

23 November 1955

DRAFT PRESS RELEASE

French Special Compensatory Tax: Discussion
by the Contracting Parties /and Adoption of a Resolution/

The attached draft press release contains a summary of the discussion in Plenary Session. The text of the Resolution will be added after it has been adopted or - if it is delayed - will be contained in a separate press release.

Will Delegations wishing to make corrections kindly send them in writing to the Information Officer, Room A-660, before 6 P.M. on Thursday 24 November.

French Special Compensatory Tax: Discussion
by the Contracting Parties /and Adoption of a Resolution/

Under a French Decree of 17 April 1954 a special compensatory tax was introduced on certain imported goods when imported from all destinations into the French customs territory. (This tax is levied on products which have been recently liberated from quantitative restrictions when imported from member countries of the Organization for European Economic Co-operation.)

At the Ninth Session, on 17 January 1955, the Contracting Parties adopted a Decision which stated that the tax had increased the incidence of customs charges in excess of the maximum rates bound under Article II and had also increased the maximum margins of preference permissible under Article I. The Contracting Parties instructed the Intersessional Committee to follow closely the undertaking of the French Government to remove the tax as soon as it is possible to do so. The Intersessional Committee, however, was not able to give more than a preliminary review of the information supplied by the French authorities.

The Contracting Parties have reviewed the information supplied by the French authorities and have taken a Decision, the text of which is given at the end of this release.

Introducing the report of the French Government on the steps taken to remove the tax, M. André Philip, France, said that it was owing to the institution of this tax that France had been able to increase its percentage of liberalization (on goods imported from OEEC countries) to 77.5 per cent. He recalled that the tax had originally been fixed at 15 per cent, with the exception of certain products taxed at 10 per cent. The first step, taken in November 1954, was to reduce from 15 per cent to 11 per cent and from 10 per cent to 7 per cent the tax as applied to products liberated before that date. The second general step was taken in October 1955, affecting the greater part of the products liberated at the beginning of 1955. For over 70 per cent of the products taxed at 15 per cent and for over 95 per cent of the products

taxed at 10 per cent the tax had been abolished or reduced. On about 12 per cent of the volume of importations affected, the tax had been abolished. He said that it could^{be}/stated that one third of the way towards the complete abolition of the tax had been achieved.

Turning to the incidence of the tax on imports from non-OEEC countries, M. Philip said that the tax affected 7.9 per cent of total French import trade but that its effect on imports from OEEC countries was four times greater. He said that the fact that French imports as a whole had shown a marked increase in comparison with the first half of 1954 seemed to show that the tax had not had a restrictive result, such as some contracting parties had feared. In fact imports of products subject to the tax had increased in the second half of 1955 by 17 per cent in comparison with the first half of 1954.

Examining the recent decree of 29 October 1955, M. Philip said that the tax had been reduced from 15 per cent to 11 per cent, or from 10 per cent to 7 per cent for about 80 per cent of the items liberated last January. The tax had been abolished on about 90 positions.

M. Philip referred to the recommendation of the Contracting Parties (in the Decision of 17 January 1955) that the French Government should reduce the degree of discrimination against the trade of contracting parties whose exports are subject to the tax but which do not benefit from French liberalization measures (i.e. non-OEEC countries). He said that to abolish all discrimination, in this sense, it would be necessary either to abolish the tax applied to liberated items or to extend liberalization to non-OEEC countries or to limit the application of the tax to products imported from countries benefiting from liberalization. The French Government preferred the first formula; the reduction and suppression of the tax on the one hand, and the policy of liberalizing quota regulations on imports from non-OEEC countries on the other hand had contributed towards reducing the element of discrimination.

M. Philip said that the French Government confirmed its intention to suppress the tax as soon as possible but made it clear that the suppression could not be subjected to a precise timetable in advance. It did not seem likely that any further general step could be taken before the beginning of

next year, when it will be possible to examine the position of products that were liberated last April.

Mr. John Leddy, United States, expressed the concern of his Government on the continued application of the tax to a wide range of products. He was troubled about the intention of the French Government to apply the tax in the future to newly liberalized products. The tax had the effect of imposing special hardship on U.S. exports which continued to be subject to French quantitative restrictions. The tax had not led to dollar liberalization. He said that today the tax was being applied on a larger range of products and at a higher rate than was the case twelve months ago. This fact, combined with the restrictions against dollar goods led to the conclusion that French discrimination against dollar goods had increased since last year. In his view the best way towards eliminating the tax would be not to apply it to any more products in future.

Shri L.K. Jha, India, said he shared the views of the U.S. delegate. India, he said, does not benefit from OEEC liberalization but these taxes are applied to Indian exports. As far as India was concerned the recommendation to reduce the degree of discrimination had not been fulfilled.

Mr. A.B. Hockin, Canada, said that the satisfaction felt by the Canadian Government at the reduction in the tax since the last Session had been more than offset by their dissatisfaction at the extension of the tax to a further wide range of goods. In their view the tax had the effect of impairing the value of tariff concessions negotiated with France and only the complete removal of the tax could restore their full value. The French Government had taken no specific steps to reduce the discrimination against the trade of contracting parties whose exports are subject to the tax but do not benefit from liberalization measures. His Government regarded this as a most serious matter.

M. Guy Stuyck, Belgium, said that his Government was fully conscious of the French economic difficulties and noted with great satisfaction the measures taken by France to reduce or eliminate the tax.

Dr. H. Standenat, Austria, said that the situation resulting from the tax remained unsatisfactory and serious. It was regrettable that the French

Government could make no commitment for a target date to remove the tax. The effect of the tax for Austria had been to neutralize the benefits of French liberalization measures. This could be adduced from the increase in Austria's trade deficit with France. He said that the harmful effect had been concealed by increased domestic demand for goods. He said that the continuance of the tax was having a psychological effect in other countries, where protectionist groups were quoting the French example and people were encouraged to seek similar measures. The prolongation of the tax had created very difficult problems for many contracting parties and he hoped that France would eliminate it as soon as possible.

Mr. E.L. Philips, United Kingdom, said that he recognized that some progress had been made towards eliminating the tax but the rate was too slow. On some products the tax appeared to have been stabilized at the highest level and there was a danger that the industries concerned would regard the tax as a protective measure thus making it the more difficult to remove. He asked for an assurance that the rate of elimination would be accelerated in 1956 and that the treatment of products subject to the tax should be more uniform. The French Government should be asked to report again in the middle of 1956.

Mr. Hermann Reinhardt, Federal Republic of Germany, said that his Government hoped that the French Government would continue in the future - and as rapidly as possible - to reduce and finally to abolish the tax. He suggested that the Contracting Parties should note the progress so far achieved and should express the hope that the French Government will be able to reduce and abolish the tax as soon as possible.

Mr. H.E. Kastoft, Denmark, said that although some progress had been made he did not feel satisfied that the tempo of the reductions of the tax could not have been accelerated. It was absolutely necessary to maintain a fairly rapid tempo because if prolonged the tax would create permanent protection which will be even more difficult to remove. His Government had understood when the matter was discussed at the Ninth Session that the tax would not be imposed on products liberated after January 1955. It was therefore a matter of surprise that the tax was levied on goods liberated since that date. It was therefore all the more imperative that the tax should be reduced very rapidly.

He hoped that future reports by the French Government would be more satisfactory than the present report.

Dr. W.C. Naudé, South Africa, said that he was very concerned about the discriminatory effect of the tax against South Africa which does not enjoy OEEC liberalization measures. His Government expressed concern at the situation which the Contracting Parties continued to face.

M. T. Notarangeli, Italy, said his delegation much appreciated the French Government's report, but his Government regretted to note that new French liberalization measures are always accompanied by the application of the Compensation Tax and that the initial levels of the tax remain the same. The Italian Delegation was obliged to express a very firm wish that the French Government should accelerate the elimination of the tax and should abandon as far as possible the tradition of imposing the tax on all newly liberated items. The Italian Delegation hoped, however, that a less rigid attitude towards the Compensation Tax would not cause the French Government to slow up the rhythm of liberalization. It would be particularly useful if the French Government could give the Contracting Parties the criteria it proposes to follow in the future on the subject of the tax. This would help to bring the present discussion to a satisfactory conclusion.

Mr. P.B. Kollberg, Sweden, asked for an assurance that the tax would not be continued for several years. He noted that for many products the tax remained at the level originally imposed. He asks the French Government to indicate its intentions as to the removal of the tax within a reasonable time. The matter should be kept under review and the French Government should report further progress towards abolishing the tax.

Mr. Isao Abe, Japan, said there was very little justification for extending the tax to non-OEEC countries. He noted that Japanese exports to France had decreased considerably recently. He expressed the desire that the French Government should give special consideration to the effect of the tax on Japanese products.

Baron C.A. Bentinck, Kingdom of the Netherlands, said that progress in removing the tax was not satisfactory and a speedy way must be found to remove

the whole of the rest of tax still being applied. The Contracting Parties should adopt a Resolution expressing hope that the removal of the tax should be accelerated. In his view there was a danger that this tax might become merged into French protection as a whole.

Mr. P. Koht, Norway, emphasized the risk that this temporary tax might become permanent and therefore that it would be difficult to displace without imposing other taxes. He supported the proposal for a Resolution in the terms suggested by the United Kingdom delegate.

M. André Philip, France, answering some of the points raised, said that his delegation would be glad to consult with other delegations concerning products on which the tax had given rise to particular difficulties. Concerning the element of discrimination against non-OEEC countries he thought, on the basis of known statistics, that there was a tendency to exaggerate. He said that at the present time the tax affected 25 to 28 per cent of imports from OEEC countries but only 7.4 per cent of total import trade. Thus the tax had a much smaller effect on the trade of non-OEEC countries. He agreed that the recent increase of 10 per cent in French imports reflected an improvement in general economic conditions. But the figure represented an increase of 6.7 per cent from EPU countries, 13 per cent from non-EPU countries and 19 per cent from the dollar area. This tendency had been further stressed in 1955, so far. M. Philip denied the suggestion by the Danish delegation that the tax cancels out the benefits of liberalization. He agreed to give a progress report to the Intersessional Committee in May 1956, but he could not give a firm commitment to accelerate the rate of reducing or abolishing the tax. Regarding the request for criteria which would guide the French Government in the future, M. Philip said that since 1952 French industrial prices had been about 15 per cent above the prices of her neighbours. The present industrial structure, which included many backward industries, was not satisfactory. There was pressure on these industries to modernize and convert themselves to new requirements. This problem was dealt with through state interventions and the compensatory tax was a factor in the situation in connection with the pressure

from outside to reduce prices. It was therefore impossible to accept any automatic principles to be applied to the transformation of the French economy. Regarding the reduction and abolition of the tax he recognized that progress so far had been disappointing.