

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## LATIN AMERICAN INFORMATIVE MEETING

Held in Santiago, Chile, on 23 and 26 November 1956

Chairman: Mr. Walter Müller (Chile)

### Subjects discussed:

1. Election of the Chairman
2. Statement by the Chairman
3. Message from the Chairman and Executive Secretary of the CONTRACTING PARTIES to GATT
4. Report by the Deputy Executive Secretary on the results of the last GATT session held at Geneva
5. Conversation relating to the present status of the European common market project and its possible effect on Latin American trade
6. Progress in international collaboration in trade in primary products, and the pertinent resolutions adopted by the GATT
7. Conclusions

### 1. Election of the Chairman

As proposed by the representative of Brazil and seconded by the representative of Cuba, Mr. Walter Müller (Chile) was elected Chairman.

### 2. Statement by the Chairman

The CHAIRMAN expressed his gratitude for the honour which had been conferred on him, both in his private capacity and as representative of his country. He thanked the GATT for its decision to hold this meeting in Santiago and to send their Deputy Executive Secretary, Mr. Royer, to speak on their behalf.

Both the GATT and the ECLA Trade Committee were interested in the same problems. The representative of Peru had pointed out at one of the meetings of the Trade Committee that when adopting resolutions aiming at the development of intra-regional trade it would be necessary to remember that eight of the Latin American countries belonged to the GATT and had to fulfil their commitments under that Agreement. The Chairman was of the same opinion, but did not think that in view of the complexity of the problems discussed, the Committee would at the present stage reach conclusions which would conflict with the obligations of certain Latin American countries under the GATT.

The GATT was now considering questions which might have important repercussions on Latin American trade with Europe, and which were of as much concern to its CONTRACTING PARTIES as to Latin American countries outside the Agreement. He believed that it was essential to be aware of the development of trends within the European common market in so far as they touched upon the region's interests, and considered it of great interest for all Latin American representatives to be present during the statement which Mr. Royer would make on this matter. He invited the representatives to attend a subsequent meeting.

3. Message from the Chairman and Executive Secretary of the CONTRACTING PARTIES to GATT

Mr. JEAN ROYER, Deputy Executive Secretary of the GATT, transmitted a message of goodwill from the Chairman and Executive Secretary, in which they welcomed the opportunity afforded by the present meeting to establish personal contact with Latin American countries, since the GATT, for practical reasons, had hitherto been unable to hold its sessions outside Europe. They emphasized the fact that regional planning was no longer considered sufficient to solve fundamental problems of trade policy, pointing out that the GATT was the only inter-governmental organization maintaining contact with those responsible for directing such policy in all parts of the world. It was unfortunate, however, that few Latin American countries were able to send to the GATT sessions their Ministers or high officials responsible for commercial policy, like the other contracting parties. At the Eleventh Session no Latin American country had been represented by a Minister, with the exception of Brazil, whose Minister for Finance had explained the reasons for which his country intended to carry out a bold reform of its tariff.

Since united action was indispensable to solve the serious problems facing the different regions, the Chairman and Executive Secretary wished to take advantage of this meeting to inform the representatives of the results achieved at the last GATT session, and to define the orientation of the Agreement's future policy which, if it were to be comprehensive, would require the collaboration of the Latin American region as well.

4. Report by the Deputy Executive Secretary on the results of the last GATT session held at Geneva

The DEPUTY EXECUTIVE SECRETARY OF THE GATT summarized the aims of the annual session of the CONTRACTING PARTIES to the GATT - representing 85 per cent of world trade - as follows: to smooth out trade difficulties arising between countries and to adopt, by joint agreement, the necessary measures for the promotion of trade. He then referred specifically to the Eleventh Session, which had considered a number of fundamental problems of interest to all countries, including the non-GATT countries.

The GATT had achieved a widespread stabilization of tariffs in the world, but had provided means of adjusting tariff rates from time to time, thus combining flexibility for importing and stability for exporting countries.

A number of such renegotiations were authorized and successfully carried out. Apart from these applications for the renegotiation of individual items, the GATT had to consider an exceptional request from Brazil affecting its entire tariff commitment.

The annual examination of quotas and quantitative restrictions had shown that increased resort to multilateral payment arrangements, such as those recently concluded between Europe and some Latin American countries, reduced the need for discrimination in commercial policy. The GATT had reached the conclusion that by the following year the time would have come to engage in consultations with those countries which still maintained import restrictions, and above all with European countries. This initiative would be of particular interest to Latin America, as such consultations would deal especially with the restrictions imposed by European countries on imports of agricultural products. The general line of the GATT in these matters was to induce the importing countries to eliminate those restrictions by gradual stages within a time-limit of five years. Such an arrangement had already been made with Belgium.

The GATT had also considered requests put forward by Ceylon for the authorization of restrictive measures with a view to protecting Ceylon's industries. The assistance which GATT had been in a position to grant in this way was greatly appreciated by governments of under-developed countries, which were able to introduce such protective measures without losing the concessions obtained for their export trade.

Another decision of particular interest to Latin America was the authority given to Nicaragua to take part in the proposed agreement for the creation of a free trade area in Central America for certain products.

The Deputy Executive Secretary also mentioned the arbitration system set up two years ago by the GATT, which had successfully resolved many disagreements. He referred to the decision taken regarding the new Brazilian tariff, which involved a complete reshuffle of Brazil's commitments under the GATT. Although this proposal gave rise to serious legal and trade problems, the GATT had been able to reach a solution which was considered satisfactory by all concerned.

He then spoke of the European plan for a common market, which he believed might deeply affect Europe's trade with the rest of the world and the terms of competition on the European markets. Apart from the common market which would affect the six members of the European Coal and Steel Community, the intention was also to establish a free-trade area, which might include not only these six countries, but also the United Kingdom, the Scandinavian countries and other European States. Whereas, for political reasons, the European countries would probably go ahead with their schemes without taking too much account of the interests of the countries with which they had only bilateral agreements, they intended strict observance of their obligations under the GATT. The experience gained with the Coal and Steel Community showed that the GATT was an efficient instrument for protecting the interests of third countries, and it was expected that at the next session delegates from South American countries would receive definite instructions in this

The last session of the GATT had not dealt only with tariffs and other trade restrictions. In the course of informal discussions, it had been recognized that the jurisdiction of the GATT should extend to all fundamental problems affecting trade. The delegations, impressed by the unequal development of export trade in the industrial areas, on the one hand, and in the underdeveloped areas, on the other, had decided that the GATT should give priority to the consideration of measures designed to prevent a cleavage between the industrial and non-industrial worlds. In view of the importance of these problems it had been proposed that the next meeting should take place with the collaboration of the Ministers for Commerce of the GATT countries.

Some progress had already been achieved at the last session. A very important resolution had been approved which would enable the GATT to examine, on a concrete and realistic basis, all problems relating to the price fluctuations of primary products and the other difficulties encountered by exporters of those products. A definite programme had been set up for the consideration of the practical effects of the disposal of surpluses, with a view to improving the machinery for consultation, and measures had been taken to ensure that controls and other restrictive business practices would not falsify competition and abnormally increase the prices quoted for industrial products, especially when exported to non-developed countries. The new orientation of GATT activities was certainly such as to encourage countries depending on the export of primary products to support the efforts of that organization and to find, with their partners in other regions of the world, concrete solutions to the problems affecting international trade. In that connexion, it had been agreed that the GATT secretariat should expand its activities, and one of the projects under consideration was the setting up of regional offices in Latin America and Asia.

It was also felt that the GATT should expand the assistance provided to its Members in less developed regions. The Deputy Executive Secretary described the training scheme which had been set up during the current year, and indicated that it had been decided to double the scope of that programme as from July 1957. The GATT secretariat had also proved of assistance to the governments and regional Commissions in providing data and studies of interest to individual countries and groups of countries. The CONTRACTING PARTIES to GATT would welcome closer collaboration with the South American countries, and particular weight was given to the presence of Ministers from Latin America at the next session of the GATT.

The REPRESENTATIVE OF BRAZIL requested an explanation of the exact meaning of the expression "atrevida reforma" used in the message of the Chairman of the GATT with reference to the new Brazilian tariff law.

The DEPUTY EXECUTIVE SECRETARY replied that the intention had simply been to stress the exceptional and all-embracing nature of the reform.

The REPRESENTATIVE OF BRAZIL thought that the reform in question might more aptly be described as "necessary".

5. Conversation relating to the present status of the European common market project and its possible effect on Latin American trade

The DEPUTY EXECUTIVE SECRETARY stated that the six countries forming the European Coal and Steel Community were at present considering a customs union project which would create a common market for all commodities traded among the countries in question. Experience had shown that it was difficult to operate a common market successfully for one single branch of production, even though, as in the case of coal and steel, this represented a substantial part of total production; it had been found that, in order to maintain a common market, competitive conditions should be protected against abrupt changes resulting from causes other than increases in productivity, and that it was necessary to establish a close co-ordination of the fiscal and social policies of the countries concerned. Such co-ordination was difficult to achieve where the governments were committed only with respect to the products included in the common market and remained independent with respect to the rest of the economy. For this and other reasons, the six countries decided to consider the extension of the common market to all branches of the economy.

The project under consideration was more than a customs union; it amounted to economic integration in the sense that trade measures (elimination of tariffs and other barriers to trade) were to be accompanied by a commitment to harmonize the fiscal and social policies of the governments concerned and to set up common institutions and funds to amortize the effect of competition on the weaker members of the union. A country like Italy, for example, would not have been able to accept the idea of a common market limited to the elimination of tariffs and quantitative restrictions on trade, because its southern area in particular was not as developed as the other countries of the group and the mere elimination of obstacles to trade might have prevented the development of industries in that region. On the other hand, Italy was prepared to join a scheme which provided for free movement of labour and financial support. The experts' report was considered at the Venice Conference, and the representatives of the countries concerned were meeting in Belgium at the present time with a view to drawing up an international treaty for the creation of a common market, which would probably be submitted first to the governments, and then to the GATT and the respective parliaments early in the following year.

The present status of this project was more or less as follows. First, all the governments had agreed that the common market should extend to all products and should not be limited to those of industry. Although protectionism for agricultural products was extremely difficult to eliminate in Europe, two of the prospective members of the common market scheme - Italy and the Kingdom of the Netherlands - would not join if their agricultural exports were not to enjoy the same privileges as the industrial exports of their partners. It was envisaged that all tariff and other restrictions would be eliminated, but that, in the case of agricultural products, some kind of organization of intra-regional trade would be agreed upon. Although no decision had yet been reached as to the form of the organization to be approved, it was probable that it would include a commitment on the part of the producers not

to sell below an agreed level so as to protect the common market in agricultural products from abnormal disturbances due to seasonal or weather fluctuations.

Second, the governments had agreed that all obstacles to intra-regional trade should be eliminated progressively in three or four stages to be completed in twelve years, with the possibility of an extension for three more years.

Third, it had agreed that the common market would take the form of a customs union. The individual tariffs would be replaced by a common tariff, which, in accordance with the provisions of the GATT, would be half-way between the highest and lowest tariffs of the countries concerned, so that the impact of the common tariff on trade with third countries would not be more onerous than that of the present separate tariffs.

So much for the purely commercial aspects; but, as already indicated, the scheme also included other features relating to the freeing of trade in invisibles, the freedom of movement of persons, etc. The governments would also have to agree on the co-ordination of their various policies, on the setting up of special institutions to administer the common market and on the creation of special funds to regulate investment and facilitate adjustments to the new form of competition.

The second project related to the creation of a free-trade area around the common market. When they considered their plan for a common market, the six European States stated that they did not intend to make it a closed preferential area, and offered either to give other countries an opportunity of joining the Union or to examine other forms of association. The Government of the United Kingdom considered that if a common market was set up in Europe, the effect on its export trade would be such that it could not stay out, but that it would not be possible for it to join the customs union, as British public opinion would not accept that the United Kingdom should lose its sovereignty over its tariff policy, and overthrow the Commonwealth preference system. The United Kingdom therefore decided to suggest a possible association with the common market and other European States in the form of a free-trade area. Hence the United Kingdom and other countries would maintain their own tariffs and regulations, but British products would have the right of free entry to the markets of the other European countries and vice-versa. The Government of the United Kingdom was not, however, prepared to extend the common markets to agricultural products and foodstuffs; in its opinion this limitation was essential in order to maintain the preferential treatment granted to the produce of the members of the Commonwealth colonies, and secure their approval of the scheme.

This exclusion of agricultural products from the scheme was important from the point of view of Latin America, as, in this respect at any rate, the terms of competition would not be modified for the exports of the region. The studies were still in a preliminary stage but it was expected that a decision of principle would be approved early next year.

The CHAIRMAN made some remarks in a personal capacity. There were two factual situations which ought to concern Latin America: (1) that there was only one organization in the world which had established standards on a world basis for the establishment of customs unions and common trade systems, where the countries concerned could defend their legitimate interests; and (2) within that organization, under whose aegis general agreements should be concluded, the Latin American position was weak as a result of insufficient representation.

What was happening in Europe might bring about serious consequences for Latin America, and he thought that the ECLA Trade Committee ought to bear that in mind. The projects had so far matured outside the GATT and would be presented to it in their final form. That would be the time when the Latin American countries should put forward their points of view, so that some solution might be found which would conform with the principles of the GATT without prejudice to the region's legitimate interests.

The DEPUTY EXECUTIVE SECRETARY pointed out that the setting-up of a common market among six European countries was bound to affect the interests of Latin American exporters of goods competing with products of those countries, such as wheat, meat and sugar, which would enjoy a very substantial tariff preference. He added that France had proposed that the common market be extended to the dependent territories of the countries concerned. If accepted, that proposal would also affect the interests of the Latin American exporters of tropical products competing, for instance, with those of African territories, such as coffee and cacao.

In the case of wheat, meat or sugar the tariff preference might be very considerable, as the tariff on those products in the countries concerned amounted to 25 - 40 per cent or more. At present the Latin American exporters of these products could compete on the same terms as the European exporter, but, with a customs union, France, for instance, would be able to export its wheat or meat to Germany without paying any duty, whereas 25 - 40 per cent or more would still have to be paid by the Latin American exporters.

The REPRESENTATIVE OF BRAZIL asked whether he had interpreted the Deputy Executive Secretary of the GATT correctly in the sense that the creation of a common market would be unfavourable to trade between Latin America and Europe.

The DEPUTY EXECUTIVE SECRETARY replied that it was impossible to predict with any degree of accuracy the course of events arising from the creation of a common market, but that it was in any case desirable to distinguish between long-term and short-term effects. He believed that the immediate effect of the common market would be to foster trade between its members without increasing the over-all demand, and thus to reduce imports from third countries.

In the long run, as the effects of the common market tended to increase productivity, the standard of living and the income of the member countries, it would be reasonable to expect an increase in the import requirements of those countries and therefore an increase in the trade with third countries.

The main thing, however, was for the countries affected to adopt, through the GATT, measures designed to protect the interests of their export trade during the coming years. The GATT had proved efficient in protecting third countries against such effects. When authorizing the establishment of a common market, the GATT could impose such conditions as appeared appropriate to avoid unnecessary damage to the interests of third countries.

The REPRESENTATIVE OF BRAZIL asked what measures were anticipated to ease the transition to the common market for those industries which were not in a competitive position.

The DEPUTY EXECUTIVE SECRETARY replied that different measures were foreseen in the case of the common market and in that of the free trade area. Whereas for the latter the present tendency, as evidenced by the position of the Government of the United Kingdom, was to provide only for economic and commercial measures, in the former instance, the measures of integration went much further in the direction of protecting uncompetitive industries.

In the case of the free area, the only protection contemplated was the escape clause which would permit the postponement of an agreed tariff reduction or the re-establishment of higher tariffs. In the case of the common market, France and Italy had insisted on specific commitments regarding fiscal and social measures, in the first instance, or investment and migration policies, in the second.

The harmonization of fiscal and social policies (such as the fixing of working hours, the duration of paid holidays, equal pay for men and women, etc.) would remove some of the causes of the inefficiency of certain industries; the provision of capital at a reasonable rate of interest would improve the competitiveness of others. It was felt that an approach to equalization of competitive conditions in the various countries would remove many of the present disparities and distortions.

In the second place, the removal of tariffs and of what remained of quantitative restrictions was to take place gradually. In view of the slowness of the process, those industries which could not meet competition at once would have ample time to improve their productivity or shift to other types of production. In this connexion, the Governments were prepared to set up a fund which would facilitate the necessary adjustments, but they were aware of the necessity of eliminating inefficient producers which could only remain in existence under the shelter of excessive protection. Any other policy would nullify the advantages of a common market.

Finally, as in the case of the free-trade area, provision was made for escape clauses to meet exceptional difficulties.

6. Progress in international collaboration in trade in primary products, and the pertinent resolutions adopted by the GATT

The DEPUTY EXECUTIVE SECRETARY commented on the decision which had been taken by the CONTRACTING PARTIES in relation to trade in primary products, and which might prove of great importance for Latin America. When the questions of commodity agreements and price stabilization had been raised two years ago, many of the primary producing countries had wished to include the provisions of Chapter VI of the Havana Charter in the revised General Agreement, but this had failed on account of the opposition of the United States.

It had then been decided to study the possibility of establishing a special agreement to be administered by a separate organization. This had also proved unsuccessful, owing to difficulties concerning the régime for regional marketing arrangements, the equal representation of exporting and importing countries and the adoption of standard rules to be inserted in specific commodity agreements. Another source of difficulty was the jurisdictional position of the GATT vis-à-vis the United Nations Commission on International Commodity Trade.

During the last session of the GATT, however, the CONTRACTING PARTIES had agreed on a certain number of concrete measures. First, they had decided that the Chairman of ICCICA, who is nominated by the GATT, should report every year on the development of world markets for basic products, since this would give an opportunity to all countries who so desired to bring up their specific problems. It had also been agreed that in the course of consultations with countries maintaining restrictions for balance-of-payments reasons, full account should be taken of the balance-of-payments difficulties arising out of the situation of the world markets for primary products. It had been agreed, moreover, that all measures relating to trade in primary products would be covered by the consultation and arbitration procedures of the GATT. Should it be recognized that the difficulties could not be solved by resort to these procedures, but that the conclusion of a commodity agreement would be the appropriate solution, the GATT would request the competent organization to convene a conference for the negotiation of such an agreement. If this did not prove feasible, the GATT would make the necessary arrangements for the convening of a conference for purposes of negotiation.

These decisions had been approved by all the contracting parties, with the exception of the United States, which required further time to consider the matter afresh and to give its final views on the subject.

7. Conclusions

The REPRESENTATIVE OF CHILE believed that the following conclusions might be derived from the statement made by the Deputy Executive Secretary of the GATT:

1. That regional meetings of the GATT should be convened jointly with future sessions of the ECLA Trade Committee;

2. That the Latin American Ministers for Economy and Trade should attend the next session of the GATT, to be held at Geneva in 1957;
3. That ECLA should keep future meetings of the group studying the proposals of the Trade Committee informed of the progress made in the negotiations relating to the establishment of a European common market, in order that advantage might be taken of such experiences and that the possible repercussions of the scheme on trade between Latin America and Europe might be considered.

The REPRESENTATIVE OF BRAZIL stated that, since this was merely an informative meeting, it had no authority to formulate conclusions. He had no objection, however, to the inclusion of the suggestion made by the representative of Chile in the summary record of the meeting, which could be circulated to the ECLA Trade Committee for its information.

The REPRESENTATIVE OF URUGUAY said that he could not take any definite position, but that if these suggestions were considered only as information, they might be useful to the ECLA Trade Committee.

The DEPUTY EXECUTIVE SECRETARY pointed out that the informative meeting of the GATT was distinct from that of the Trade Committee and had been held at the same time only for reasons of convenience. It would, however, be of assistance to the Executive Secretary and the Chairman of the GATT to know whether the Latin American Governments, in particular those which were contracting parties to GATT, considered it useful for plans to be made for another regional meeting which might take place at the same time as the next meeting of the Commission or of its Trade Committee.

The REPRESENTATIVE OF BRAZIL stated that he was appointed by his Government as delegate to the Trade Committee but not to the GATT meeting. He could therefore do no more than collect information and transmit it to his Government.

The CHAIRMAN, after his summing-up, announced that a summary record of the informative meeting would be prepared and circulated to all the delegations attending the ECLA Trade Committee as background material, without in any way committing the governments represented. He expressed his gratitude to Dr. Raúl Prebisch and the Secretariat of ECLA for the extremely valuable assistance they had given in the arrangement of the GATT meeting.