower than those specified in the legal tariff;
(iii) binding of duties under the General Agreement at a higher rate than the actual rate;
(iv) application, in accordance with bilateral agreements with non-GATT countries, of rates lower than those bound against increase under the General Agreement or than those specified in the legal tariff.

b) When the GATT Schedule provides for an alternative binding of a "specific" duty (such as x crown per kg. or 10 per cent), the country concerned will be free to use the binding of the ad valorem incidence in the computation. If a "specific" duty, not bound under the General Agreement is replaced by an ad valorem duty during the operation of the plan, the figure for the average incidence in the base year might be adjusted a posteriori, with the concurrence of the Board.

c) If, by unilateral action, a participating country were to reduce, instead of suspending, rates of duty before the entry into force of the plan and if the base year selected would prevent it from getting credit for such reductions made in anticipation of the application of the plan and make it more difficult for that country to effect the reductions required under the plan, the case should be submitted to the Conference
Committee which should give sympathetic consideration to such an application; the calculations could then be made on the basis of the higher rates in force prior to the reductions.

d) The numerator shall 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 shall be made for duty drawback.

e) The denominator shall only include the goods actually cleared for home consumption. It shall not include the value of goods imported under any arrangement under which the duty is temporarily suspended (such as transit, bonded warehousing, free zones, etc.), but the value of such goods shall be included if and when they enter the internal market at a later date. No deductions shall be made from the denominator in respect of goods re-exported on drawback. The Conference Committee or the Board as the case may be, may dispense a participating country from the obligation of deducting from the denominator, the value of exempt goods which are subsequently re-exported, when it is satisfied that this obligation would involve unnecessary difficulties for that country.

f) The Sub-Group recognized that it would have been more logical to exclude from the numerator the duty drawbacks and from the denominator the value of goods re-exported on drawback. As, however, the application of such a rule would give rise to practical difficulties in certain countries, the Sub-Group came to the conclusion that it would be simpler to retain both the drawbacks in the numerator and the values in the denominator, and noted that this change would not substantially affect the calculations. As regards the possible inclusion of the value of
exempt goods subsequently re-exported, the Sub-Group was of the opinion that this would have to be decided in each case on its merits. It felt that the Conference Committee or the Board, as the case may be, would be in a better position to assess the probable effects of such inclusion on the results of the calculations when it had to consider individual applications.
SECTION 2

COMPUTATION OF THE WEIGHTED INCIDENCE DURING
THE SUCCESSIVE STAGES OF REDUCTION

The average incidence during the three stages shall be computed on the assumption that the composition of the import trade during those stages remained the same as in the base year.

Comments

The average incidence during the successive stages will be deemed to be a ratio having, as its denominator, the values for the base year and, as its numerator, the rates as reduced, multiplied by the same weights as were used for the computation of the average incidence for the base year.

If, for instance, the amount of duty collected during the base year by a country for a given sector is 100, and if the value of imported goods is 400, the average incidence for the base year amounts to 25 per cent. This figure shall be brought down to 22.5 per cent, 20 per cent and 17.5 per cent respectively during the three successive years. As the value included in the denominator remains the same, i.e. 400, the amount of duty collected to be included in the numerator should be 90 at the end of the first year, 80 at the end of the second year and 70 at the end of the third year so as to complete the 30 per cent reduction by successive 10 per cent stages.

1st Stage: $\frac{90}{400} = 22.5$ per cent

2nd Stage: $\frac{80}{400} = 20$ per cent

3rd Stage: $\frac{70}{400} = 17.5$ per cent
SECTION 3

SELECTION OF THE BASE YEAR

The base year, for the computation of the average incidence, shall be the same for all participating countries.

Comments

The Sub-Group felt that it would be premature to determine here and now the year which should be selected as a base. It wished however to set forth the following points which might serve as a guide to the body which would select that year, presumably the Conference Committee.

a) the base year should be a calendar year for which reliable statistical data are available for all participating countries, if possible the last one for which such data are available;
b) it should be a year in which distortions in the composition of trade as a result of import controls should not be too substantial; and
c) it should be selected so as to prevent manipulations of tariffs before the plan enters into force.

SECTION 4

METHOD USED FOR THE VALUATION OF IMPORTS

a) All valuations shall be based on a c.i.f. basis.

b) A participating country using a f.o.b. basis of valuation may compute its average incidence in all sectors on that basis, provided that the same basis is used for the computation of the average incidence in the successive years. For the purposes of Rule I (b) and Rule III, incidence figures on a f.o.b. basis may be converted into a c.i.f. basis by reducing them by 10 per cent.
SECTION 5

FORMULA FOR THE REDUCTION OF AN AVERAGE INCIDENCE BELOW THE DEMARCATION LINE

When the average incidence in a given sector is situated between the floor rate and the demarcation line, the percentage of reduction required shall be determined according to the following formula:

\[ x = 30\% \cdot \frac{N - P}{D - P} \]

in which D represents the demarcation line, P the floor, N the average incidence, and x the percentage of reduction to be carried out in the sector.

Comments

This formula has been adopted because of its simplicity; if the demarcation line in a sector stands at 10 per cent and the floor at 5 per cent, a country whose average incidence for that sector is 7 per cent will be required to reduce that incidence by 30\% \cdot \frac{7 - 5}{10 - 5} = 12\% over three years, i.e. by 4 per cent in each successive year.
SECTION 6

a) Division by Sectors

The division of import trade into ten Sectors as well as the suggested distribution of the SITC items among those Sectors is given below:

Sector I

Primary Products for Food excluding Fish

Division 00

Groups 011, 012, 021, 025, 026, 041, 042, 043, 044, 045, 051, 052 and 054.

Items 071-01, and 072-01

Groups 074 and 075

Items 081-01

Groups 111, 121 and 921

Groups 071, 072, 073, 074, 075, 081, 091, 099, 111, 112, 121, 122, 221 (excluding 221-05), 292, 411, 412 (excluding 412-01, -12)

Items 413-02

Group 921

Sector II

Manufactured Products for Food excluding Fish

Groups 013, 022, 023, 024, 029, 046, 047, 048, 053, 055

Division 06

Items 071-02, 071-03, 072-02, 072-03

Groups 073, 081 (excluding 081-01)

Division 09

Groups 112, 122

Division 41
Sector III
Fish and Fish Products
Division 03

Sector IV
Raw Materials, including Petroleum Products
Divisions 21, 22, 23, 24, 25, 26, 27, 28, 29 and 31

Sector V
Chemicals
Divisions 51, 52, 53, 54, 55, 56 and 59

Sector VI
Products of Leather, Rubber, Wood, Cork, Furs, Paper, and Printed Matter
Groups 611, 612, 613, 621, 629, 631, 632, 633, 641 and 642
Items 841-06 and 841-12
Group 842
Division 85
Group 892

Sector VII
Textile Products
Groups 651, 652, 653, 654, 655, 656, 657, 841 (excluding 841-06, -12)

Sector VIII
Base Metals and Manufactures
Divisions 68 and 69

Sector IX
Machinery and Transport Equipment
Divisions 71, 72 and 73
Sector X

Miscellaneous Manufactures

Divisions 66, 67, 81, 82, 83 and 86

Groups 891 and 899
b) **Proposed lines of demarcation for the ten sectors**

The following table shows the lines of demarcation which have been calculated by the secretariat on the basis of a weighted average of the weighted averages of the tariff of ten countries represented in the Sub-Group, after exclusion of duties considered as fiscal by reporting countries. The table gives also the average incidence of those ten countries, for the sake of comparison; those figures should not be substantially different from the actual incidences to be reduced under the Plan if it were to come into force in the near future. The lines of demarcation would have been roughly the same if the calculation had been based on the unweighted averages deflated by 30 per cent.

<table>
<thead>
<tr>
<th>Proposed demarcation lines and weighted average incidence</th>
<th>Austria</th>
<th>Benelux</th>
<th>Canada</th>
<th>Denmark</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Norway</th>
<th>Sweden</th>
<th>USA</th>
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<tr>
<td>I</td>
<td>7</td>
<td>30</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>11</td>
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<td>21</td>
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<td>7</td>
<td>1</td>
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<td>9</td>
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<td>19</td>
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<td>2</td>
</tr>
<tr>
<td>IV</td>
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<td>3</td>
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<tr>
<td>VI</td>
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<td>11</td>
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<td>VII</td>
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<td>4</td>
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<td>6</td>
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<td>VIII</td>
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<td>4</td>
<td>10</td>
<td>1</td>
<td>6</td>
<td>10</td>
<td>22</td>
<td>3</td>
<td>3</td>
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<tr>
<td>IX</td>
<td>11</td>
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<td>10</td>
<td>9</td>
<td>4</td>
<td>16</td>
<td>12</td>
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<td>8</td>
<td>20</td>
<td>13</td>
<td>6</td>
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</tbody>
</table>
Section 7

PREFERTENTIAL TRADE

a) Participating countries shall be free to include the duty collected at preferential rates as well as the value of the preferential trade (i.e. the goods on which such duty has been levied plus exempt goods from the preferential area) and to include reductions made on preferential as well as on most-favoured-nation rates in the computation of the successive reductions in the average incidence.

b) The margins of preference shall not, as a result of this plan, be increased so as to exceed the rates which were authorized under Article I, paragraph 4, of the General Agreement on the day of entry into force of the Plan.

Comments

a) The sub-group did not consider whether the provisions of Rule I, paragraph (b) should only operate when the average incidence for the most-favoured-nation trade fulfils the conditions laid down in this paragraph or whether they could also apply when the average incidence for the total trade (including preferential trade) is below the demarcation line.

b) As regards the application of Rule III, the most-favoured-nation and preferential rates would have to be considered separately.
a) Division into Categories

The division of import trade into four categories as well as the suggested distribution of the SITC items among those categories is given below:

Category I: Industrial Commodities: Crude Materials

Division 21

Item 221-05

Division 23

Item 241-01

Groups 242 and 244

Item 251-01

Division 26 (except Group 266)

Groups 271 and 272 (except items 272-03, 05, and 06)

Division 28

Group 291

Items 292-01, 02, 03 and 04

Items 311-01 and 312-01

Category II: Industrial Commodities: Semi-manufactures (commodities simply transformed or due for considerable further transformation)

Item 241-02

Groups 243, 251 (except item 251-01) and 266

Items 272-03, 272-06 and 292-09

Group 311 (except item 311-01)

Items 313-05, 313-09, 412-01 and 412-12
Category III: Industrial Commodities: Finished Manufactures (Commodities more elaborately transformed or not due for further transformation)

Item 272-05

Group 313 (except items 313-05 and 09)

Groups 314 and 315

Items 511-09 and 512-09

Groups 531, 533, 541, and 552

Division 56

Division 59

Groups 612, 613, 629, 632, and 633

Division 64

Division 65 (except Group 651)

Groups 663, 665, 666, and 673

Division 69

Section 7

Section 8
Category IV: Agricultural Products

Groups 001, 011, 012, 013, 021, 022, 023, 025, 026, and 027

Item 029-09

Groups 031, 032, 041, 042, 043, 044, 045, 046, 047, 048, 051, 052, 053, 054, 055, 061 and 062

Groups 071, 072, 073, 074, 075, 081, 091, 099, 111, 112, 121, and 122

Group 221 (except item 221-05)

Groups 292, and 411

Group 412 (except items 412-01 and -12)

Item 413-02

Group 921
The division was made along the following lines:

a) A first sub-division was made into "agricultural products" and "industrial commodities", the first sub-division including products serving as raw materials for the food processing industries as well as the products of those industries, but excluding agricultural raw materials serving mainly for industrial purposes, which were entered with all the remaining items in the second sub-division of "Industrial Commodities".

b) The sub-division "Industrial Commodities" was further arranged into three classes - (1) raw materials, (2) semi-manufactures, generally interpreted as commodities simply transformed or due for considerable further transformation, and (3) finished manufactures, generally comprising commodities more elaborately transformed or not due for further transformation.

c) A similar breakdown of the sub-division "agricultural products" was attempted, but was abandoned after it became clear that the choice of any dividing line between the three categories would be open to valid objections, as a number of products serving as raw materials for the food processing industries were also used by the consumer without any further transformation. Another reason why the attempt was not pursued was that in practice, the determination of tariff rates did not appear to be guided by the stage of processing in the case of agricultural products to the same extent as in the case of industrial commodities.

b) **Suggested Ceilings**

<table>
<thead>
<tr>
<th>Category I.</th>
<th>Raw Materials</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category II.</td>
<td>Semi-manufactures</td>
<td>15%</td>
</tr>
<tr>
<td>Category III.</td>
<td>Finished products</td>
<td>30%</td>
</tr>
<tr>
<td>Category IV.</td>
<td>Agricultural products</td>
<td>27%</td>
</tr>
</tbody>
</table>
Comments

These proposed ceilings have been set at roughly twice the unweighted average incidence reported by the countries represented on the Sub-Group, which offers a more adequate basis for the measurement of the reduction of individual duties under Rule III than weighted averages, which were considered more appropriate for the provisions of Rule I relating to the reduction of weighted average incidences. It may be noted that the ceilings suggested do not differ substantially from those included in the "Low Tariff Club" proposal of the Council of Europe.