

THIRD COMMITTEE: COMMERCIAL POLICY

SUB-COMMITTEE G (SWISS PROPOSAL)

REVISED DRAFT REPORT OF SUB-COMMITTEE G TO COMMITTEE III

Chairman: Mr. L. P. THOMPSON-McCAUSLAND (United Kingdom)

1. Sub-Committee G was appointed by Committee III on 5 January 1948 with the following terms of reference:

To consider the proposal of the Swiss delegation (reference E/CONF.2/C.3/11) that the following new paragraph be inserted in Chapter IV:

"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."

2. The following delegations were appointed to the Sub-Committee: Belgium, China, France, Poland, Sweden, Switzerland, the United Kingdom, the United States of America, Uruguay and Venezuela. The Sub-Committee held ten meetings.

3. Proceeding from the draft amendment contained in its terms of reference, the Sub-Committee based its enquiries on the assumption that the Member concerned was not eligible to impose quantitative restrictions under Article 21 but was liable to suffer damage from restrictions imposed by other Members under that Article.

4. A variety of factors was put before the Sub-Committee as justifying special measures. Several were regarded by the Sub-Committee as irrelevant, others as doubtful, and no single factor was judged to be sufficient by itself to justify special treatment. The Sub-Committee, however, agreed that the following factors advanced by the delegate for Switzerland represented, when taken together, a combination of circumstances requiring special consideration:

(a) that a relatively high proportion of the country's total production depended upon export markets;

(b) that a relatively high proportion of these exports consisted of goods and services considered as inessential by many importing countries and treated by them accordingly;

/(c) that the

(c) that the country's normal export markets were in countries which were applying restrictions in accordance with the principles of the Charter.

5. The Sub-Committee therefore recognized that a small country, in which a relatively high proportion of workers depend for their employment on the manufacture of inessential goods for export, may be liable to serious unemployment when the countries to which it normally exports such goods can, under the Charter, greatly restrict, or stop completely, their imports of them. This risk is increased when the exporting country has a convertible currency, since countries in balance of payments difficulties would be anxious both to reduce their imports from it to save "hard currency" and to increase their exports to it to earn "hard currency". The country would, in fact, be an attractive export market for all other countries, and, while in normal conditions economic forces would operate to limit the impact of excessive imports, there is in present conditions a threat of imports flooding in at a rate which would endanger domestic production and employment. These pressures, in combination, might in the long run undermine the convertibility of the currency. The Sub-Committee agreed that it would not be in the interests of the members to expose such country to such pressures.

6. The Sub-Committee considered whether the existing provisions of the Charter would give the necessary safeguards to a country in the situation described above and came to the conclusion that with respect to both exports and imports a certain protection exists in Articles 21 and 40. It was, however, recognized that these provisions are insufficient to meet the exceptional needs of Switzerland. It was accordingly agreed that if such a country has to engage in bilateral negotiations with other countries which are themselves applying restrictions to their imports, it will need bargaining powers to safeguard its export interests by the threat and, if necessary, the imposition of quantitative restrictions. It may also need powers to defend itself against the pressure of excessive imports.

7. The amendment presented by the Swiss delegation would safeguard the country's freedom of action. The majority of the Sub-Committee, however, held that this proposal was so far-reaching that its adoption by the Conference would dangerously weaken the structure of the whole Charter. The Sub-Committee was therefore unable to recommend the amendment as a solution of the problem (4 delegates being against the amendment, 3 for it, 2 abstaining and 1 absent).

8. In an effort to enable Switzerland to adhere to the Charter the Sub-Committee examined other solutions, but regrets that it has been unable to find one which could accommodate Switzerland without excessive  
/weakening of

weakening of the Charter. The Sub-Committee, therefore, has aimed at keeping open a way by which Switzerland might later enter into negotiations with the Organization regarding its adherence to the Charter. Before specific proposals to this end could be submitted, further and more detailed examination of the problem is called for.

9. The Sub-Committee recommends, therefore, that the Conference should direct the Interim Commission to 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.

10. The Sub-Committee also examined the cases of Venezuela and Uruguay which were presented to it and finds that neither of these countries has established any special problems connected with transition from their present systems of trading to that contemplated by the Charter.

It was the view of the Sub-Committee that the present text of Article 21 made adequate provision for many of the considerations put forward by the delegates of Venezuela and Uruguay. Thus, it was pointed out that paragraph 3 (a) (2 (a) of the Geneva text) requires that "due regard" be paid in the monetary reserve questions there involved "to any special factors which may be affecting the Member's... need for reserves..." It was pointed out that a country exporting principally one product would, in like conditions, probably be considered to have need for greater reserves than a country exporting a variety of products, particularly if the single export was exhaustible or subject to considerable fluctuations of supply or price. A country actively embarked on a program of economic development which is raising levels of production and foreign trade would probably then be considered to have need for greater reserves than when its economic activity was at a lower level.

11. Beyond this the issues raised involve matters now under active consideration in connection with Articles 13 and 14. The considerations put forward by Venezuela and Uruguay in this connection are not dissimilar from those being urged by a considerable number of other "underdeveloped" countries in connection with the economic development chapter of the Charter. This Sub-Committee felt it should not pursue this matter any further since to do so would be to duplicate the work of Committee II and its Sub-Committees.

/12. The delegate

12. The delegate of Venezuela has advised the Sub-Committee that they are satisfied with the foregoing statements by this Sub-Committee.
13. The delegate of the United States, while agreeing with the final conclusion, stated that he is not in agreement with certain aspects of this report.

-----