

PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE  
ON TRADE AND EMPLOYMENT

COMMITTEE II

Sixth meeting held on Thursday,  
31 October 1946 at 3 p.m.

Chairman: Dr. COOMBS

I. DISCUSSION OF STATE TRADING

Mr. AUGENTHALER (Czechoslovakia) emphasized the great variety of state monopolies or state trading enterprises and the variety of economic conditions with which they were designed to cope. Some provided means of collecting indirect taxes. Others protected consumers against price fluctuations or small producers from severe competition. Others were instituted for security purposes. Because such monopolies or state enterprises in many cases closely reflected particular kinds of internal economic systems, it would be difficult to write provisions into the Charter in the absence of certain important countries.

Since the problem required treatment, however, Czechoslovakia was prepared to agree with the first part of Article 26, providing that monopolies should operate on the basis of commercial considerations. Articles 27 and 28 should be deleted. At a later date, the basic principle provided in Article 26 could be supplemented with more detailed provisions.

Czechoslovakia has certain old monopolies serving the purpose of internal taxation or national security. These monopolies are conducted on commercial lines and Czechoslovakia cannot negotiate about the prices they charge since this would mean negotiating about State revenue.

The nationalized industries, representing seventy per cent of the country's industry, fall neither under State monopolies nor under State trading companies. They conduct business along commercial lines and pay taxes; hence, they do not fall under the provisions of Articles 26 - 28.

In respect of the suggestion of the Delegation of Czechoslovakia that Article 27 and 28 be deleted, Mr. HARKINS (United States) felt that there should be some provision in the Charter whereby obligations analogous to those provided in Article 18, should be undertaken with respect to State trading companies.

He agreed with the suggestion of the United Kingdom that Article 26 should not cover services.

Payment of different prices for products purchased from different supplying countries would not necessarily be inconsistent with the provisions of the Charter. It was natural for prices to vary.

He agreed with the United Kingdom suggestion that landed prices rather than the prices at which the product is offered for sale should be used in determining the margin by which the purchase price exceeded the sale price. (Article 27) He agreed that it was not administratively feasible to compute margins on the basis of individual consignments. If an average price were used in such computations, the period over which prices were averaged should not be too long. It should be such as to reflect price changes.

With respect to the last sentence of Article 29, the United States would be agreeable to a qualification which would take into account problems relating to the enforcement of rationing and price control. The obligation to supply full demand was subject to the same exceptions that applied to quantitative restrictions (Articles 19 and 20).

With respect to the question whether a State trading organization of a member enforcing rationing and price control could restrict exports, he suggested that the same provisions which had been agreed

to in regard to quantitative restrictions might apply. A state enterprise might charge different prices in different foreign markets, if this was done for purely commercial considerations.

Whether or not long term bulk purchase contracts were consistent with Article 26 would depend on:

1. the amount purchased and
2. the length of the contract.

If the contract was for all or a major part of the members' needs, say for one year, there would be room for question; in such a case, it would be likely that there would be some suppliers in other countries able to meet the prices involved, who would be excluded. If the contract was for five or ten years and during that time the competitive position of other suppliers improved, such other suppliers would be excluded; in such a case, he felt there would be a violation of Article 26. While he agreed that article 28 involved practical difficulties, he would be reluctant to delete it until there had been discussion with the countries most concerned. Some article of this kind was needed to permit participation by countries with complete foreign trade monopolies in the undertakings of the Organization.

The question had been asked whether government agencies which appeared to be more like control boards than actual monopolies, would be covered by the Charter, and whether activities of such boards would be consistent with the Charter. He wished a particular opportunity to discuss this question with the Delegates for South Africa, the Netherlands and China before attempting to answer these questions.

The CHAIRMAN pointed out the difficulties of drafting provisions with respect to state trading enterprise in view of the limited experience of members of the committee in these matters. There seemed to be the general feeling that the committee should not try to reach actual decisions with respect to those provisions of the Charter.

It had been suggested that clauses with respect to complete state monopolies should be deleted. Another suggestion was, that draft

provisions should be included without actual acceptance as a basis for subsequent discussions with the countries most concerned. There were difficulties in the cases of monopolies the purpose of which was to collect revenue and in the case of control boards. State trading was a relatively new field; and it would not be feasible to give very detailed treatment to it in the absence of the countries most concerned. It had been suggested that rules with respect to state trading might be worked out in later negotiations.

It was agreed that the provisions of state trading should be referred to a Drafting Committee consisting of the United Kingdom, the United States, New Zealand, China and Czechoslovakia with the understanding that the United States, the Netherlands and South Africa should first study the question of control boards.

Mr. DEUTSCH (Canada) said that the United States' answers to Canada's questions were satisfactory for present purposes.

## II. DISCUSSION OF RELATIONS WITH NON-MEMBERS

Mr. HAWKINS (United States) said that the principle included in Article 31 was not a new one. For fifteen years or more there had been discussion of multilateral agreements and the common view was that such agreements should include a provision along the general lines of Article 31.

Such provisions denying benefits to non-members would, of course, involve difficulties, such as those that would be involved in terminating existing commitments with non-members. He suggested that an Article along the lines of Article 31 might be submitted to the world trade conference as a draft. Such a procedure would mean that the committee would not actually adopt the Article: but it would be discussed at the full World Trade Conference, by which time it would be known which countries were likely to join the organization and which were not. If all countries entered the organization, Article 13 would not present any problems.

Dr. SPEEKENBRINK (Netherlands) said that tariff reductions negotiated at the Spring meeting would be incorporated in a protocol which should go into effect at once or in any case before the meeting of the World Trade Conference. If decisions as to relations with non-members were postponed, there would be no rules as to which nations would be entitled to the benefits of the tariff reductions.

Mr. DEUTSCH (Canada) supported the suggestion of the United States Delegate that the decision with respect to article 31 be postponed until the meeting of the World Trade Conference.

The CHAIRMAN said that pending decision by the World Trade Conference as to provisions for relations with non-members, the benefits of tariff reductions by the eighteen members of the Preparatory Committee would be extended temporarily to all members of the United Nations. There was no need for immediate decision. The question before the committee was whether the article should be left in its present form for submission to the World Trade Conference as a draft.

Mr. VIDELA (Chile) drew attention to the difficulty of terminating existing conventions with non-members. The matter had been discussed at the morning meeting of the Technical Sub-Committee.

Mr. HAWKINS (United States) said that the suggested Charter would postpone termination of existing commitments for one year. Hence negotiations could proceed on the assumption that benefits would be generalized.

Mr. AUGENTHALER (Czechoslovakia) said that Czechoslovakia had no objection to paragraph 1 of article 31. Only thirty to thirty-five per cent of Czechoslovakia's foreign trade was with Preparatory Committee members. If countries with which a majority of her trade was conducted did not join the ITO, Czechoslovakia would be faced with a difficult problem. Article 31 might be interpreted as a threat employed to force other countries to join. The document

adopted by the Preparatory Committee should not include any sanctions.

Mr. SHACKLE (United Kingdom) did not think the Article could be withdrawn. Since the suggested Charter had already been widely published, leaving out Article 31 now might give the impression that there were doubts as to its success. The general provisions of the Charter did not present any immediate problem so far as application to non-members was concerned. Tariff reductions presented a problem which might wait until the next year, but it could not be postponed beyond that. There were three alternative courses before the committee:

(a) The Charter might require that advantages be withheld from countries not accepting the obligations of membership. That might necessitate termination of certain existing commitments. It would be extremely difficult to establish any satisfactory basis for commercial relations with non-members.

(b) It might be left to individual members to decide what advantages would be extended to non-members. That course might reduce the incentive to join the Organization. Powerful non-members might force agreements with members, and the Organization might be endangered.

(c) Individual members might be allowed to extend privileges to non-members if the ITO agreed, after studying the effects which such action would have on other members. That could be considered as a compromise position. The incentive to join the Organization would be weakened.

He suggested that the Committee might include two alternative drafts for consideration by the forthcoming Conference. One would be like the present Article 31; the other, along the lines of the compromise course of action ((a), above) which he had set forth.

He emphasized that a country should not be considered a non-member until it had had a reasonable opportunity to join.

Mr. LOKANATHAN (India) thought that consideration of relations with non-members should be postponed. Presentation of alternative

drafts would not be helpful. At present it was not even known whether all of the members of the Preparatory Committee could accept the obligations of membership. Reduction of trade barriers was valuable in itself, regardless of whether the countries involved were members or non-members. At present the Committee should only indicate that the question of relations with non-members would be considered at the proper time.

Mr. STEYN (South Africa) supported the statement of the Delegate of the United Kingdom that a nation should not be considered a non-member, until after it had had a reasonable opportunity to join.

The CHAIRMAN said that the Committee might:

- (i) Submit Article 31 substantially in its present form to the World Trade Conference as a tentative draft,
- (ii) present alternative proposals as suggested by the United Kingdom Delegate, or,
- (iii) Include no provision now but hold the question over until a later stage.

The Committee agreed to ask the Delegate for the United Kingdom to draft a report on the question of relations with non-members, reviewing the difficulties involved and taking into account the desirability of postponing a decision till a later date. The United Kingdom Delegate would of course consult with members of other delegations and would submit his report to the Committee.

### III. DISCUSSION OF SUBSIDIES

Mr. HAWKINS (United States) said that the first paragraph of Article 25 of the Charter would obligate members to report to the ITO on types of subsidies to be established or maintained, including any form of income or price support to the domestic producers. In general, direct subsidies to producers would be permitted. However, in cases where serious injury to the trade of any member was caused or threatened by such subsidization, the member granting such subsidization would undertake to discuss with the member concerned, or with the Organization,

the possibility of limiting the subsidization.

Export subsidies, including any system which resulted in the export of a product at a price lower than the domestic price, would be generally prohibited.

There were, of course, exceptions, as when a specified product was, or was likely to become, a burdensome world surplus. In such cases members would be called upon to consult with each other in order to adopt suitable means for the increase of consumption or the reduction of production, or the conclusion of a commodity agreement. Should the measures provided for in sub-paragraph 5 (a) of Article 25 not succeed in removing the development of a burdensome world surplus, obligations regarding subsidies would cease to apply.

One of the main features of the United States proposals on subsidies was that direct subsidies to producers would be permitted. The United States Delegation felt that subsidies were preferable to import restrictions or tariffs. Subsidies kept prices down and demand up. They were expansionist rather than contractionist measures.

As the provisions of Article 25 were closely related to commodity agreements, he suggested the setting up of a joint sub-committee of members of Committees II and IV to deal with the question.

Mr. MCCARTHY (Australia) agreed with the suggestion to set up a joint sub-committee to study the question.

The great objection to subsidies for primary products was that they had the effect of stimulating production, thus glutting the world market. Australia did not mind what form of support was given to the producers, as long as it had not an adverse effect on the world market. Many difficulties were due to subsidies being given by importing countries. He could see no validity to the distinction between production and export subsidies, as both gave price support, and the incidence could be the same in both cases.

The relation of subsidies to primary products was such that it bore on commodity agreements; and, when a country found it necessary to interfere with the flow of trade, it was a sign that a commodity agreement was needed. Tariffs and subsidies both supported prices. If such devices did not adversely affect world markets, he saw no reason why they should not be allowed.

Mr. PANANAGUA (Brazil) said that, with regard to subsidies, Brazil had to follow a policy differing from that laid down in the United States Charter.

It was difficult for countries largely dependent on export trade to draw a line between export subsidies and production subsidies. Subsidies could create great difficulties for the smaller country, which would not be able to stand the competition of larger countries, especially from a financial point of view. It was for this reason that Brazil was strongly opposed to the granting of any kind of subsidies.

Mr. VIDELA (Chile) accepted the general principle laid down in the United States Charter, but confessed to some doubt as to the definition of the word "subsidy" as applied to export prices which were lower than comparable prices on the domestic market.

Mr. FRESQUET (Cuba) stated that Cuba's position was the same as that of Australia.

Mr. VIDELA (Chile) said that Chile was 10,000 miles from markets where its commodities were sold. Subsidies had to be paid if Chile was to compete on the world market; the export price would not be the same as the domestic price.

Mr. MCCARTHY gave a further example to show that an export subsidy could have the same incidence as a production subsidy.

Mr. MCKINNON (Canada) said that the harm inherent in export subsidies was greater than was the case with production subsidies. Production subsidies had the advantage that they could not generally be used as extensively as export subsidies, Canada's views with respect to subsidies were generally the same as those of the United States.

Mr. LOKANATHAN (India) distinguished between agricultural products and manufactured goods in his discussion of subsidies. In the case of manufactured goods, India favoured production subsidies, though poorer countries would find difficulties in financing them. Export subsidies were not as desirable as production subsidies.

In the case of agricultural products, use of production subsidies by poorer countries had unfortunate effects on poorer countries. Hence production subsidies should not be used for agricultural products.

Mr. SHACKLE (United Kingdom) felt that export subsidies were worse than production subsidies, particularly when countries used them to get a larger share of the world market than they would rightfully have, and then asked for a commodity agreement to preserve that share.

Mr. TUNG (China) was generally in accord with article 26. Countries should not use subsidies untuly to increase their share of world markets. It should be considered fair to use export subsidies where goods had to compete in preferential markets. He suggested the following amendment to paragraph 2 of article 11:

"In the event of preferential treatment being accorded by a country to certain countries to the exclusion of other member countries, no countervailing duty shall be imposed upon the products imported from such other member countries against subsidies which are granted by the latter to such products as compensation for covering the preferential margin."

Dr. SPECKENBRINK (Netherlands) pointed out difficulties involved in trading with countries with unstabilized currencies and high prices. The Netherlands Government levied a duty when exporting goods to such countries and used the proceeds to subsidize imports from such countries. This type of subsidy should be allowed.

Under the Netherlands monopoly system, an average price was found for agricultural products. In its imports, the monopoly did not discriminate. If the average price were 100 guilders and the products

were imported at 85 guilders, the importer would have to pay the difference of 15 guilders.

Mr. MCCARTHY spoke of the relation of the subsidy provisions to stabilization programmes. He said that a country might fix a domestic price of 120s on a product in order to avoid fluctuations. The export price might be higher than the domestic price at some times and lower at others. If the export price were higher, the arrangement would not be inconsistent with the subsidy provisions. Would it be consistent with such provisions if the export price were lower?

Mr. JOHNSON (New Zealand) said that his Delegation had submitted a document (E/PC/E/C.II/25) on this question. They were anxious to ensure that guaranteed price schemes would not be ruled out by the provisions of the Charter.

Producers would be guaranteed a price for their products, determined in relation to costs of production, and other factors affecting their position. Any amount received in excess of the guaranteed price would be placed in a fund on which any industry could draw in the event of its being faced with difficulties, such as a fall in overseas prices.

Such a scheme could be operated by an industry with or without government sponsorship. Its object would be to build up a general reserve for use in special cases.

The necessity to give producers economic stability, especially in a country like New Zealand, which relied so much on exports of a few primary products, would be generally recognized. The advantage of such a scheme to world trade, as a whole, was also apparent as it would cushion the effect on the world market of any reduction in overseas demand for such primary products, by keeping up the spending power of producers and maintaining a demand for consumer goods, which it would be necessary to import.

From the point of view of considering guaranteed prices in relation to export prices, in order to determine whether there was any measure

of subsidization, he felt that that could only be considered over a reasonable period. Prices of commodities were subject to fluctuation, not only as between shipments, but also from season to season.

Mr. HAWKINS (United States) said that he was not yet prepared to discuss the points made by the Delegate for Australia.

With respect to the Netherlands system for maintaining an average price for agricultural products, he said that, if the system were used to build up domestic production and to exclude exports, paragraph 1 of Article 25 would require the Netherlands to consult with the Organization or with the other members concerned.

The United States had foreseen that a country might use export subsidies to build up a larger market, and then seek to conserve that market through a commodity agreement. Sub-paragraph (c) of paragraph 3 of Article 25 was intended to put a limit on that practice.

In summarizing the discussion on subsidies, the CHAIRMAN said that there seemed to be general agreement that subsidies were more desirable than tariffs or quotas. Poorer countries might have difficulty in employing them. Export subsidies were more harmful than production subsidies. Special problems existed with respect to primary products, especially when subsidies were used to stabilize the income of producers in exporting countries. The subject of subsidies was closely related to that of commodity agreements.

The nature of the subsidy was not necessarily a sufficient criterion of whether or not it injured other countries. Perhaps new criteria were needed.

He suggested that the United States, the United Kingdom, and India should prepare an outline report on the use of subsidies with respect to manufactured products. He suggested that the Chairman should be authorized to consult with the Chairman of Committee IV about a possible joint committee to consider the use of subsidies with respect to primary products. The proposed membership of the joint committee

could be submitted to the committee for approval at the next meeting.

Mr. FRESQUET suggested that the Australian Delegate should be included on the joint committee.

It was agreed that the committee would meet on 1 November 1946 at 3 p.m.

The meeting rose at 6.10 p.m.

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