

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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SUMMARY RECORD OF THE FOURTH MEETING

Held at the Palais des Nations, Geneva
on Tuesday, 7 October 1952 at 3 p.m.

Chairman: Mr. Johan MELANDER (Norway)

Subject discussed: Balance-of-Payment Restrictions

Balance-of-Payment Import Restrictions (I/23 and Add.1., I/24 and Add.1).

The CHAIRMAN referred to the documents (I/23 and I/24) issued by the secretariat and to the Annotated Agenda (G/14/Rev.3) which contained the Intersessional Committee's recommendation that the CONTRACTING PARTIES should approach the consultations and the preparation of the annual report, with a view to covering the trade aspects as well, instead of concentrating exclusively on the financial aspects of the subject.

Mr. THORP (United States) said that the idea of consultation was basic to the spirit of the CONTRACTING PARTIES. He welcomed the suggestion of the Intersessional Committee although he regarded the proposed change as one of emphasis. Consideration of balance-of-payment restrictions had always involved both the trade and financial aspects, although in past consultations there had perhaps been a tendency to concentrate on the purely financial ones. The International Monetary Fund was now actively considering the financial questions and it was opportune for the CONTRACTING PARTIES to give more emphasis to the trade aspects of these problems. The United States Government felt that understanding of the general problem would be increased if the consultations were sometimes to go into details of specific commodities both as to the policies applied by countries imposing restrictions and the difficulties of exporting countries as a result of such restrictions. The consultations should in no circumstances involve a country making complaints against another. The United States would take part in a spirit of attempting to reach a common understanding of the problems. Recognizing the danger that the process of consultation could be almost endless, he said his delegation considered the consultations not as necessarily covering the whole field of commodities. They would seek detailed information on certain commodities as illustrative of the problems involved. He hoped that the working party would cover as much ground as effectively and quickly as possible. In general his delegation supported the spirit of the recommendation of the Intersessional Committee.

Mr. TONKIN (Australia) said that the CONTRACTING PARTIES had been advised before the opening of the Session that Australia proposed to initiate consultations under Article XIV:1(g). His government was also willing to consult under Article XII:4(b) regarding the restrictions announced on 8 March 1952. Documents L/3 and L/18 outlined these restrictions. The Australian reply to the questionnaire contained in GATT/CP/132 dealt comprehensively with the application of discriminatory restrictions. His government had been somewhat concerned by the proposals for a different approach, made by the Intersessional Committee and appreciated the statement by the United States that this involved a change of emphasis rather than a different manner of dealing with the matter. It was, however, an important innovation in the consultation procedure and should receive the early attention of the working party.

Mr. DI NOIA (Italy) thought that the CONTRACTING PARTIES should accept the suggestion made by the Intersessional Committee that the consultations should deal not only with the financial but also with the commercial aspects of balance-of-payment problems. It was a suggestion entirely within the spirit of the Agreement and in accord with Article XII:3(c) which stated that restrictions should be imposed "in such a way as to avoid unnecessary damage to the commercial or economic interests of any other contracting party".

When circumstances forced a country to impose restrictions under Article XII, the action had always to be rapid in order to be effective. Countries should be asked, however, to limit as much as possible the difficulties inevitably thus created for other countries and to ensure that individual sectors of trade were not too severely damaged. Mr. Di Nola pointed out that the restrictions recently imposed by certain countries were largely responsible for the grave crisis in the Italian textile industry. Negotiations of course took place afterwards in order to alleviate the worst effects of the measures but such negotiations had little hope of success. Once restrictions were imposed, vested interests in their continuance were immediately created which made attempts at alleviation difficult. Mr. di Nola strongly supported the recommendation of the Intersessional Committee and hoped that it would be passed on to the Working Party.

Dr. ISBISTER (Canada) said that Canada attached great importance to the consultations which were about to take place. As a country much affected by restrictions imposed elsewhere, Canada looked forward to active participation in these consultations. His government welcomed the proposal of the Intersessional Committee and considered a discussion of the commercial aspects as well as the purely financial ones a natural and desirable evolution of the work of the CONTRACTING PARTIES, and one that could occur without disturbance to the basic purposes of the balance-of-payments provisions. Canada attached great importance to the balance-of-payments provisions and had been somewhat apprehensive lest the proposed shift of emphasis to the commercial aspects of balance-of-payments import restrictions should detract in any way from the financial. The latter remained the most essential part of the consultations. He therefore welcomed the statement by the United States delegate that nothing more than a shift in emphasis was contemplated.

Canada was aware of and sympathetic to the problems which forced some countries to impose quantitative restrictions and had attempted within its possibilities to assist in a solution of these problems. His government had noted with satisfaction in the last few years a tendency in countries applying quantitative restrictions to recognise that they were undesirable and provided no permanent answer to balance-of-payments problems, and to scrutinise alternative measures.

These consultations came at an opportune time. The problems of production of the years following the war had been overcome and the era of physical shortages in many commodities was passed. It now seemed possible to envisage the restoration of multilateral trade. Importance should be attached, therefore, to consultations such as these now to be held under the Agreement and to decisions which could only be made by individual governments.

Mr. Isbistor suggested that the Working Party in its consideration of balance-of-payments import restrictions, should address itself particularly to three points: firstly, that for the imposition of quantitative restrictions a real balance-of-payments problem must exist; secondly that the restrictions should not be excessive relative to the magnitude of the problem faced; thirdly that balance-of-payments restrictions were intended only as temporary measures pending the initiation of adequate corrective action. In the latter connection his government welcomed the tendency of many governments to re-examine their position with a view to using other measures.

Mr. LECKIE (United Kingdom) referring to the consultations under Article XIV:1(g), said that this was the first time such consultations were being undertaken and it was important that they should be conducted on as sound a basis as possible so as to set a desirable precedent. It was generally agreed that the purpose of consultations on balance-of-payments restrictions was to afford an opportunity for a full and frank exchange of views and not to get a collective pronouncement by the CONTRACTING PARTIES on the justification for such restrictions. As the Chairman had said in his opening remarks, it was not a relationship of "plaintiff and defendant". All contracting parties were seeking a solution to common problems.

Of the countries consulting under Article XIV:1(g), all those operating under Annex J were required to consult, while among the countries operating under the Havana option, only contracting parties applying restrictions under Article XIV:1(c) were required to consult. Since most of the contracting parties operated under the Havana option and many of them had stated only last year that their restrictions came under Article XIV:1(c), his delegation was surprised at how few were consulting at this Session. It would be helpful to have some explanation of the changes in policy or operation of these restrictions which has had the effect of bring them wholly under Article XIV:1(b).

Mr. Leckie referred to the recommendation by the Intersessional Committee that in conducting the consultations contracting parties should address themselves rather more to the commercial aspects than they had in the past. The suggestion had first been made in the context of consultations under Article XIV:1(g). It would, however, be appropriate that the same approach should be

followed in preparing the reports on discrimination as well, and he had been pleased to note the recommendation of the Committee that both operations should be dealt with by a single working party in a co-ordinated manner.

His delegation had been concerned as to just how far the commodity approach to the problem might go. The United States had stated at the meeting of the Intersessional Committee in September that it intended to provide lists of commodities affected by the import restrictions. The list since received by the United Kingdom was quite extensive and, although his Government had no objection to discussing the commodity aspect of the matter, a detailed enquiry into all the commodities was felt to be impracticable. The statement just made by the United States delegate that the commodity approach would be used chiefly for illustration was therefore reassuring. In the light of the new emphasis on the commercial aspects, however, the working party should give early attention to its method of work.

Mr. VARGAS GOMEZ (Cuba) said that Cuba, as a country which belonged to the dollar area and did not impose restrictions on trade, had a continuing interest in the restrictive policy of some contracting parties. His government had observed with much uneasiness, the tendency to intensify quantitative restrictions since the Sixth Session.

The Cuban Government, although aware of the various reasons for the financial maladjustment of many contracting parties, did not believe that the development of a sound world economy and the solution of the financial problems of individual contracting parties, was possible through the use of restrictive measures. Indeed the imposition of restrictions tended to harm the economies of the countries involved and caused repercussions eventually harmful to them elsewhere.

New measures and methods of correction were required to rid the world of the financial evils of the post-war period, and his Government hoped that this view would be accepted during the present consultations by the majority of the contracting parties imposing restrictions.

It was also extremely important that the consultation procedure be strictly complied with. Unless there were a spirit of co-operation and confidence and full opportunity to make a thorough investigation of systems of quantitative restrictions, it would not be possible to reach an understanding between the contracting parties suffering financial difficulties and those which did not.

Mr. THOMMESSEN (Norway) supported the recommendation of the Intersessional Committee that the CONTRACTING PARTIES should address themselves more particularly to commercial aspects in their consultations and in the preparation of the annual reports. Presumably the main purpose of this approach was to give contracting parties an opportunity to inform each other of their export difficulties so that a solution based on an extension of trade might be found. Moreover, countries would have the opportunity to request special consideration for their difficulties in obtaining adequate supplies of essential imported goods.

In the past most such problems were dealt with bilaterally and while the post-war bilateral trade arrangements were of great importance, the Norwegian Government felt that the difficulties which countries were undergoing at present could not be solved on this basis. Only by multilateral negotiations could the commercial and economic interests of third parties be taken into account.

In the past year, the wave of new restrictions on imports in different countries had caused a downward trend of world trade in general and in many fields, a downward tendency in production and employment. Although these international developments had been highly detrimental to Norway, no restrictions had been reimposed and the free-list for imports from EPU countries had been extended to 75 per cent in accordance with international obligations. However, a considerable worsening in the Norwegian terms of trade in the first half of 1952, a fall in the demand for Norwegian export goods and the widespread reimposition of quantitative restrictions elsewhere had seriously affected the Norwegian balance-of-payments position. Any further worsening of world market conditions would raise difficult problems for the Norwegian economy.

Although there might be difficulties in finding means to remedy the effects of violent price fluctuations and other unfavourable changes in the world market, his Government was of the opinion that more effective measures than heretofore could be taken by multilateral action to arrest the downward trend in exchange of goods and services and to help countries find satisfactory solutions to their difficulties in the common interest. He therefore supported the Intersessional Committee recommendations on the conduct of consultations.

Dr. BOTHA (Union of South Africa) said that the Union of South Africa had initiated consultations under Article XIV:1(g) and was prepared to furnish further general information in amplification of the memoranda already made available to the contracting parties and summarized in Document I/23.

His delegation supported in general the recommendations of the Intersessional Committee that the emphasis in consultations be changed, although it was doubtful whether the new approach would in fact lead to any more useful and practical results. He referred to the statement of the United States Delegate at the Intersessional Committee that the consultations should touch upon measures applied to specific commodities. The South African Government had received a preliminary list of commodities from the United States but no definite indication of the precise nature of the proposed discussions. His delegation was anxious to know whether reference to specific commodities was only to be, as stated by the United States delegate at the present meeting, for purposes of illustration. If more were involved, much detailed information would be required. In the view of his delegation, the interests of the countries concerned would be better served if a detailed examination of restrictions affecting specific export commodities of individual countries could, in the first instance, be conducted bilaterally through the normal diplomatic channels. He supported the suggestion by the United Kingdom that the working party give immediate attention to evolving an acceptable system for conducting the consultations.

Mr. SOUZA (Brazil) said that his Government associated itself with the efforts of the CONTRACTING PARTIES toward a more precise examination of the mechanism of quantitative import restrictions for balance-of-payments reasons. His government wished at this time, however, to put forward some considerations regarding Brazilian commercial policy.

Import restrictions were applied by Brazil in order to avoid as far as possible, a disequilibrium in the balance-of-payments and also to assure the best use of foreign exchange resulting from exports. Brazil did not restrict its imports in order to discriminate against any specific country or product but rather to ensure that imports into Brazil should be directed to the most essential sectors of its economy. Brazil exported almost entirely primary products and its exports consequently depended largely on an increase in the national income of industrialized countries. At the same time Brazilian imports had a tendency to increase with the growth of population and technological progress which caused a widespread desire to raise the standard of living to that of more developed countries. This situation was the more dangerous since the invisible items in the balance-of-payments were unfavourable to Brazil and the influx of foreign capital had been negligible in the past ten years. It was evident that the balance-of-payments equilibrium of Brazil was largely conditioned by causes outside its own national economic policy. The terms of trade were traditionally unfavourable to Brazil. Even under abnormal political conditions, any amelioration of the terms of trade was blocked by the economic policy of industrialized countries through such measures of price control, stock-piling etc.

Mr. Souza emphasized that the CONTRACTING PARTIES in considering import restrictions for balance-of-payments reasons, should take full account of structural problems such as those affecting his own country, which conditioned these restrictions. His Government considered that the only effective means to abolish such restrictions were the development of the under-developed countries. In this connection, it would be appropriate to give more attention to the interpretation and application of Article XVIII.

Mr. SINGH (India) said that his government had already notified the CONTRACTING PARTIES that the import controls in effect in India did not require consultation under Article XIV:1(g). India was none the less vitally interested in other consultations. He felt that the purpose of the Intersessional Committee's recommendation was to promote understanding and that the approach suggested by them might prove valuable. He was not clear exactly how it would work in practice and shared the view of the United Kingdom delegate that the Working Party should give the suggested procedure more detailed consideration.

Mr. HEATHCOTE (Southern Rhodesia) said that his government had already notified its willingness to consult under Article XIV:1(g). One of the questions before the CONTRACTING PARTIES also was whether Southern Rhodesia should consult under Article XII:4(b) on import restrictions imposed in December 1951. It was the view of his government that these restrictions did not require consultation under Article XII:4(b), as they constituted reductions of the additional imports admitted on a discriminatory basis and

permitted under Annex J. His government did not propose to press this point of view, however, and if the CONTRACTING PARTIES felt that Southern Rhodesia should consult under Article XII:4(b) on these restrictions, they were prepared to do so.

Mr. LECKIE (United Kingdom) said that the problem of consultations under Article XII:4(b) was of concern also to the United Kingdom Government. When the question of an invitation to the United Kingdom to consult under Article XII:4(b) on import restrictions imposed in November 1951 was first discussed by the Intersessional Committee in January, the United Kingdom delegate had said that this raised a serious question of interpretation of the Agreement. The Intersessional Committee had agreed to defer the question of interpretation to the CONTRACTING PARTIES and Mr. Leckie wished to re-state the United Kingdom's view on this matter.

The measures introduced by the United Kingdom in November 1951 involved, mainly, the re-imposition of quotas on imports from non-dollar sources, which had previously been admitted under Open General Licence. These were additional imports admitted in a discriminatory manner, as permitted under Annex J. In spite of this reimposition of quotas, imports from non-dollar sources continued to be admitted more freely than imports from dollar sources. The measures taken in November involved, therefore, a decrease in the discriminatory element in the application of import restrictions, but not a general increase of such restrictions. Consequently, at the meeting of the Intersessional Committee in January, the United Kingdom took the view that consultations under Article XII:4(b) were not called for. Logically, since recourse to Article XIV was permissive, it was not within the competence of the CONTRACTING PARTIES to require countries to use their freedom to discriminate under the Article to any given extent. From the practical point of view, there was little use in consultations since every opportunity had been given to other countries to consult bilaterally and within the OEEC. When further import restrictions were introduced later on balance-of-payment grounds, which concerned imports from both dollar and non-dollar sources, his government had, of course, agreed to consult. The United Kingdom maintained the view that both under the terms of the Agreement and for practical reasons, consultations with the United Kingdom should be confined to the aspects of its import restrictions which did not involve discrimination. However, there was no desire to make an issue of the matter, and if it was the view of the CONTRACTING PARTIES that the United Kingdom should consult on any increase in import restrictions, his delegation was prepared to do so. But, if this view were accepted, it should be clearly recognised that a precedent of general application would be established and he would expect that any contracting party which found it necessary to increase its import restrictions, even where the increase involved only a lessening of the discriminatory element, should be prepared to consult.

Dr. van BLANKENSTEIN (Netherlands) considered the interpretation advanced by the United Kingdom delegate dangerous. In his view, any increase in restrictions, whether it applied to imports admitted on a non-discriminatory or a discriminatory basis, should be considered an intensification of import

restrictions and subject to consultation under Article XII:4(b). Moreover, at the present time, most soft currency countries employed restrictions which permitted additional imports on a discriminatory basis as provided in Annex J and such imports constituted the bulk of their trade. If the view expressed by the United Kingdom prevailed, no recourse to the consultative procedure of the Agreement would be possible when restrictions were imposed over a large sector of the trade of many countries. The only remedy would be retaliation. In the circumstances, Mr. van Blankenstein welcomed the readiness of the United Kingdom and Southern Rhodesian delegations to enter into consultations. He agreed that from the practical point of view there was no need for European countries to duplicate in the CONTRACTING PARTIES consultations which had already taken place within the OEEC but that did not alter the question of principle. Finally the principle of consultation in all cases of the intensification of import restrictions should, of course, be generally applied.

The CHAIRMAN referred to the decision required by the CONTRACTING PARTIES concerning consultations with New Zealand, (document L/23, paragraph 3). The Government of New Zealand, although not a member of the International Monetary Fund, and not having entered into a special exchange agreement with the CONTRACTING PARTIES, had advised that it was prepared to consult with the CONTRACTING PARTIES pursuant to Article XIV:1(g).

It was agreed to enter into a consultation with the Government of New Zealand.

The CHAIRMAN then referred to the question of consultations under Article XII:4(b) with the Governments of Australia and Southern Rhodesia on import restrictions imposed in March and January 1952, respectively (document L/24, paragraphs 3 (c) and (d)). Australia had expressed its willingness to consult in the original communication and the Southern Rhodesian delegate had stated, during the present meeting, that his government was willing to consult under Article XII:4(b).

It was agreed that Australia and Southern Rhodesia should be invited to enter into a consultation under Article XII:4(b).

The CHAIRMAN referred to the amendment of the procedures for initiating consultations, proposed by the Ad hoc Committee on Agenda and Intersessional Business (document L/24, para. 6), whereby a contracting party intensifying its import restrictions should furnish detailed information to the Executive Secretary for immediate circulation to all contracting parties and the Chairman and Executive Secretary would determine on the basis of this information, whether there was a prima facie case for the initiation of consultations under Article XII:4(b).

This amendment was agreed.

The CHAIRMAN summed up the general discussion and said that there was general agreement to establish a Working Party to carry out the consultations and prepare the reports. In accordance with Article XV the CONTRACTING PARTIES

would consult fully with the International Monetary Fund. They were, moreover, grateful for the full information already supplied by that organisation. There appeared to be general agreement on the suggestion of the Intersessional Committee that the emphasis should, in the future, be placed on the commercial, rather than the purely financial aspects of balance-of-payments restrictions. This approach should prove fruitful for the development of international trade. It was understood that the consultations would take place in an atmosphere of a full exchange of views and an attempt, in a co-operative spirit, to find a common policy and solution. It was important that the spirit of Article XII:3(c) should prevail and an effort made to avoid harmful effects on other countries by the imposition of restrictions.

The CHAIRMAN proposed that a Working Party be established composed of :

Belgium	Dominican Republic	Pakistan
Brazil	France	Norway
Canada	Germany	Union of South Africa
Cuba	Indonesia	United Kingdom
		United States

under the Chairmanship of Mr. TOMKIN of Australia, and with the following terms of reference :-

"In the light of the discussion at the meeting of the CONTRACTING PARTIES on 7 October,

- (a) to conduct consultations with Australia, Ceylon, Italy, the Netherlands, New Zealand, Southern Rhodesia, Union of South Africa and the United Kingdom, who have initiated such consultations under Article XIV:1(g), and to report thereon to the CONTRACTING PARTIES,
- (b) to prepare a draft third annual report on the discriminatory application of restrictions as required by Article XIV:1(g).
- (c) to recommend procedures for the conduct of consultations and for the preparation of the fourth annual report on discrimination under Article XIV:1(g) in 1953,
- (d) to consult with Australia, France, Southern Rhodesia and United Kingdom concerning the intensification of their balance-of-payment import restrictions since the Sixth Session, and to report thereon to the CONTRACTING PARTIES."

Mr. SINGH (India) said that, in the event that India was not included in the working party, he must ask the CONTRACTING PARTIES to take into account in the setting up of working parties the principles of Annex L of the Havana Charter with particular reference to the importance of countries in world trade.

The CHAIRMAN replied that it was hoped to keep the Working Party as small as possible and, in any case, to distribute the duties of serving on working parties among the delegations.

Mr. THORP (United States of America) referred to the point of interpretation raised by the United Kingdom delegate and the reply of the Netherlands delegate. He felt that most contracting parties preferred not to try to reach a final decision on legal issues involved, particularly since the United Kingdom and Southern Rhodesia had agreed, as a practical measure, to consult under Article XII:4(b). He thought that the point made by the United Kingdom delegate was valid that the agreement of these two countries to consult constituted a precedent for any similar cases arising in the future under similar circumstances.

Referring to the paper discussed by the Intersessional Committee on 4 September, (document IC/W/4,) which drew attention to changes in imports controls by a number of other contracting parties, Mr. Thorp proposed that the following paragraph be added to the terms of reference :

"(e) to consult with such other contracting parties as in its judgment may have changed their balance-of-payment import restrictions since the Sixth Session in such manner as to make consultations appropriate under Article XII:4(b), and to report thereon to the CONTRACTING PARTIES."

It was agreed to set up the Working Party as proposed by the Chairman with the addition to the terms of reference proposed by the United States.

The meeting adjourned at 6.20 p.m.