

THIRD COMMITTEE: COMMERCIAL POLICY

SUB-COMMITTEE 'H' OF THE THIRD COMMITTEE

SECTION C - SUBSIDIES

NOTES OF THE FIFTH MEETING

Held at Havana on Friday, 16 January 1948 at 6.00 p.m.

Chairman: Mr. E. McCARTHY (Australia)

1. Continuation of Discussion of United States of America Proposals to Amend Articles 26 to 29

In support of these proposals it was argued that export subsidies on primary commodities were in the interest of consumer countries, while the problems of producer countries could be handled under Chapter VI. However, concern was expressed that the proposals unduly widened the exceptions already allowed in the Geneva Draft and might serve to aggravate and prolong periods of depressed prices to the detriment not only of producers of primary commodities, but also of producers of secondary products based on primary products.

In reply to points raised, the representative of the United States stated that the favourable treatment accorded primary commodities was justified because of their special difficulties. This was recognized in other parts of the Charter, notably Chapter VI. Most countries gave special assistance to agricultural producers, but various methods were used. In the United States a "price support" scheme based on "parity prices" was used, requiring the use of export subsidies when the world price fell below the support price. The United States could not therefore accept a ban on export subsidies which would force them out of world markets during periods of depressed prices. As regards underdeveloped countries he thought that their position was adequately covered by the reference to "special factors" in Article 28 and by the provisions of Article 60 (c) relating to development of production by the most effective sources of supply. He did not think that the use of subsidies weakened the incentive to obtain multilateral solution to commodity problems. In summing up, he stated that
/he was willing

he was willing to reconsider Article 28 in the light of the suggestion that it should be extended to cover subsidies operating to reduce imports. He also agreed that a reconciliation of Articles 25 and 28 should be sought in regard to "serious prejudice" and "a previous representative period" as the basis for consultations, and also that the proposed deletion of Article 29 might be reconsidered in view of the "findings" required under Article 28.

In the continuing discussion, certain points were raised for clarification: why had there been such a radical change in the United States position since the London text on which they had had no reservation; why had they ignored the opening to export subsidies in paragraph 3 of Article 27 which other delegations had expressed willingness to review; why did they wish entirely to eliminate the period of grace in paragraph 3 of Article 26 and thus deprive non-primary commodities of this concession? It was further argued that subsidies were a more objectionable instrument than tariffs since any country could use tariffs but some could not use subsidies because of the cost; tariffs were open to negotiation under the Charter, but subsidies apparently were not. The United States of America amendment would allow export subsidies to be used without any attempt at Chapter VI procedure; it appeared to overlook the fact that, under the Geneva text, it was permissible (under Article 26, paragraph 3) to maintain export subsidies while Chapter VI procedure was being attempted, and to continue them pending a determination by the Organization should that procedure fail. The assumption of the London and Geneva texts and of the original United States of America proposals was that export subsidies should be prohibited. The present United States of America amendment would destroy that assumption and radical alter the Charter. Emphasis was again put on the harm done by subsidies to underdeveloped countries, which could not afford counter-measures and which therefore saw markets closed to them by the subsidies of wealthier countries. In support of the United States of America amendment it was argued that its treatment of subsidies was no more favourable than that accorded by the Charter to preferences, an equally dangerous instrument.

2. Establishment of Working Party

The Sub-Committee agreed to set up a Working Party to examine proposed amendments to Articles 26 to 29. This would consist of the representatives of Brazil, Canada, Peru, United Kingdom, United States of America and Venezuela, together with the Chairman of the Sub-Committee.

/3. Proposed New Article

3. Proposed New Article

The representative of Brazil explained the proposal of his delegation to add a new Article 27 A providing that:

"1. No Member shall grant, directly or indirectly, any subsidy on the domestic production of any commodity, in respect of which the tariff has been reduced or bound by negotiation pursuant to Article 17."

He argued that benefits granted in tariff negotiations might be impaired by domestic subsidies preventing the stimulation of imports which would otherwise take place. In this respect his delegation's amendment was a necessary complement to Articles 17 and 18. He agreed that recourse could always be had to Articles 89 and 90, but thought it desirable nevertheless to provide explicitly against possible violations of the spirit of Article 17.

During the discussion it was claimed that in certain cases of tariff reduction it might be desirable for other reasons to grant subsidies. It was also contended that the basic idea of the Brazilian proposal was covered under Article 25.

The Sub-Committee decided that it would be more appropriate if the proposal were considered in the first place by the Sub-Committee dealing with Articles 17 and 18. It was agreed that after such consideration, the Chairman of Sub-Committee 'H' should consult with the Chairman of the Third Committee to see if any further action should be taken by Sub-Committee 'H'.

The representative of Brazil then introduced the second part of the proposed new Article reading as follows:

"2. No Member shall grant, directly or indirectly, any subsidy on the domestic production of any commodity a major part of which is destined for exporting."

He stated that if direct export subsidies were condemned, all techniques of subsidization should receive the same treatment. As a basis it was suggested that a production subsidy could be considered to have the same effect as an export subsidy, if the major part of the production were exported. It was agreed that the Working Party should give preliminary consideration to this proposal, which would be further discussed by the Sub-Committee.

4. Attention was drawn to the fact that in line 21 of page 2 of the Notes of the Fourth Meeting, the word "multilateral" should read "multiple".
