To conclude the training programme of the third group of trainees, the GATT secretariat arranged a study trip in June 1957. The trainee officials from Brazil, Chile, Greece, Malaya, Nicaragua and the Federation of Rhodesia and Nyasaland, were thereby given the opportunity to visit Austria, France, Sweden and the United Kingdom, accompanied by an officer of the GATT secretariat. The problems studied were:

I. The procedure for arriving at a change of tariff rates (page 2)

The procedure for arriving at changes of individual duty rates was mainly studied in Austria, France and Sweden. The related problem, concerning the technique of general tariff changes, was demonstrated to the trainees in Austria and Sweden, due to the fact that in both these countries a tariff reform is approaching completion.

II. The possibilities of replacing fiscal duties by other sources of revenue (page 8)

This subject, which was meant to show the ways of achieving a purely protective tariff open for tariff bargaining, was discussed in France and the United kingdom.

III. Experience with the application of export levies (page 11)

The problems involved with the levy of export charges were studied in Sweden, where an export charge has temporarily been levied on timber and certain timber products.
The procedure for arriving at a change of tariff rates

A. Changes of individual tariff rates

None of the four countries to which this study extended - Austria, France, Sweden and the United Kingdom - applies formal procedure to prepare tariff changes. In this respect they are distinct from other countries, such as the United States, which has permanent institutions (Tariff Commission) dealing with the requests for tariff changes and the systems of which often provide for time limits in which views concerning such a change can be requested (hearings).

In all four countries visited the Ministry in charge of the relevant question (Ministry of Economy, Board of Trade, or Ministry of Agriculture, respectively) deals with requests for tariff changes. Such requests can be brought forward by an interested citizen (producer or importer), or can be taken up as a consequence of the initiative of the administration. In each of the countries the Ministry in charge is obliged to collect all necessary information from the applicant, and also from any other group of persons having different or contrary interests. Only if the administration is convinced of the necessity of action, after careful weighing of all arguments for and against, the necessary steps for adapting the tariff rate in question are taken.

Attention is drawn to the fact that in some instances legal measures necessitate action in the international field, mainly GATT, (re-negotiation of bound items, Article XIX and XXVIII of GATT) or request for a waiver if a tariff change would lead to an increase in a preferential margin. Also the case of tariff negotiations has been mentioned. In such a case the government consults with the interested groups along the lines indicated above concerning the tariff changes introduced.

An interesting point was to find out by what organizations the interests of the various groups are represented. In all countries the Chambers of Commerce and/or the organizations of the producers of the product for which a tariff change is requested are consulted in the first instance. If such organizations are not available the problem is discussed with representative firms. Secondly industries processing such goods or their organization, as well as other groups interested in lower tariff rates are consulted, in particular the final consumers.

In some countries where the interests of both the producers and the traders are represented by the Chamber of Commerce, the interests of the consumers are taken care of by other institutions, such as in Austria for example, the Chamber of Workers.
The United Kingdom tariff-making machinery, as described to the trainees, is summarized as follows as an example of the situation existing in most European countries.

The main structure of the United Kingdom protective tariff dates from 1932. Apart from duties on a few luxury and strategic goods imposed during and immediately after the Great War, the tariff until that time was operated for revenue purposes. Emergency duties were introduced in 1931 to deal with the economic crisis and were replaced the following year by the Import Duties Act 1932, which imposed a general ad valorem duty (g.a.v.) of 10 per cent on all imports except those - mainly raw materials and foodstuffs - specifically covered by the Free List scheduled to the Act. The Act also set up the Import Duties Advisory Committee (I.D.A.C.) to advise on any further changes in the tariff that might be necessary.

The Import Duties Advisory Committee was set up as an independent committee consisting of a Chairman and not less than two or more than five other members to be appointed by the Treasury. It was empowered to make recommendations to the Treasury for imposing additional duties on goods subject to the g.a.v. duty, for adding goods to the Free List, and for allowing drawback on goods destined for re-export.

The Committee was an autonomous body bound solely by general direction under the Import Duties Act. No minister was answerable to the House of Commons for its actions, nor were the considerations leading to its recommendations debatable in the House. The purpose of these provisions was to remove the framing of the detailed tariff as far as possible from the political area and cut down the opportunities for "lobbying". In conducting its enquiries and framing its recommendations the Committee was entirely free from any kind of Government interference.

General responsibility for the tariff, however, remained with the Government. In the first place the Act laid down a general policy directive for the Committee, supplemented by a statement from the Chancellor during the passage of the bill on the objectives of United Kingdom tariff policy which the Committee were bound to take into account in making their recommendations. The directive as laid down in the Act was that the Committee should restrict recommendations for additional duties to articles of luxury or articles available from United Kingdom production in substantial quantities in relation to United Kingdom consumption and that they should have regard to the advisability in the national interest of restricting imports into the United Kingdom and to interests generally of trade and industry in the United Kingdom (i.e. the interests of users as well as producers).

Secondly, the responsibility for making orders embodying I.D.A.C. recommendations lay with the Treasury, in consultation with the "appropriate department". (This was the Board of Trade in all cases, and also the agriculture departments where agricultural, horticultural or fishery products were concerned.) The Treasury were not obliged to accept the recommendations of the
Committee, and could reject them or could impose lesser duties than those recommended, but they could not impose additional duties in excess of the recommendations, and they had to publish the Committee's recommendations.

The procedure laid down in the Import Duties Act was for detailed investigation followed by decision, but initially the I.D.A.C. had to tackle the problem quite differently. They endeavoured to cover as large a part of the tariff field as quickly as possible by general recommendations. They accordingly divided into five broad categories all imports into the United Kingdom within the field of the Import Duties Act (i.e. excluding revenue duties and certain strategic duties). These were:

(i) those items already free-listed;
(ii) fully manufactured articles already produced, or likely to be produced in substantial quantities in the United Kingdom, to be liable to a 20 per cent duty;
(iii) articles to which a lower rate of 15 per cent appeared appropriate;
(iv) articles of a luxury or semi-luxury character, charged at 25 - 30 per cent;
(v) those imports to remain liable to the 10 per cent g.a.v. charge.

After this had been done the I.D.A.C. were able to concentrate on dealing with individual applications for tariff changes and with the major question of the iron and steel tariff. In the period from 1932 to 1939 they dealt with some hundreds of applications and made over 150 recommendations for increased duties and about 100 recommendations for free-listing.

The Ottawa duties were excluded from the scope of I.D.A.C. although it was open to the Committee to recommend additional duties on goods already subject to these duties. The responsibility for altering Ottawa duties otherwise and then only in accordance with the terms of the relevant agreement, rests with the Treasury, who also have powers to reduce duties pursuant to trade agreements, on the recommendation of the Board of Trade.

The Import Duties (Emergency Provisions) Act 1939 was passed at the outbreak of the war. It substantially modified the 1932 Act, by empowering the Treasury to vary duties without recommendation from I.D.A.C., by suspending the operations of I.D.A.C. but not the Committee itself, and by suspending the directive to the Committee. Since this Act was passed the responsibility for examining applications for changes in the protective tariff and for advising the Treasury has rested with the Board of Trade as the Department generally responsible for policy questions arising on the protective tariff. During the war a substantial part of the tariff was suspended and with the operation of complete government control on imports there was no occasion for applications to vary rates of duty. Immediately after the end of the war the I.D.A.C. tariff rates operating in 1939 were restored.
When under the present procedure for examining tariff applications an application is submitted and there appears to be a *prima facie* case for a tariff change, the application is advertised and other interested parties are invited to submit their views. These are then considered and if the Government decide that no action is necessary on the application, it is rejected, the applicants are notified and the decision announced. If the decision is that the application should be accepted, or partly accepted, an order is laid before Parliament.

The foregoing procedure relates to applications for permanent changes in the tariff. When an application is submitted to the Board of Trade for a duty to be suspended temporarily, a somewhat different procedure is followed, because different considerations are involved. The temporary suspension of duties under the Import Duties Act is resorted to in very exceptional circumstances where it can be shown that, among other things, United Kingdom supplies are for the time being inadequate to meet demand, and are likely to continue so for some time to come. Briefly, there must be compelling reasons of a temporary character for the suspension of duty. Applications for suspension are not advertised, but when there seems to be a *prima facie* case for considering suspension, the Board of Trade seek the views of those parties most likely to be concerned, in addition to the applicants. Where the applicants ask for the suspension of duty on an item not separately specified in the tariff, it involves the preparation of a definition which needs to be settled with the Customs. If the Board of Trade are satisfied that there is a case for a temporary suspension, the Treasury are asked to make an Order. Suspension Orders are for a specified period of time (normally six months and never more than twelve months) and at the end of that time the duty automatically reverts to its normal level (i.e. without further examination), unless the suspension is extended by a further Order.

In France the situation is very similar and was described along the following lines.

Tariff changes can be made on behalf of a request brought forward by domestic producers or, in exceptional circumstances, action may be taken by the government itself in cases where for example an incongruency, created by a tariff change affecting a related product, has to be removed.

Applications for tariff changes are made to the Minister of Finance responsible for the customs administration, to the Minister for Economic Affairs, and to the Minister of Industry and Commerce. The latter is called the "Ministère de tutelle" (sponsorship ministry) due to the fact that it represents the interest of the domestic industries and it is its almost natural task to advocate higher protection. The Minister of Finance, responsible for the budget and the State revenue, also in most instances advocates higher tariff rates. The Ministry for Economic Affairs, for its part, is in a position to survey things from a more disinterested point of view: it acts, so to speak, as an umpire between the various views. It takes into consideration also the interest of the consumers.
The decisions are not only taken on the basis of the national situation but also their possible international effect is taken into account: the necessity of re-negotiations and of maintaining good relations with other countries to avoid retaliation.

The decisions taken consequent on such considerations are based on Article 8 of the French Customs Code which gives the government the right to increase and decrease rates, and which reads as follows:

"The Government can, by decree taken in cabinet meetings, modify the tariff, suspend or put in force again, wholly or partially, import customs duties. Such decrees shall be introduced as bills to the National Assembly, with an application for an urgent debate, at once if the Assembly is in session, or as soon as another session is opened. They remain in force as long as Parliament has not taken a decision."

Actions related to the change of individual tariff rates have clearly to be distinguished from general tariff changes, which are dealt with by the Tariff Reform Committee ("Comité de Révision Douanière") created on 19 January 1950. This Committee prepared the review of the French tariff in 1950 prior to the Torquay Conference and brought the French tariff into line with the latest Brussels Nomenclature in 1955. It has to be taken into account, however, that this Tariff Review Committee does not meet permanently and, as already mentioned, does not deal with requests for individual tariff changes.

B. Tariff reform

The procedure relating to tariff reforms was studied in Austria and Sweden. In both cases the advantage of having ad valorem duties has been considered one of the main reasons for introducing a new tariff in addition to the necessity to bring the tariff nomenclature up to a modern standard. Both countries, however, indicated that the Brussels valuation system if applied might be very complicated. In particular Sweden indicated that it was hoped that it would be possible in the main to maintain the existing practices under the Brussels rules since they are very simple, create little cost and are efficient and expeditious. The invoice price is accepted in practically all instances (fraud excepted) as a basis for valuation, and only in exceptional circumstances use is made of the possibility to increase the import value by the so-called "uplifting", in cases of special relations between buyer and seller. The main advantage of ad valorem rates in the view of these countries is that they involve a smooth adjustment of the protection without extensive differentiation of the tariff and automatically adapt themselves to fluctuations of prices or of currencies. Both countries, however, thought it advisable to maintain specific duties on certain products.

Insofar as the procedure of preparing the tariff reform is concerned Austria had the less formal approach. A draft tariff has been prepared which followed to a certain extent the proposals made by the Federal Chamber of
Commerce. This draft, with the criticisms and counter-suggestions made by other interested groups, mainly the Chamber of Workers, is to be the basis of the final draft, now under study by a special committee of ministers. After the finalization of the draft it will be presented to Parliament for approval. It has been stressed in the discussion that the recent negotiations in GATT took place on the basis of the provisional draft. The bindings of concessions granted by Austria will appear in the second column of the new tariff whether or not the contractual rates compared with the final tariff are higher or lower than the legal rates. The point was stressed that in each instance where the contractual rates are lower than the legal rates, the contractual rates will be applied in conformity with the obligations under GATT.

In Sweden a special commission has been appointed to prepare the tariff reform. This commission, which ceased to exist with the presentation of the draft tariff to the Government, consisted of ten members - five members of Parliament and five high-ranking civil servants. The importance given to the effect of the new tariff on international trade was illustrated by the fact that the commission was chaired by Mr. Lundberg, a well-known economic and administrative expert. The Secretary to this commission - who also prepared the very complete report of it (available in English - Stockholm 1957), was Mr. Hartler of the Customs Administration, who gave explanations in this field.

The commission was established to prepare the new tariff following consultations with the interested groups. The report of the commission has been distributed to various organizations for their criticism, and is now before the Government where it will be cast in its final form to be presented to Parliament (Riksdag). It is expected that the Riksdag will decide on that problem in 1958, since action has been delayed as a consequence of the considerations related to the creation of the Scandinavian Customs Union and the European free-trade area. Of the principles pointed out in the above-mentioned publication concerning the Swedish tariff reform, the following seem to be of particular interest:

(a) The tariff reform had to be carried out with a view to maintaining the traditional Swedish low tariff policy; hence the revision should not be directed towards general raising of the level of duties but should primarily aim at effecting an adequate distribution of the protection over different classes of merchandise and fields of production.

(b) The level of the present as well as the proposed tariff has been judged on the basis of mathematical calculation which not only took into account the imported products, but also the home-produced goods.

(c) The distribution of the protection has been made with an equally high protection for all dutiable goods as a target, but the rates calculated on this basis ("the normal rates") have for various reasons been modified upwards and downwards.
(d) The tariff should not be used as a means of effecting the balance of payments, nor as a means for providing employment. Rates, furthermore, should not be increased to counter-balance high duties abroad.

(e) Nor should fiscal considerations influence the fixation of tariff rates that have a function concerned with industrial policy.

(f) The consumers' interest should be protected and be considered in the light of a just distribution of the burden of taxation to all consumers.

Attention is to be drawn to the fact that an entirely different system for protecting agricultural products has already been brought into force, and that the new tariff will not provide for any duties for such products.

II

The possibility of replacing fiscal duties by other sources of revenue

The problem of methods for replacing fiscal customs duties by other means to raise revenue was selected so as to demonstrate how customs tariffs can be freed from the fiscal function and then become an instrument of economic policy open to tariff negotiations.

In certain underdeveloped countries dependent on France, the necessary revenues can be collected only partially by direct taxation. The budget of such territories has inevitably to rely on indirect taxes including import duties. It is obvious that it is not possible to grant tariff concessions on such revenue duties. A statement to this effect has been made by the French as well as the Italian Delegation at the Geneva tariff negotiations in 1947.

In France it was explained that a solution for arriving at a tariff of protective and negotiable rates would be to introduce import taxes to correspond with any reduction of customs duties. In the case of French dependent territories, however, the administration taking such a measure had to consider that preferential treatment cannot be provided for with import taxes.

The development in French West Africa since 1938 is an example of the inter-relation between import duties and taxes. When French West Africa was cut off from France during the last war, all customs duties were suspended, due to the fact that it was useless to maintain preferential customs rates in favour of French goods. In the interest of the local finances the relevant rates of the import tax were correspondingly increased. In 1950-51 soon after the French goods could enter the French West African market again the tariff rates were re-established and the fiscal import charges correspondingly reduced.
The levy of an import charge, however, might raise difficulties particularly insofar as international obligations are concerned namely wherever such an import charge is to be considered a protective duty due to the fact that it is levied on goods which are produced on the national market. The highest French administrative court, the Conseil d'État, decided on various occasions in that sense, suggesting at the same time that the fiscal import charges on home produced products should be compensated by fiscal internal taxes, so as to enable the government to maintain the separation achieved between protective customs tariff and fiscal charges.

The special problem of helping a territory to develop industries has been solved by France in a special way, namely by the so-called "long-term fiscal industry promotion plan" ("régime fiscal de longue durée"). These provisions open the possibility to import foreign equipment etc., free of duty during the first years following the creation of a new industry in an underdeveloped country.

The legal basis of this policy is laid down in Article 32 added to the Law No. 53,1336 on 31 December 1953. The period for which the special treatment can be granted to new industries was originally fixed by a Governmental Decree of 4 June 1954 at fifteen years and by a further Decree of 13 November 1956, extended to twentyfive years. The decree of 1956 differs from the previous one insofar as the period for which special treatment is granted is only counted from the moment when the installation of the plant has been finished, as long as this period does not exceed five years.

Any request for such special treatment is carefully examined. The decision is taken by both the Minister of Economic Affairs and Finance and the Minister of Overseas Territories in the light of the interest of promoting such an industry. The special treatment is in no instance granted to a person, but to a specific industry, generally to a special branch. The local Parliaments are consulted and no decision is taken unless the territorial assembly voted in favour of such a privilege.

The following are examples of some industries which started to work under the production plan:

- The Nickel Company in New Caledonia
- The Alucam Scheme in the Cameroon
- The Fria Group in French Guinea (20 milliards of francs)
- The Phosphates of Taiba (5 milliards of francs)
- The Comilog Group in French Equatorial Africa

The French lecturer stressed the point that another approach to foster developing industries would be through subsidization. The disadvantage of a system of subsidies lies in the fact that it does not easily permit long-term programmes to be carried out due to the fact that subsidies depend on the yearly
budget law. It also could be that other countries would consider the payment of a subsidy to justify the levy of anti-dumping duties.

In London it was explained that in the United Kingdom the tendency to separate fiscal from protective charges always prevailed. The revenue mainly derives from direct and indirect taxes other than protective duties. The fiscal effect of import duties, however, has always been considered to be purely incidental.

The importance of the various charges can be seen from the table annexed. Before the second world war the charges on spirits, beer and tobacco, to which since 1928 the duty on hydro-carbon oils has been added, were the main pillars of the indirect taxation. These charges are balanced by internal excise taxes having approximately the same effect.

After the war the purchase tax gained importance. The original intention at the creation of this tax was not only to provide revenue but also to reduce consumption. Nowadays it is a pure revenue tax. The United Kingdom always rejected the idea of having a low flat rate tax levied at each stage of trade. Preference was given to a tax with a discriminatory rate (seven rates from 5 - 90 per cent) and leaving free from tax food and agricultural products. The taxes are levied only once on each product when the product is sold by the manufacturer or by the wholesaler for retail sale. Since products are normally imported at the wholesale stage, no difficulties arise in levying this tax on importation. In the case of imported products it is calculated on the wholesale value including the customs duty.

The three main principles which are the basis of any British tax might be interesting to representatives from countries which are looking for an efficient taxation system. It is to be noted, however, that in some instances it is impossible to conform with all three principles at the same time. These principles are:

1. taxation should be evenly split;
2. taxation should apply to everybody; and
3. taxes should be easy to administer.

It is the third principle which made the Government accept the much less universal purchase tax instead of the sales tax system applied by other countries.

Another interesting feature of the United Kingdom taxation system is the existence of the "Controller in Order to General" who is responsible only to the Houses of Parliament and whose obligation is to ensure that taxes are levied in conformity with the decisions taken by the Parliament.
Experience with the application of export levies

In Sweden an export charge was temporarily (1945 to 1952) levied on timber and timber products including paper pulp and paper. The point has been stressed that the Swedish price equalization charge on timber and timber products in no instance became an export duty due to the fact that the collected sums did not enter the ordinary budget, but the money was "frozen" only for anti-inflationary purposes. About 70 per cent of the money was repaid to the exporters after a certain period of time. The rest was put into special social funds at the factories. Some money was also used for a special monetary fund. The use of the money has been agreed with the relevant export industries. The charges in regard to plywood were also meant to ensure that the necessary quantity of this raw material remained in Sweden.

The effect of these charges on the national economy and commercial policy has not proved too satisfactory, and it was been questioned by some groups whether it had really achieved the intended effects. The charges furthermore were a burden to the commercial relations of Sweden with other countries, depending on these raw materials. Possibly for that reason the tax was suppressed even before the market of those products had been fully normalized in 1952. The export duties act which in theory permits the levy of export duties on all products, expired in July 1957.

Furthermore the agreed repayment of the "frozen" money created certain difficulties. It took place when the commercial credits were restricted for anti-inflationary reasons. Another technical difficulty in regard to the smaller exporting sawmills was to trace the persons entitled to collect the repayment, since sales were very often made through agents or by firms which no longer exist.

In France only brief reference to export duties was made. It was stated that export duties are maintained on a few items only and only in order to prevent scarce materials from flowing out too easily from France.
**UNITED KINGDOM RECEIPTS FROM TAXATION YEAR ENDED**

**31 MARCH 1957**

<table>
<thead>
<tr>
<th>Inland Revenue Duties (direct taxation)</th>
<th>£ million</th>
<th>Percentage of total receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>2,114</td>
<td>44.0</td>
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<tr>
<td>Surtax</td>
<td>-158</td>
<td>3.3</td>
</tr>
<tr>
<td>Profits Tax</td>
<td>195</td>
<td>4.1</td>
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<tr>
<td>Excess Profits Levy</td>
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<td>0.1</td>
</tr>
<tr>
<td>Death Duties</td>
<td>169</td>
<td>3.5</td>
</tr>
<tr>
<td>Stamp Duties</td>
<td>63</td>
<td>1.3</td>
</tr>
<tr>
<td>Miscellaneous</td>
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<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,705</strong></td>
<td><strong>56.3</strong></td>
</tr>
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<table>
<thead>
<tr>
<th>Customs and Excise Duties (indirect taxation)</th>
<th>£ million</th>
<th>Percentage of total receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty on spirits</td>
<td>131</td>
<td>2.7</td>
</tr>
<tr>
<td>Duty on beer</td>
<td>261</td>
<td>5.4</td>
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<tr>
<td>Duty on tobacco</td>
<td>702</td>
<td>14.6</td>
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<td>Duty on hydrocarbon oils</td>
<td>339</td>
<td>7.1</td>
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<tr>
<td>Other &quot;Revenue&quot; duties</td>
<td>52</td>
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<tr>
<td>&quot;Protective&quot; duties</td>
<td>90</td>
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<tr>
<td>Entertainments Duty</td>
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<tr>
<td>Purchase Tax</td>
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<tr>
<td>Betting</td>
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<td>0.6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>(Increase in balances retained)</td>
<td>-8</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,101</strong></td>
<td><strong>43.7</strong></td>
</tr>
</tbody>
</table>

Grand Total: 4,806 100