

PREPARATORY COMMITTEE OF THE INTERNATIONAL
CONFERENCE ON TRADE AND EMPLOYMENT

COMMITTEE II

SUMMARY RECORD OF MEETINGS

Second Meeting
held on Wednesday 23 October 1946
at 11 a.m.

Chairman: Dr. COOMBS (Australia)

1. Discussion of the Future Work of the Committee

The CHAIRMAN announced that an outline of work (E/FC/T/C.II/W.1) had been prepared by the Chairman and the Secretariat, in consultation with heads of some of the delegations, and that it had been distributed to members of the Committee. The outline was based on the principle that delegations should have an opportunity to give their general views upon each item before it was referred to drafting committees. After the general discussion, the chief items would be discussed in greater detail. Drafting committees would be set up to prepare a report which would be reviewed by the Committee.

Mr. KUNCSI (Czechoslovakia) agreed with the proposed outline of work, provided that general discussion was the first item.

The CHAIRMAN indicated that general discussion was the first item on the outline.

Mr. NEHRU (India) asked about the form of the report which would be prepared by the drafting committee.

The CHAIRMAN suggested that consideration of the form of the report be postponed.

The meeting accepted the proposed outline of work.

2. Discussion of General Principles affecting Most-Favoured-Nation Treatment, Tariff Preferences, Quantitative Restrictions, Exchange Control and Subsidies

Mr. HAWKINS (United States) felt that, in accordance with the resolution of 18 February of the Economic and Social Council, the main objective of the Preparatory Committee should be the drafting of a convention. In drafting the convention, first attention should be given to the more basic questions, particularly tariffs and tariff preferences and quantitative restrictions. Exchange control and subsidies should also receive early consideration.

He proposed that the charter should provide for negotiations between members for tariff reductions and the elimination of preferences. The United States felt that the charter should prohibit the use of quantitative restrictions except under specified conditions. In special cases where quantitative restrictions were permitted, they should be administered in a non-discriminatory manner. Exceptions from the rule of non-discrimination should be provided with respect to problems caused by scarce or inconvertible currencies.

Provisions for the reduction of tariffs could not be incorporated in the charter as drafted at the present meeting. He expressed the hope of the United States that members of the Preparatory Committee could meet next Spring to carry on actual negotiations for tariff reductions. The provisions for the reduction of tariffs would then be on the same basis as other provisions in the charter. The draft charter could then be submitted to the International Trade Conference; and the tariff negotiations which had taken place among the eighteen countries would provide a standard by which to judge what other nations joining the organization would be expected to do.

He felt that the Preparatory Committee should approve the draft charter for submission to the international conference at the end of the proposed spring meeting. Thus general obligations with respect to quotas and non-tariff trade barriers would be approved only after satisfactory tariff schedules had been formulated.

Exchange restrictions and quantitative restrictions were alternative methods for dealing with balance-of-payments difficulties. The United States felt that rules with respect to one of these methods should in general apply to the other also.

Direct subsidies to domestic producers were usually not harmful to trade, and should in most cases be permitted. Export subsidies, on the other hand, were harmful to trade and should be abandoned, except under agreed circumstances and rules. Subsidies might be considered by Committee IV.

Mr. ALPHAND (France) expressed the interest of his Government in the expansion of international trade and its sympathy with the general aims of the suggested charter. The French Government had already announced its plans for a low tariff system. But there was need for development of economically young countries, while others, such as France, had to adjust and modernize their production.

In that connection he stressed the importance of a transitional period. In the interests of conserving exchange for essential imports, of achieving balance-of-payments equilibria, and of rehabilitating and modernizing her economy, France would during this period want to continue to resort to quantitative restrictions. Such import controls would be progressively relaxed by three main stages, the third of which would find France prepared to follow the provisions of the charter. He felt that instead of setting fixed time-limits for the transitional period, the charter should lay down criteria as to when the use of quantitative restrictions should be abandoned in each country.

He feared that the suggested charter might be too ambitious. He emphasized the need for taking the traditional pattern of trade into realistic account in considering the provisions of the charter. He felt that careful consideration should be given to the possibility of certain strong economic units not joining the International Trade Organization, and to the provisions concerning the relations of member countries with non-member countries.

He expressed the hope that his statement of general considerations would enable the Committee to follow the French proposals when they were discussed. He wondered whether it was possible to reconcile provisions for reduction of trade barriers with the policy of concluding commodity agreements.

The French Delegation felt that the charter must be brought into line with reality. France would collaborate to that end.

Mr. TUNG (China) indicated that China would support general programmes directed toward the expansion of world trade. He emphasized the importance of a transitional period, particularly in relation to the problem of industrial development. He felt that the transition provisions of the charter were not realistic, since they involved fixed time periods or were based on the foreign exchange positions of the countries involved, and did not give adequate consideration to the actual progress of industrial development. He suggested that a country might be considered industrialized, and its transition accomplished, when thirty per cent of its population was employed in, or when fifty per cent of its national income came from, modern industry and distribution. He felt that until such stages were reached, individual countries should have the right to maintain adequate protection for their industries. In cases where such protection was maintained it should be gradually reduced;

it should be non-discriminatory; and it should be used only with the purpose of furthering industrialization. It should in short be administered in such a way as to minimize its effect on the commerce of other countries.

Mr. VIDELA (Chile) said that the Chilean Delegation regarded the suggested charter as an admirable basis for discussion. He proposed in his remarks to make certain general observations on specific points which would be amplified in later discussions.

With regard to Article 8 concerning most-favoured-nation treatment, the Chilean Delegation accepted paragraph 1: but paragraph 2 did not include a generalized exception for particular advantages accorded by American republics to neighbouring countries. Such an exception had been provided for in trade agreements signed by various American republics, and favoured by the Pan-American Conference at Montevideo; and he therefore suggested its incorporation in paragraph 2 of Article 8.

He suggested a clearer definition of the term "boycott" in Article 17.

He stated his view that, in certain circumstances, a refusal to reduce tariffs by a member of the International Trade Organization, referred to in paragraph 5 of Article 18, might be justified, and suggested the inclusion of a list of "justifiable" circumstances in the paragraph.

With regard to Article 20, he expressed the view that the country opposing exchange restrictions imposed by another country in order to establish equilibrium in its balance of payments, should be under obligation to prove that the restrictions were unjustified.

The reference to subsidies in Article 25 should be clarified to indicate whether direct or indirect subsidies were referred to in each case. A definition of "State trading enterprises" was needed in Article 26: the term "enterprises in whose operation a member government exercises directly or indirectly a substantial measure of control" should be used in Article 26 and other articles of the

suggested charter, called for further precision.

MR. KUNOSI (Czechoslovakia) spoke of the importance of trade as a means of increasing the standard of living. Restricted access to raw materials was an obstacle to trade expansion. In studying ways and means of trade expansion, due recognition should be given to the problems of maintaining full employment and accomplishing economic rehabilitation, and also to the serious effects that the German occupation had had on the economy of Czechoslovakia. He indicated that Czechoslovakia was suffering from a lack of raw materials, exchange, and gold.

He emphasized the necessity of overcoming the special difficulties arising from the war. He felt in that connection that the length of the transitional period provided for in the charter would depend on the understanding and help which war-ravished areas would receive from areas which were not occupied during the war.

Czechoslovakia did not aim at economic self-sufficiency.

He thought that the problems of reducing trade barriers and dealing with foreign exchange difficulties were closely related and would need to be dealt with simultaneously. At present Czechoslovakia had to use its limited foreign exchange for essentials rather than luxuries. In some cases, because of her inability to extend credit, Czechoslovakia had to receive goods in payment for exports.

The International Trade Organization would be attractive to more countries, and consequently stronger, if differing economic structures and levels of development were taken into consideration in its charter.

He felt that the sanctions proposed in the draft charter were too severe and inflexible in view of the special problems faced by countries formerly occupied by the enemy. There was, for instance, the problem which would be faced by countries having substantial trade with countries outside of the International Trade Organization.

He felt that the Geneva Conventions might appropriately be studied in connection with the drafting of the charter.

Czechoslovakia intended to reduce duties; but having to trade with countries applying ad valorem rates she would have to adjust her tariff rates in accordance with the changed value of the crown. Countries with high tariffs should give greater tariff reduction than low-tariff countries.

Provisions of the charter concerning exchange control should be consistent with the programme of the International Monetary Fund. Czechoslovakia's nationalized industry was trading on the same basis as private enterprises.

Mr. PARANAGUA (Brazil) argued that non-discrimination and application of the most-favoured-nation principle did not necessarily result in genuine reciprocity owing to the differences in the tariff systems of different countries. A country with a double tariff might be committed to a policy of tariff reductions and to the extension of advantages of its conventional tariff accruing under bilateral agreements to all countries, without receiving comparable advantages from countries with autonomous tariffs which were free to raise their tariffs. He recommended, therefore, that reciprocity should be considered more important than non-discrimination, and that tariffs should be negotiated on a multilateral rather than a bilateral basis.

Discussion of tariff preferences should be based on facts and realities, taking into account the economic reasons for preferential arrangements.

With respect to quantitative restrictions, Brazil's position would reflect her desire to make use of a limited amount of foreign exchange to finance essential imports, particularly machinery, rather than luxuries.

The meeting rose at 12.40 p.m.

COMMITTEE II

Continuation of the Second Meeting
Held on Wednesday, 23 October 1946 at 3.0 p.m.

1. Continuation of Document on General Principles Affecting
A.1., B, C, D and E of the Provisional Agenda.

MR. MCKINNON (Canada) stated that it was not his intention to make a formal statement, although he had many detailed points of principle to put forward at sub-committee level, firstly because the items to be decided were numerous and complex and would therefore take time, and secondly because he did not wish to appear to freeze his position and thus preclude elastic discussion of points in sub-committees.

He agreed with the United States delegate that it was the Committee's task to prepare a draft convention, in conformity with the instructions of the Economic and Social Council.

He also agreed to the procedure proposed by the United States Delegation, but suggested the establishment of not more than four sub-committees.

MR. FRUSQUET (Cuba) stated that his country had consistently maintained tariffs which were among the lowest in the world. But Cuba had so greatly suffered in the past from trade restrictions such as high tariffs, quotas and internal subsidies in other countries that the national income from exports had fallen to the level of thirty years previously. This meant that vital imports had to be curtailed, and this again affected the trade of other countries.

Cuban exports alone, even enlarged to the utmost, would not suffice to provide for the economic development of the country. Cuba needed to develop her agriculture and her internal industry to reach the desired standard of living. Therefore Cuba could not lightly abandon her special trade relations without definite assurance of an equal or better economic position in the future. However, there was plenty of room in the Draft Charter for accommodation of the different but not contradictory interests of all nations.

Therefore Cuba greatly welcomed the present opportunity of making international trade more free, which in its turn would lead to friendly relations in international politics.

Mr. NEHRU (India) stated that he did not intend to make a long statement, as a document setting out in full the views of the Indian Delegation had already been circulated among the Committee.

He agreed that the Committee must draw up a draft convention, but suggested that it could undertake this task more profitably in a few months' time.

In regard to tariff reduction, India's average tariff (thirty-three per cent) was among the lowest in the world; but his country was not strong enough to agree to the proposals on tariff reduction. Nor, in view of the state of industrial development, could it be specified which industries needed tariff protection. He suggested that the question of tariff reductions should be taken up after the establishment of the International Trade Organization.

Quantitative restrictions should be renounced except for the purpose of economic planning.

In reference to the statement of the Czechoslovak Delegate, to the effect that his country was in great need of access to raw materials, he pointed out that India, to the same extent, needed access to capital goods.

Mr. DINECHICIE (Lebanon) welcomed the United States proposal and expressed his intention of co-operating fully in the attainment of the desired goal. He pointed out, however, that the approach to the attainment of such a goal might not be the same in a highly industrialized country as in a country which is under-developed. Although the American proposals had foreseen such differences, they recognized the advantages of protection in certain cases. These proposals needed, however, more elaboration and he felt sure that especially the smaller under-developed countries could help to define situations in which protection would be justified.

He felt that not only tariff protection, but also tariff preferences, might be necessary for the development of industry in certain cases of less advanced countries. For the development of modern industry large markets were required, and the population of many small nations was not large enough to provide such markets. A possible solution would be for small nations of certain regions whose economics are complementary to form customs unions. He believed that if the objective of tariff preference was to develop the industry of a group of less developed countries, it would not only be legitimate but highly desirable. It would, therefore, be unwise to limit the maintenance of existing preferences or to set an arbitrary date after which no preference would be allowed.

Lebanon, he said, with most of the other Arab countries, formed part of the Ottoman Empire before the first world war, which made their economics inter-dependent. There was, therefore, now a strong tendency to co-ordinate their economic development, a step which he thought would be welcomed by the United Nations.

He further considered Article 17 of the ~~charter~~ was redundant.

Mr. BRENNAN (South Africa) said that he had intended to make a statement; but, as the Canadian and Indian Delegates had brought out so clearly all the points he was going to make, he merely wished to associate himself with their statements.

Mr. JOHNSEN (New Zealand) stated that New Zealand was in accord with the general objectives of the proposals.

Conditions affecting overseas trade, he said, were of special interest to his country, as her economic structure was bound up very closely with overseas trade.

He thought it essential that the rules which might ultimately be decided upon to provide a common basis for the conduct of international trade, should take cognizance of the economic position of all countries.

He felt that the existing proposals did not make sufficient provision for countries like New Zealand, which are industrially underdeveloped, and the economy of which is dependent on the exportation of a comparatively narrow range of primary products. He considered it would be necessary for such countries to diversify their economies and to provide for a policy of full employment by development of secondary industries.

With respect to the development of secondary industries, he thought that tariffs and subsidies might not provide the most effective or practicable means of achieving the objective, and suggested that in such circumstances provision should be made to allow of other methods, such as quantitative restrictions. He felt that countries such as that of New Zealand, which are so dependent on exports, might have to regulate imports through exchange control in order to safeguard their position.

MR. SHUCKLE (United Kingdom) said it was well known that his country had expressed basic agreement with the United States proposals for expansion of World Trade and Employment. The draft charter was based on that document, but deviated from it in some respects, and therefore he would have some amendments to make.

Although due allowance should be made for the special conditions existing in certain countries, the intentions of the draft charter should not be frustrated by undue multiplication of exceptions. What was necessary was a general parallelism of obligations in multilateral agreement. He had suggestions to make in regard to particular points of difficulty.

He agreed to the proposed establishment of Sub-Committees but not to excessive sub-division.

Mr. BRUNAES (Norway), stated that the Norwegian delegation agreed in principle to the draft charter in regard to general commercial policy.

It appeared that, although most delegations agreed in principle with the draft charter, almost all of them made such far-reaching reservations that the general principles would not be applicable to them. Norway too had been occupied, and might therefore make similar reservations. But the suggested reservations did not solve the problem. The aims of the International Monetary Fund and the International Bank for Reconstruction and Development would make it possible for occupied countries, and also the less developed countries, to import goods in excess of their exports. This would lead to expansion of production and international trade, and thus to a higher standard of living in all countries. This method was possible under acceptance of the principles of general commercial policy outlined in the draft charter. If, however, the existing restrictions on trade and foreign exchange were maintained, there would result an equilibrium on a low level instead of an expansive economy.

Mr. VIDELA (Chile) announced that an amended version of his speech made that morning would be circulated.

Mr. HAWKINS (United States of America) in reply to the Czechoslovakian Delegate stated that many provisions, for example, those on quantitative restrictions, in the draft charter had taken the conventions of the League of Nations into account.

The CHAIRMAN (speaking in his capacity as Australian Delegate) stated that on the one hand adequate provision must be made for the expansion of effective demand and for economic development of the resources of the less developed countries. Disequilibrium must be corrected by expansion rather than by contraction.

The right of countries to protect their domestic economy from the effects of falling world demand must be recognized. A proper balance must be maintained between these legitimate requirements and the reduction of barriers to free the flow of goods between countries. Australia was willing to enter into negotiations for tariff reductions, and also periodically to consider the revision of tariffs by unilateral action.

Protectionist measures might be legitimized to the extent of qualitative standards. These standards must be established, and revised from time to time.

Rules for good behaviour in trade should recognize the necessity of correcting balance of payments disequilibria by economic expansion.

The CHAIRMAN, in summing up the discussion, drew attention to certain general principles that appeared to emerge:

- (a) There might have to be a transitional period during which obligations would have to be accepted progressively.
- (b) There might have to be considered the graduation of obligations according to the stage of economic development.
- (c) Sanctions might have to be entrusted to the decisions of the International Trade Organization itself.
- (d) Provision might have to be made for regional arrangements (based on geographical rather than political relationships).

2. Discussion of Principles affecting General Commercial Provisions
(A: 2 - 10 of the Provisional Agenda)

MR. HAWKINS (United States) stated that he considered that as Items A: 2 - 10 were highly technical they should be discussed by specialists. These administrative measures could be operated with the same effect as tariffs or quotas. For example, measures in regard to marks of origin could be so strict that imports would be greatly reduced.

It was for the experts who were going to examine these points to decide how these measures should be dealt with in the various countries, to ensure that they should not involve disguised protection, and to simplify the passing of goods through customs.

Mr. PARANAGUA (Brazil) stated that the League of Nations had arranged several conventions in regard to these items, and he proposed that the principles contained in these conventions be used as a basis for amplifying the draft charter.

In regard to national treatment he suggested that Article 9 be completed by making provision for port dues, navigation, etc.

Mr. McKINNON (Canada) stated that many excellent conventions had been adopted in the past, but they were not all put into effect. It was possible that some articles approved at this Conference might require subsequent legislation and therefore policy considerations underlying these items should be kept in mind.

M. BARADUC (France) thought that the definitions in the draft charter were not precise enough or sufficiently related to economic reality. Therefore he proposed that more precise regulations should be laid down with reference to most-favoured-nation treatment, dumping and marks of origin.

Mr. NEHRU (India) asked why the most-favoured-nation treatment considered in the draft charter dealt only with trade in goods, and not with the rights of business men, etc.

Boycott was not a technical question but rather a question of principle. He felt that campaigns to stimulate domestic production should be encouraged provided they were not at the expense of other member countries.

Mr. SHACKLE (United Kingdom) thought that the aim of the Committee was to deal with the treatment of goods, and that it was therefore undesirable at this stage to go into matters such as foreign nationals and taxation.

3. Organization of work of the Committee

The Committee agreed to set up a Sub-Committee consisting of delegates for Canada, Chile, France, India, the United Kingdom and the United States of America, to examine the question of procedure, especially with regard to tariff negotiations, and to submit their report to the Committee. The date of the meeting was tentatively fixed for the afternoon of Monday, 28 October 1946.

Another Sub-Committee was set up to deal with questions connected with general commercial provisions of a technical nature (items A.2 - 10 and I of the Provisional Agenda). It would consist of delegates from all member countries; the delegates representing each country might be changed according to the nature of the items considered. The working instructions of this Sub-Committee were:

- (a) To have in mind the prevention of the use of administrative practices for the purpose of disguised protection:
- (b) Attempt to establish standards of behaviour to facilitate the movement of goods according to the spirit of the Charter:
- (c) To consider existing conventions and work previously carried out in this field.

It was suggested that the Joint Body on Industrial Development should hold a meeting on the morning of Saturday, 26 October 1946.

4. Date of next Meeting

Friday, 25 October 1946 at 11 a.m.

The meeting rose at 5.45 p.m.
