INTERIM COMMISSION FOR THE INTERNATIONAL TRADE ORGANIZATION

COMMISSION INTERIMAIRE DE L'ORGANISATION INTERNATIONALE DU COMMERCE

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EXECUTIVE COMMITTEE
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CONSULTATION WITH THE GOVERNMENT OF SWITZERLAND REGARDING THE REPORT OF SUB-COMMITTEE G OF THE THIRD COMMITTEE OF THE HAVANA CONFERENCE

The resolution establishing the Interim Commission instructs the Commission to carry out the functions and responsibilities referred to in the report of Sub-Committee G of the Third Committee of the Havana Conference on the proposal made by the delegation of Switzerland, together with the sections relating to that matter in the report of the Third Committee. These reports recommend that the Interim Commission invite the Swiss Government to participate in a study of the problems facing the Swiss economy with a view to submitting to the First Conference of the Organization a report as to the measures which could be taken in accordance with the procedures established in the Charter for dealing with the problem.

To assist the Executive Committee, the Secretariat has prepared the attached paper which in Part I reproduces the proposal of the Swiss delegation to the Havana Conference, in Part II recapitulates in summary form the case stated by the delegate for Switzerland in support thereof, in Part III summarizes the report of Sub-Committee G of the Third Committee of the Havana Conference, and in Part IV sets out certain statistical data on Swiss trade. It had been intended to include also data on the Swiss balance of payments. It appears, however, that no official estimates have been published, and such material as is available did not appear to the Secretariat to enable any useful statement to be presented.

It is suggested that the Executive Committee, after such review of the matter as it may wish to undertake, determine a procedure for consultation with the Swiss Government. In this connection, the Committee may wish to determine whether all the members of the Committee should participate in the consultations or whether it would be preferable to

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establish a small negotiating group which, having consulted with the Swiss authorities, would report back to the Executive Committee.

Having formulated its views on the procedure and timing of the consultation with the Swiss Government, it is suggested that the Committee invite the Swiss authorities to consult with it on these points. The Committee will then be in a position to reach decisions acceptable to itself and the Swiss Government.

I. THE SWISS PROPOSAL

The proposal of the Swiss delegation at the Havana Conference called for the insertion of the following new paragraph in Chapter IV of the draft Charter:

> "A Member, unable to invoke the provisions of Article 21 and finding that its economic stability, particularly in the fields of agriculture and employment, is being seriously impaired or gravely threatened, may take such steps as are necessary for safeguarding its vital interests."

II. THE CASE PRESENTED BY THE DELEGATE FOR SWITZERLAND

The implementation of the Charter as drafted at Geneva would be catastrophic for a country in the position of Switzerland standing in isolation in relation to that large group of countries which would employ quantitative restrictions in their external trade policy because of currency and balance-of-payments difficulties. Switzerland imports a part of her food supply, and her secondary industries are dependent upon imported raw materials; but her exports, on the other hand, are not regarded as essential by other countries. Consequently, many of the nations which trade with Switzerland, as a contribution to the restoration of equilibrium in their balance-of-payments, endeavour to increase their exports to Switzerland and to reduce their imports; they wish to increase their earnings of hard currency, while spending less.

Between eighty and ninety percent of Swiss exports are sent to countries which are likely to use quantitative restrictions under Article 21 to safeguard their balance-of-payments position. Switzerland produces little that is truly essential to these countries, and sixty percent of her exports are regarded as luxuries. An unusually high proportion of industrial production, and in some industries nearly the total output, is intended for export and, consequently, a decline in exports threatens unemployment and instability of the Swiss economy.

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Another vulnerable point is the dependence upon the earnings of the tourist and hotel trade. When other countries have an adverse balance of payments, Switzerland is told that her tourist facilities, in addition to her watches and her silks, are not required. This has happened recently; the trade deficit more than doubled in 1947 and reached a total of 1,500 million Swiss francs. If bound by the Charter, Switzerland, with almost the highest per capita foreign trade in the world, would be reduced quickly to the position of an "Article 21" country and her monetary reserves would be imperilled.

The position of Switzerland is relatively good at the present time due to the commercial policy pursued since the close of the war. Switzerland now has bilateral agreements with twenty-five countries. In bilateral negotiations, she endeavours to sell her traditional exports in exchange for the raw materials and merchandise she requires. Owing to the peculiarities of Swiss trade - imports of essential materials and exports of luxuries - neither tariffs nor quotas provide adequate protection; Switzerland must be free to employ her restrictive measures on a discriminatory basis both as a weapon in negotiations and as an instrument for implementing agreements. Bilateral bargaining is a weapon of pure defence - a protection against the exchange controls imposed by others. The countries which trade with Switzerland have not complained of this policy, and the very fact that import quotas may be used is often sufficient to ensure that the export trade will be maintained. The threat to the convertibility of the Swiss franc has thus been averted.

Unless the Charter provides that the policy of bilateral deals may be sustained, it would be impossible for the Government to convince the Swiss Parliament and the Swiss people that Switzerland should become a member of the Organization. It has been said that the answer to the Swiss problem lies in Article 40, but this is not sufficient since it relates only to difficulties encountered in connection with the importation of particular products. The Swiss Government does not find any provision in the present framework of the Commerical Policy Chapter for the use of the instruments of commercial policy which are indispensable to the maintenance and stability of Swiss trade and employment. Moreover, it is evident that the Swiss case cannot be met by a simple amendment of Article 21 or of Article 23, nor would a release from the obligations of Chapter IV for a specified period of time be sufficient inducement for Switzerland to adhere to the principles of Chapter IV. Switzerland must have the bargaining powers which are at present exercised if Swiss interests are to be protected.

/III. THE REPORT

III. THE REPORT OF THE SUB-COMMITTEE OF THE HAVANA CONFERENCE (Document E/Conf. 2/C.3/72)

The Sub-Committee based its enquiries on the assumption that Switzerland would not be eligible to impose quantitative restrictions under Article 21 but might suffer damage from the restrictions imposed by other Members under that Article. The Sub-Committee examined the arguments advanced to justify the need for special measures, and agreed that several of the factors mentioned, when taken together, represented a combination of circumstances requiring special consideration. The following factors were mentioned:

(a) a relatively high proportion of total production being dependent upon export markets;

(b) a relatively high proportion of exports consisting of goods and services that are considered as inessential by many importing countries

(c) the normal export markets being located in countries which apply import restrictions in accordance with the principles of the Charter.

Therefore, the Sub-Committee recognized that a small country in a position such as that of Switzerland may experience serious unemployment when its exports are restricted by others, and that this risk is increased when convertibility of currency is maintained since the country concerned then becomes an exceptionally attractive market; the pressures resulting from these circumstances may, in the long run, undermine the convertibility of the currency.

Further, the Sub-Committee recognized that Articles 21 and 40 are insufficient to meet the exceptional needs of Switzerland and that, if Switzerland has to engage in bilateral negotiations with countries which are applying import restrictions, it will require bargaining powers to safeguard its exports and to defend itself against the pressure of excessive imports. Nevertheless, the Sub-Committee reached the conclusion that the proposal put forward by the delegate for Switzerland was so far-reaching that its adoption would dangerously weaken the structure of the whole Charter. The Sub-Committee was unable to recommend the adoption of the Swiss proposal, but considered that the problem required further and more detailed examination.

The Havana Conference approved the recommendation of the Sub-Committee that the Interim Commission should invite the Swiss Government to participat in a study of the problems facing the Swiss economy with a view to submittin to the first Conference of the Organization a report on the measures which could be taken in accordance with the procedures established in the Charter.

/IV. STATISTICAL

IV. STATISTICAL DATA ON SWISS TRADE

The following tables give relevant statistics of Swiss external trade in two pre-war and two post-war years:

Table 1: External trade by degree of manufacture

	1937		1938		1946		1947	
	million francs	per cent	million francs	per cent	million francs	per cent	million francs	per cent
1. Imports								
Food, fodder, etc.	484.6	26.8	445.9	27.7	1,023.8	29.9	1,424.7	29.6
Raw materials	669.0	37.0	570.0	35.5	1,399.7	40.9	1,591.1	33.0
Manufactured goods	653.5	36.2	591.0	36.8	999.0	29.2	1,804.3	37.4
Total	1,807.2	100.0	1,606.9	100.0	3,422.5	100.0	4,820.0	100.0
2. Exports								
Food, fodder etc.	75.1	5.8	79.2	6.0	89.3	3.3	75.2	2.3
Raw materials	108.8	8.5	85.8	6.5	116.1	4.4	119.4	3.7
Manufactured goods	1,102.2	85.7	1,151.5	87.5	2,470.1	92.3	3,072.9	94.0
Total	1,286.1	100.0	1,316.6	100.0	2,675.5	100.0	3,267.6	100.0
3. Excess of imports over exports	521.1		290.3		747.0		1,552.4	

Sources: The data contained in this and the following Tables were obtained from:

International Trade Statistics, 1938. (League of Nations).

Schweizerisch Handelsstatistik, 1938 and 1947.

Jahresstatistik des Aussenhandels, 1946 and 1947.

Jahresstatistik des Auswartigen Handels, 1937, 1938 and 1947.

/Table 2:

Table 2: Imports by countries

(Listed in order of importance as suppliers in 1947)

Special imports of merchandise

	1937		1938		1946		1947	
	million francs	per cent	million francs	per cent	million francs	per cent	million francs	per cent
United States	126.2	7.0	125.5	7.8	547.8	16.0	1,031.8	21.4
France	245.3	13.6	229.2	14.3	355.0	10.4	458.8	9.5
Belgium and Luxembourg	76.3	4.2	68.9	4.3	314.5	9.2	427.5	8.9
United Kingdom	112.7	6.2	95.0	5.9	196.5	5.7	322.7	6.7
Italy	117.4	6.5	116.7	7.3	227.7	6.7	320.6	6.6
Argentina	92.9	5.1	58.4	3.6	249.3	7.3	276.4	5.7
Czechoslovakia	75.2	4.2	57.2	3.6	166.2	4.9	261.4	5.4
Netherlands	62.6	3.5	55.3	3.5	84.8	2.5	163.9	3.4
Denmark	21.3	1.2	13.8	0.9	69.1	2.0	149.8	3.1
Germany	402.7	22.3	373.1	23.2	45.4	1.3	133.4	2.8
Sweden	19.3	1.1	18.5	1.2	141.1	4.1	132.6	2.8
Austria	44.2	2.4	33.4	2.1	41.7	1.2	89.3	1.8
Canada	23.3	1.3	24.1	1.5	110.6*	3.2	55.3*	1.2
Spain	8.5	0.5	5.4	0.3	85.7	2.5	46.7	1.0
Roumania	44.8	2.5	25.0	1.6	1.9	0.1	4.3	0.1
Other countries	334.5	18.4	307.4	18.9	785.1	22.9	945.0	19.6
Total	1,807.2	100.0	1,606.9	100.0	3,422.5	100.0	4,820.0	100.0

* Includes Newfoundland

/Table 3:

Table 3: Exports by countries

(Listed in order of importance as countries of destination in 1947)

Special exports of merchandise

	1937		1938		1946		1947	
	million francs	per cent	million francs	per cent	million francs	per cent	million francs	per cent
United States	112.3	8.7	90.7	6.9	453.3	17.0	394.8	12.1
Belgium and Luxembourg	44.7	3.5	41.8	3.2	265.5	9.9	305.7	9.3
France	139.5	10.8	121.4	9.2	281.6	10.5	298.2	9.1
Sweden	29.1	2.3	40.6	3.1	237.0	8.9	218.0	6.7
Italy	102.2	7.9	91.2	6.9	156.1	5.8	209.5	6.4
Argentina	31.2	2.4	35.8	2.7	97.0	3.6	175.3	5.4
Czechoslovakia	52.5	4.1	44.0	3.3	89.1	3.3	159.4	4.9
Netherlands	45.4	3.5	61.9	4.7	105.4	3.9	152.9	4.7
Brazil	15.3	1.2	16.6	1.3	88.0	3.3	140.4	4.3
United Kingdom	143.8	11.2	148.1	11.2	58.1	2.2	117.0	3.6
India	23.2	1.8	23.3	1.8	44.7	1.7	100.4	3.1
Canada	15.2	1.2	14.7	1.1	39.8	1.5	53.9	1.6
China	17.9	1.4	27.5	2.1	58.0	2.2	50.7	1.6
Austria	37.9	2.9	30.6	2.3	19.5	0.7	39.0	1.2
Germany	199.9	15.5	206.1	15.7	7.9	0.3	15.5	0.5
Other countries	276.0	21.6	322.3	24.5	674.5	25.2	836.9	25.5
Total	1,286.1	100.0	1,316.6	100.0	2,675.5	100.0	3,267.6	100.0

/Table 4:

Table 4: Imports by main categories

	1937		1938		1946		1947	
	million francs	per cent	million francs	per cent	million francs	per cent	million francs	per cent
Cereals	197.5	10.9	179.7	11.2	255.6	7.5	378.5	7.9
Fruit and vegetables	77.2	4.3	82.7	5.2	195.7	5.7	193.4	4.0
Food of colonial countries	63.0	3.5	63.0	3.9	198.5	5.8	302.2	6.3
Food of animal origin	60.2	3.3	53.3	3.3	117.4	3.4	266.4	5.5
Beverages	31.7	1.7	36.6	2.3	159.7	4.7	99.4	2.1
Skins, hides, leather, furs	58.3	3.2	39.3	2.5	96.3	2.8	139.7	2.9
Seeds and plants	44.7	2.5	37.3	2.3	78.1	2.3	143.8	3.0
Wood and timber	34.3	1.9	31.9	2.0	52.1	1.5	88.9	1.8
Cotton (raw and mfg.)	112.5	6.2	73.0	4.5	149.3	4.4	221.4	4.6
Silk "	62.6	3.5	49.5	3.1	90.6	2.6	71.6	1.5
Wool "	90.9	5.0	67.1	4.2	207.8	6.1	275.5	5.7
Minerals	171.0	9.5	165.5	10.3	254.8	7.4	405.7	8.4
Iron and iron products	165.9	9.2	130.0	8.1	420.5	12.3	516.5	10.7
Copper and copper products	42.2	2.3	31.5	2.0	64.5	1.9	71.8	1.5
Machinery	61.4	3.4	71.4	4.4	76.2	2.2	182.9	3.8
Vehicles	40.9	2.3	52.2	3.3	72.3	2.1	209.0	4.3
Chemicals	96.9	5.3	84.1	5.2	210.4	6.2	239.8	5.0
Technical fats	31.0	1.7	26.4	1.6	66.8	2.0	90.6	1.9
Instruments and apparatus	27.9	1.5	31.0	1.9	44.1	1.3	80.5	1.7
Rubber, etc.	22.3	1.2	19.1	1.2	51.3	1.5	83.5	1.7
Tobacco	16.2	0.9	17.3	1.1	48.8	1.4	58.2	1.2
Other items	298.9	16.7	265.0	16.4	511.7	14.9	700.7	14.5
Total	1,807.2	100.0	1,606.9	100.0	3,422.5	100.0	4,820.0	100.0

/Table 5:

Table 5: Exports by main categories

	1937		1938		1946		1947	
	million francs	per cent	million francs	per cent	million francs	per cent	million francs	per cent
Food of animal origin	49.8	3.9	55.3	4.2	11.7	0.4	20.5	0.6
Skins, hides, furs and leather	34.5	2.7	34.7	2.6	30.9	1.2	34.1	1.0
Cotton	125.5(1)	9.8	109.1(1)	8.3	94.1	3.5	192.2	5.9
Silk	95.8(2)	7.4	87.1(2)	6.6	361.9	13.5	297.7	9.1
Wool	21.6(3)	1.7	18.4(3)	1.4	23.4	0.9	20.9	0.6
Iron	52.8(4)	4.1	52.8(4)	4.0	70.8	2.6	97.4	3.0
Copper	30.3(5)	2.3	23.3(5)	1.8	13.8	0.5	29.0	0.9
Aluminium (all mfg.)	57.6	4.5	73.2	5.6	34.1	1.3	52.4	1.6
Machinery	168.8	13.1	205.9	15.7	418.8	15.6	571.4	17.5
Vehicles	21.6	1.7	31.0	2.4	34.9	1.3	51.4	1.6
Watches and clocks (incl. parts)	240.4	18.7	241.3	18.3	605.2	22.6	768.7	23.6
Instruments and appar.	47.2	3.7	57.0	4.3	127.1	4.8	168.2	5.1
Pharmaceutical goods and drugs	59.4	4.6	63.6	4.8	171.0	6.4	229.9	7.0
Chemicals	48.4	3.8	51.4	3.9	56.7	2.1	96.4	2.9
Dyes	86.3	6.7	84.3	6.4	179.4	6.7	237.6	7.3
Fruits and vegetables	8.8	0.7	6.0	0.5	52.8	2.0	16.7	0.5
Animals	7.1	0.6	3.2	0.2	40.7	1.5	18.4	0.6
Wood and Timber	4.8	0.4	3.9	0.3	41.4	1.6	25.6	0.8
Books, journals, etc.	8.3	0.6	8.1	0.6	32.6	1.2	34.5	1.1
Ready-made clothing	19.5	1.5	19.7	1.5	79.9	3.0	68.2	2.1
Other items	97.6	7.5	87.3	6.6	194.3	7.3	236.4	7.2
Total	1,286.1	100.0	1,316.6	100.0	2,675.5	100.0	3,267.6	100.0

(1) Of which manufactured cotton, in 1937: 121.7 and in 1938: 106.0
(2) " " " silk " " : 88.0 " " " : 78.2
(3) " " " wool " " : 9.6 " " " : 9.5
(4) " " " iron " " : 15.1 " " " : 42.5
(5) " " " copper " " : 11.2 " " " : 9.0