SUMMARY RECORD OF THE THIRTEENTH MEETING

Held at the Palais des Nations, Geneva, on Thursday, 8 November 1956 at 10 a.m.

Chairman: Sir Claude COREA (Ceylon)

Subjects discussed:

1. French special temporary compensation tax on imports

2. Action by the CONTRACTING PARTIES in the field of tariff reductions
   (Proposals for closer economic integration
   in Europe
   Developments in OEEC trade liberalization

1. French special temporary compensation tax on imports (L/495 and Add.1)

The CHAIRMAN recalled that at the Tenth Session the CONTRACTING PARTIES, by their Decision of 30 November 1955, had reaffirmed the decision they had taken on 17 January 1955 concerning the reduction and elimination of the special French tax on imports. The French Government was asked to accelerate the process of reduction and elimination and of reducing its discriminatory effects and to report to the Intersessional Committee on action taken. The French Government's report, which was contained in document L/485, had been examined by the Committee at its meeting in September. The Committee's report on this matter (in L/458) recorded the Committee's decision that the report, together with additional data which the French delegate undertook to furnish, should be referred for consideration at the Eleventh Session.

Mr. PHILIP (France) presenting his Government's report on the measures taken to reduce and eliminate the special temporary compensation tax, thought it helpful to recall the reasons for the introduction of the tax and to describe the present economic situation.

The purchase of raw materials after the outbreak of the Korean war had provoked a considerable rise in the prices of these products. After the end of the boom in 1952 there had been a fall in wholesale prices in industrial countries, but in France they remained some 15 per cent above those in other countries. This disparity in price had given the French Government two choices.
It could have had recourse to monetary measures which would have had a radical effect but might not have produced lasting results in the economic structure. If the franc had been devalued there would have been a significant rise in prices and social progress might have been compromised. The Government had, therefore, to resort to the second possibility which was to adopt measures to promote the necessary development without risk of compromising the results already achieved. If France had not had to meet its international obligations it would have been possible progressively to relax import quotas and so promote an improvement in the economic structure. This policy would not have been compatible with its country's obligations towards its partners in the OEEC. As soon as it had overcome its most serious balance-of-payments difficulties it responded to the invitation to free a part of its trade with Western Europe. This liberalization within the framework of the modernization policies adopted exerted pressure on backward industries. It was, however, necessary to proceed with caution owing to the fragile state of the French economy and the risk of losing foreign exchange. For this reason, when it had liberalized a certain number of products from European countries in April 1954, his Government had decided to alleviate the foreseeable consequences by creating a tax, the rate of which corresponded to the disparity between French and foreign prices.

The temporary character of the tax had always been stressed, and the French Government had confirmed its intention to eliminate it progressively as soon as possible. At the end of 1954 the rate of tax applied to liberalized products had been reduced from 15 to 11 per cent and from 10 to 7 per cent. Since that time France had liberalized a further important section of its imports from Europe, and further reductions and eliminations in the tax were effected in the spring and autumn of 1955 and in May 1956. Important results had been achieved in this field, and the three reports submitted by his Government showed that it had consistently followed the policy of reducing and eliminating the tax as circumstances permitted. The measures of reduction and elimination taken since the last Session covered a wide range of products, including equipment, paper and cardboard, chemical products, textiles, furs, skins and leather, and represented, on the basis of the first six months of 1954, an import value of ten thousand million francs.

The French economy seemed to have recovered from a period of stagnation, and production in 1955 reached a new record. Since the beginning of 1956 the rate of increase of industrial production was higher than in any other Western European country. Productivity had also increased but progress in this field was slow, and it would probably require several more years before a satisfactory level was reached. The reconversion of the least profitable firms had also been fairly successful. The French economy, however, was subject to serious inflationary pressures and the deficit in public expenditure remained large. The continued increase in demand had made it difficult to adjust supply, and the slow but continuous rise in the cost of living had had an unfavourable effect.
The present situation was characterized by serious disequilibrium in the balance of payments. Since the beginning of 1955 French imports had increased rapidly, and for the third quarter of 1956 the value of imports was higher by 25 per cent than in the corresponding period in 1955. Imports from the dollar area had increased considerably in absolute terms and also relatively to the imports from the other monetary areas. The substantial increase in imports since the beginning of 1956 was due to exceptional imports of agricultural products on account of the damage caused by the spring frosts, and to the growth in imports of fuel, raw materials and capital goods connected with the expansion of French production. Imports of consumer goods had also increased. This increase in imports had not been matched by a comparable growth in exports which had remained relatively stable since the beginning of 1956 at a level of some 3 per cent lower than that achieved in the first eight months of 1955. This was due in the main to a substantial reduction in sales abroad of agricultural products, food and fuel, whereas exports of capital and consumer goods had slightly increased. These movements in imports and exports had resulted in a worsening of the balance-of-payments position and had seriously reduced the monetary reserves. In the European Payments Union, France had substantial deficits requiring 75 per cent gold or dollar payments for the months of July, August and September and in the first three quarters of 1956 the gold and dollar reserves diminished by about $500 million. France was therefore obliged to request authorization from the International Monetary Fund to draw up to $250 million. The present position of the reserves did not require recourse in the immediate future to loans, but the Government was bearing this possibility in mind.

Mr. Philip said the problem of the tax could not be divorced from trade balance considerations which would set the framework for future action. On the basis of imports in the first quarter of 1956, imports of products subject to the tax represented about 10 per cent of total imports; the comparable percentages for OEEC and non-OEEC countries were 17 per cent and 3.5 per cent respectively. Detailed information had been given in the report on the development of imports of products to which the tax was applied; these had increased by 40 to 45 per cent as compared with imports of the same products in the first six months of 1954. Experience had shown that the compensation tax had not had the restrictive effects feared and imports of liberalized products subject to the tax had not only increased considerably in relation to the base period in 1954, but the rate of increase of these imports was at a considerably higher level than for those under control by quotas. The most recent statistics showed a continued increase in imports of liberalized products from OEEC countries, while imports of products subject to the tax from non-OEEC countries, particularly from countries of the dollar area, also increased considerably even when they were not the subject of liberalization measures. A recent statistical study on the level of taxed imports from the United States revealed a large increase in imports of numerous products as compared with the period preceding the introduction of the tax. As regards the discriminatory aspect, he would emphasize that the discrimination affecting products from non-OEEC
countries was not due to the application of the tax, but to quantitative restrictions maintained for balance-of-payments reasons. The considerable increase in imports of products subject to the tax from non-OEEC countries, resulted from a more liberal administration of the quotas applied when the position of the balance of payments and reserves made this possible. If elimination of the tax were accompanied by a more rigorous application of quotas a reduction in the volume of trade would result.

The French Government had proceeded as far as possible in reducing the compensation tax, taking into account the results of its experience and the level of its foreign trade. In the present economic situation, a radical and general reduction of the tax would provoke serious disequilibrium and threaten the principle of trade liberalization. For the reasons described, his Government had to proceed with caution and had to avoid any measure which might aggravate the dangerous lack of balance in the economy. As long as these difficulties continued, it would not be possible to envisage substantial progress in the reduction or elimination of the tax. The French Government reaffirmed its willingness to pursue the efforts already undertaken as soon as circumstances permitted and was at present engaged in studying measures to reduce the incidence of the tax which would however have a limited character due to the necessity of avoiding a deterioration in the balance of payments.

Mr. FERLESCH (Italy) thanked the French delegation for the detailed report it had submitted, and said that while his delegation appreciated the measures that had been taken since the Tenth Session to reduce or remove the tax on certain products, it did not think they went as far as was desirable. It was recognized, however, that the situation in France was not normal, and the economy was passing through a phase of temporary dislocation; nevertheless, as the tax was provisional, and not meant to be protective, the Italian Government hoped that the French Government would continue its efforts to reduce or eliminate the tax, particularly on those items where the tax had been in force for a long time.

Mr. STANDENAT (Austria) said he had found it difficult to follow the statement by the representative of France in favour of the maintenance of the tax. He recognized, however, that positive efforts had been made since the Tenth Session to reduce and eliminate the tax, and referred to the measures taken in May, in particular, as improving the position of exporting countries, which were experiencing particular difficulties, such as Austria. He felt that the efforts of the French Government to solve the problems with which it was confronted should be intensified, as these difficulties existed in a number of countries in Western Europe and must be overcome on the basis of reciprocal arrangements which would lead to a normalization of trade. He remarked that temporary measures have a tendency to become permanent, and proposed that the CONTRACTING PARTIES reaffirm their decision taken at the last session, bearing existing circumstances in mind.
Mr. TIKANVAARA (Finland) said that his delegation had followed with great interest the measures being taken by the French Government towards the reduction and elimination of the tax; however, with respect to certain products which Finland exported to France the taxes were still in existence, and he expressed the hope that the French Government would accelerate their removal.

Mr. SANDERS (United Kingdom) recognized that the French Government was faced with exceptional difficulties, which had made progress towards the removal of the tax difficult, and welcomed the fact that some progress had nevertheless been made in the past twelve months. However, he recalled that it was nearly two years since the CONTRACTING PARTIES had found that these measures were contrary to the provisions of the GATT, and it was a matter of disappointment, therefore, that over this period so little had been done towards their removal. He thought that immediate progress could be made by the French Government in certain directions within the framework of efforts to discontinue and dismantle the tax, even allowing for the financial and economic difficulties in the present situation. The tax was having protective effects where the rates on individual items remained unchanged; some two hundred items had been subject to an 11 per cent tax since November 1954, some fifty items to a 15 per cent tax since March 1955, and some one hundred items to a 15 per cent tax since September 1955. As the importance of these items appeared to be relatively small he felt that the CONTRACTING PARTIES should consider asking the French Government whether they could resume forthwith the reduction of rates such as these that have been unaltered for some time. In conclusion, he urged the French Government to dismantle the system as soon as possible.

Mr. GUNDELACH (Denmark) thought the special tax was of doubtful value as a substitute for quantitative restrictions; the only extenuating circumstance was that the tax was temporary. The fact that action to eliminate the tax was at a standstill was a source of disappointment to his Government, which considered that the French Government should continue its efforts to abolish the tax. Unless some action were taken towards a rapid elimination of the tax, the concept of "temporary" might have to be dropped.

Mr. SWAMINATHAN (India) said that, though India was a member of the European Payments Union through the sterling area, France’s OEEC liberalization measures did not extend to India’s exports, which were faced with the burden of both the quantitative restrictions and the tax. He requested the French Government to remove the tax on items which were of export interest to countries in such a position as soon as possible, and referred to one item in particular—coir mats and matting, which was the subject of a tariff concession; he said that, as the benefits had been nullified by the compensation tax, he had been instructed by his Government to request that this item be exempted from the tax forthwith.
Mr. CORSE (United States) said the attitude of his Government on this question remained unchanged. He expressed regret at the slow progress being made by the French Government towards the elimination of the tax, and reaffirmed the view of his delegation that the tax should be abolished as soon as possible. He suggested that the CONTRACTING PARTIES request the French Government to submit a further report.

Mr. GRANDY (Canada) said the levy of the tax impaired the value of tariff concessions and had a discriminatory effect on non-European countries as mentioned by the representative of India. He sympathized with the difficulties experienced as a result of the severe winter of 1955/56, and recognized that in addition the French economy was bearing other serious burdens; however, his delegation expected the French Government to take steps to eliminate the tax as soon as possible, and, in the meantime, to re-examine the lists of items for which the tax had remained unchanged for some time. At the same time, affected contracting parties could have recourse to the provisions of Article XXIII, as envisaged by the decision of 17 January 1955.

Mr. de BESCHE (Sweden) said his delegation appreciated the measures that had been taken so far to reduce or eliminate the tax, but felt disappointed at the general situation and would like to see further progress. He supported the proposal by the representative of Austria, that the CONTRACTING PARTIES reaffirm the decision taken at the last session, and also the suggestion by the United Kingdom representative.

Mr. AUGENTHALER (Czechoslovakia) said his delegation held views similar to those expressed by the representatives of India and Canada.

Mr. PHILIP (France), replying to some of the points raised in the discussion, said he agreed with the representative of Denmark that, theoretically, if measures were taken to suppress quotas by adding dues, the restrictive effect on imports was maintained. In practice, however, under the system adopted, the volume of imports of those products on which taxes were levied had actually increased, whereas the classical procedure to establish equilibrium through monetary measures would have resulted in a smaller volume of total imports. With reference to the disappointment expressed by some representatives, he said the disappointment was even greater in France where serious consequences, both fiscal and human, had been suffered. The economic policy adopted by his Government had met with success and the structure of the French economy was undergoing a profound reorganization and transformation, particularly in agriculture and industry, and there were hopes therefore for the abolition of the tax, although he could not give any commitment as to the exact date. As for those items on which the rate of tax had remained unchanged, he said that when liberalization measures were taken, there was a need for the industries concerned to reorganize and the general survey now being carried out would enable his Government to study particular items, such as coir and coir matting, and examine proposals for introducing changes. He thanked the
various delegates for having shown a comprehension of the situation, and stated that his Government would be prepared to submit a report next summer or autumn, giving an analysis of the position.

The CHAIRMAN said that there had been general appreciation for the very comprehensive statement by the representative of France and for the action taken to alleviate the measures. However, there had been some disappointment expressed that more progress had not been made towards the removal of the tax, and there was a general desire that the French Government should work towards the abolition of the tax as soon as possible. He proposed, therefore, that the Executive Secretary be instructed to prepare a draft decision, taking into account the views expressed in this discussion, for submission to the CONTRACTING PARTIES at a later meeting.

This was agreed.

2. (Action by the CONTRACTING PARTIES in the field of tariff reduction
   [Proposals for closer economic integration in Europe (L/500 and L/535)]
   (Developments in OEEC trade liberalization (L/542, Corr.1 and Add.1))

   The CHAIRMAN recalled that at the Tenth Session the CONTRACTING PARTIES had decided to place of the agenda the Plan for Tariff Reduction which had been considered by the GATT in the course of the previous years. Since that decision was taken, however, the CONTRACTING PARTIES had convened a tariff conference and, after this conference was completed, a number of European countries supporting the idea of an automatic plan for tariff reduction had decided to pursue the study in the framework of the OEEC. The main lines of an automatic plan for the reduction of tariffs had been submitted to the Council of the OEEC which had met in July 1956 at the ministerial level. The Council had decided, however, to postpone any final decision on this plan until a study had been carried out relating to the possible forms and methods of association, on a multilateral basis, between a customs union which was being considered by six European countries, and other members of the OEEC. If the Council should find that this study offered no prospect of substantial progress being achieved before the end of 1957, it would give the necessary instructions to complete the study of the automatic plan for tariff reduction so that such a plan could be submitted to the Council for consideration in 1957 in time for it to be put into effect if approved by the Council as from 1 January 1958. It would appear therefore, from the action taken so far by the OEEC countries which were primarily interested in the GATT plan for Tariff Reduction, that there was not much point in the CONTRACTING PARTIES pursuing the studies which it had undertaken in this respect at this juncture.

   The second subject for consideration related to proposals for closer economic integration in Europe by the formation of a customs union and/or free-trade area. These proposals had been brought to the notice of the CONTRACTING PARTIES by a communication from the Council of Europe. First,
the recommendation adopted by the Consultative Assembly in October 1955 had been sent to all contracting parties for their information. Then the Executive Secretary had advised that the Committee of Ministers of the Council of Europe had decided to submit for study by the CONTRACTING PARTIES a proposal for the setting up of a free-trade area among the member states of the Council (L/500). The Intersessional Committee had decided to include in the agenda for the Session an item which would cover, inter alia, the proposal from the Council of Europe. The Secretariat had explained to the Council, as well as to the Economic Commission of that body, the general lines of the various provisions of Article XXIV and the procedures to which members of the Council might have resort in order to give effect to the proposal contained in the recommendation. It became clear, from the action taken subsequently by the Council of Europe, that that organization was not particularly wedded to the particular technique contained in its recommendation, which was considered only as a possible method of achieving its objective. Meanwhile, the discussions in the OEEC had rendered the Council's resolution somewhat out of date, and the Intersessional Committee had decided, therefore, to word this item on the Agenda so as to include other proposals which had been considered recently by various groups of European countries. The relevant documents had been circulated to all contracting parties in document L/535.

The Chairman further recalled that the six European countries which were members of the Coal and Steel Community had held a conference at Messina which considered proposals for the creation of a European common market or a customs union. A report on this subject had been submitted to a further conference at Venice, and the governments concerned had decided to pursue and complete these studies with a view to drafting a treaty for the establishment of a common market in Europe. Although the report which had been considered by the Venice Conference did not present final proposals for a common market, it gave a clear indication of the main principles which had guided the preparatory work. The report provided for the setting up of a customs union among the six countries which would meet the requirements of Article XXIV of the GATT; it was stated in this report that the common market, i.e. the customs union, should cover all branches of economic activity, that the customs union should be completed within a period of ten to fifteen years, and that the overall incidence in the common tariff would not be greater than that of the separate tariffs it would replace.

At the appropriate time, the CONTRACTING PARTIES would have to address themselves to the problems arising out of the application of paragraph 7 of Article XXIV. In this connexion, it would be helpful if the CONTRACTING PARTIES could learn something from the countries concerned as to their intentions and, in particular, receive some assurance that details of the proposed union would be laid before the CONTRACTING PARTIES in sufficient time so that, to quote Article XXIV, they might "make such reports and recommendations as they may deem appropriate" and before the project takes such a form that such reports and recommendations would be ineffective.
Moreover, as the proposal would be for an interim agreement leading to the formation of a customs union, the CONTRACTING PARTIES would also have to study the plan and schedule included in such agreement in accordance with the provisions of paragraph 7(b) of Article XXIV. In addition, a somewhat broader proposal was under discussion in the OEEC in Paris. The OEEC was studying the possibility of a close association between the proposed customs union and other members of the OEEC. The OEEC Council had set up a special working party to undertake that study and to report not later than 31 December 1956. As a possible method of association the Working Party had been instructed to take into account the creation of a free-trade area which would include the customs union and other members of the OEEC.

The Chairman said that the Deputy Secretary-General of the OEEC was present and would no doubt wish to make a statement to the CONTRACTING PARTIES regarding the work done by their Working Party. He added that the Secretariat had been invited to attend the meetings of the Working Party in a capacity of observer and that it followed closely the work of that body. If, on the report of the Working Party, the Council, which would meet at ministerial level at the beginning of 1957, found that the study held out a prospect of substantial progress being achieved before the end of 1957, it would instruct the Working Party to proceed with its work as rapidly as possible.

The CONTRACTING PARTIES should also note that, at their July session, the OEEC Council at ministerial level had instructed the Council at the official level to ensure that there would be, at the appropriate time, consultations with the GATT. The CONTRACTING PARTIES might consider this aspect of the problem with a view to making the necessary arrangements to respond to any requests for consultations which might take place during the intersessional period.

Finally, the third subject for consideration related to developments in OEEC trade liberalization, which was placed on the agenda at the request of the Government of Australia. The Intersessional Committee had asked the secretariat to prepare a paper on recent developments in this field, and this had been circulated to contracting parties in document L/542 and Add.1. At a meeting of the Heads of Delegations, the representative of Australia had suggested that in order to expedite discussion, this question might be discussed in conjunction with the proposals for closer economic integration in Europe.

Mr. CAHAN (OEEC) said that he could add little to what had been outlined by the Chairman. The Council had established a special working party in July to study the possible forms and methods of association between the proposed customs union and member countries not taking part — one possible method of association was the creation of a free-trade area which would include the customs union and other member countries. The Working Party was at present discussing whether the latter proposal was workable and was concerned with such questions as the means by which tariffs might be reduced over a transitional period, which goods would be covered by the free-trade
area, the rules to be applied for origin and nationality of goods, and the type of escape clause necessary when countries could not reduce duties. He emphasised that the discussions were purely technical so that, at the end of the year, the Working Party could report to the Council of Ministers which would then decide whether or not to go ahead with the scheme. If the Council decided not to go ahead with that scheme, it was committed to study other methods. He referred to the consultations that were to take place with the GATT, but could not say when these would take place; he pointed out, however, that different aspects were always studied with a view to fitting them into the framework of GATT.

Mr. FORTHOMME (Belgium) said that the six Messina Powers, as a move towards an economic union in Europe, had decided to concentrate their efforts on the pooling of atomic energy and on the creation of a common market for all products, and had appointed an intergovernmental committee to study these matters. The Report of the committee, published in April 1956, whilst not binding the governments, had been recognised by them as a basis for negotiation at Venice in May 1956. At the present time discussions between the governments were continuing and it was not yet possible to give a true picture of the work in progress.

In analyzing the Report, Mr. Forthomme explained that it recommended the creation of a common market in the form of a customs union conforming to the provisions of Article XXIV of GATT which would not, however, exclude the formation of a free-trade area with any other country. It further recommended that the common market should extend to all economic activity and that the customs union be created within a period of 12 to 15 years. Plans had been proposed for the progressive elimination of rates of duty and quantitative restrictions as between the members and for the establishment of a common tariff towards third countries by stages and according to rules ensuring that the general incidence would not be higher than that of the separate tariffs it replaced. In the field of agriculture a more flexible procedure had been suggested as it was recognised that it would not be possible to treat all products alike. When a treaty had been drafted it was intended to submit it to the CONTRACTING PARTIES, after signature but before ratification, and he was sure that they would examine it with full realisation of its importance in promoting better human relations.¹

The meeting adjourned at 1 p.m.

¹ The full text of Mr. Forthomme’s statement is reproduced in L/582.