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GENERAL AGREEMENT ON TARIFFS AND TRADE

CONTRACTING PARTIES
Fourth Session

SUMMARY RECORD OF THE FOURTEENTH MEETING

Held at the Palais des Nations, Geneva, on Monday, 13 March 1950 at 2.30 p.m.

Chairman: Hon. L.D. WILGRESS (Canada).

Subjects discussed:
1. South African Communication on Import Restrictions (SECRET/CP/1 and Add.1).
2. Special Exchange Agreements (GATT/CP.3/44 and Add.1, GATT/CP/32, and GATT/CP.4/24).
3. Australian Subsidy on Ammonium Sulphate (GATT/CP.3/61 and GATT/CP.4/23).

The CHAIRMAN welcomed Greece as a new contracting party.

Mr. NAOUM (Greece) thanked the Chairman and stated that his government looked forward to whole-hearted co-operation with the contracting parties.

1. South African Communication on Import Restrictions. (GATT/CP/1 and Add.1).

The CHAIRMAN recalled that this item related to consultations which had taken place at the Third Session; he referred to Section VI of the Report of the Working Party (GATT/CP.3/43) relating to consultation with the International Monetary Fund, wherein the Fund had stated that it was unable to give a final opinion at the Third Session as it required more detailed information. He read a letter from the Executive Secretary to the Managing Director of the Fund, dated February 1st, inquiring whether the Fund had come to any conclusions on the questions covered in Section VI, and the Managing Director's reply of February 20th that any views the Fund might have, would be submitted by their representatives to the Fourth Session. In these circumstances he suggested that the Contracting Parties refer the question to Working Party E, which was considering balance-of-payments questions. The Contracting Parties could also note that the Fund was currently considering the financial aspects of the

South African restrictions and that a report would be received from the Fund on this matter. The Working Party might when it considered appropriate in view of the Fund's consideration, deal with the communication from South Africa under the terms of Article XIV: 1, (g) and other appropriate provisions of the Agreement.

Mr. VAN BLANKENSTEIN (Netherlands) supported the Chairman's suggestion that the question be referred to Working Party E and wished to make a few observations on the import restrictions in question which might assist the Working Party in their consideration. He did not wish to discuss the purely financial side of the problem nor to contest that there were not good reasons for the imposition of these restrictions. He also wished to say that since Annecy the situation had much improved as South Africa was no longer making a distinction between sterling and other soft-currency areas. He would, however, call the attention of the Contracting Parties to the "prohibited list". South Africa claimed that these restrictions were imposed in accordance with the terms of the General Agreement and were non-discriminatory; the importation of certain goods was prohibited and no arrangements were made to admit imports under bilateral agreements. The result had been very unfavourable to Netherlands' exports to South Africa. He explained that traditionally the Netherlands had a favourable trade balance with South Africa in the years before the war (12.4 million guilders as opposed to 3 million guilders of imports from South Africa). This balance had begun to alter in 1947-48 (22.8 million guilders exports opposed to 12.7 guilders imports) and by 1949 the figure for South African exports had risen to 25.2 million guilders. The same year, however, import restrictions had cut South African imports from the Netherlands to 8½ million guilders. It was clear from these figures both that the Netherlands had given South Africa ample opportunity to earn Dutch currency and that the lessening of Dutch exports was very serious indeed. If it were argued that the goods on the prohibited list were only luxuries, nevertheless the production of luxury goods was a vital and highly skilled industry in many parts of Europe and an industry which European countries, through bilateral agreements, had succeeded in allowing to continue. But certain of the goods on the prohibited list could not be placed in the luxury class and their prohibition gave the appearance of protection. Mr. Van Blankenstein suggested that the Working Party, which was now directing its inquiries into the protective effects of quantitative restrictions, particularly to countries involved in bilateral agree-

ments, should also enquire into the effects of complete prohibitions of certain imports. He did not doubt the good faith or intentions of the South African government, and realized that attempts were being made to counteract the protective effect of these restrictions by controlling investments and supplies of raw materials for new industries, but he suggested that the results might differ from the intention. Certainly it could not be denied that an absolute trade prohibition was more far-reaching and damaging in effect than a quantitative restriction, which at least permitted some imports of the restricted products.

Mr. BOTHA (South Africa) suggested that this might be discussed in the Working Party.

Upon Mr. Van Blankenstein's agreement to this proposal, the Chairman read the additional terms of reference for Working Party E to cover consideration of the communication from South Africa.

This was agreed.

2. Special Exchange Agreements (GATT/CP.3/44 and Add.1, GATT/CP/32, and GATT/CP.4/24).

The CHAIRMAN called the attention of the Contracting Parties to the letters between the International Monetary Fund and the Executive Secretary contained in document GATT/CP/52 and also to the acceptance by Ceylon of a special exchange agreement (document GATT/CP/53). He gave a résumé of the general situation relating to exchange agreements. A resolution adopted at the Third Session, requiring contracting parties not members of the International Monetary Fund to enter into special exchange agreements, related particularly to Burma, Ceylon and Pakistan; agreements for those three countries had been prepared in January, signed by the Chairman of the Contracting Parties and deposited with the Secretary General of the United Nations. Ceylon had deposited an instrument of acceptance on 3rd March and the agreement would enter into force on 2 April; Ceylon had also notified the Contracting Parties that it intended to avail itself of the transitional arrangements of Article XI of the Agreement for the maintenance of restrictions on payments and transfers for current international transactions. There remained certain other matters which would have to be discussed with the Government of Ceylon and with the Fund, namely, the determination of a par value for the Ceylon currency, margins for transactions in gold and foreign exchange, the furnishing of information, etc.

Burma had advised that, since it expected to join the International Monetary Fund in the near future, it would request the Contracting Parties to allow until the next session its acceptance of the special exchange agreement. Pakistan also expected to join the Fund in the near future and consequently felt it unnecessary to accept the agreement. At the Third Session the Contracting Parties had also, by resolution, extended the time limit for New Zealand's acceptance of an agreement, and it was expected that any New Zealand proposals to meet its special difficulties would be considered at this session and the date for its acceptance would be fixed.

Furthermore, three Annecy acceding governments - Haiti, Liberia and Sweden - were not members of the Fund and a Third Session resolution required that such governments should accept agreements within four months of becoming contracting parties. Haiti and Liberia expected to become members of the Fund by the end of the current month, but, in the case of Liberia, it would not be necessary for it to accept a special exchange agreement in any case since, by a resolution of the Third Session, a contracting party using solely the currency of another country was exempted from this requirement so long as neither of the two countries maintained exchange restrictions. Finally, it had been agreed at the Third Session that the Contracting Parties at this session should consider the procedure and arrangements that would be necessary to implement the provisions of special exchange agreements. In this connection, the Chairman referred to document GATT/CP.4/24 circulated by the United States delegation.

Mr. KOELMYER (Ceylon) explained that his government had accepted the special exchange agreement since there was no prospect of its becoming a member of the Fund before 23rd February. He suggested that the U.S. proposals on procedures be referred to a Working Party for discussion.

U. MYA SEIN (Burma) thanked the Chairman for his explanation of the Burmese case.

Mr. DJLEMHANA (Indonesia) explained that Indonesia was considering the question of becoming a member of the Fund and assured the Contracting Parties that if Indonesia did not become a member a special exchange agreement would be entered into within the time prescribed.

Mr. HASNIE (Pakistan) explained that Pakistan had been making continuous efforts to join the Fund and had expected to become a member before 23 February when a special exchange agreement would no longer have been becessary. The Governors of the Fund had agreed to the membership of Pakistan but too late to get Parliament's approval before 23 February. It seemed, however, better, since Pakistan would become a member of the Fund very shortly not to enter into a special exchange agreement, both because it would complicate matters in Parliament and it would raise issues for the Contracting Parties which would be taken up by the Fund in any case.

The CHAIRMAN said that it seemed clear that it would be necessary to set up a Working Party but he wondered whether it would not be possible for the Contracting Parties to decide at this meeting on the case of Pakistan, since Mr. Hasnie was expecting to leave Geneva in the near future.

Mr. EVANS (United States) had no objection, but enquired whether a definite date might be set for the extension of the time limit for Pakistan.

Mr. HASNIE (Pakistan) replied that it was unlikely to take more than four months and explained that the Fund was satisfied that matters were proceeding as rapidly as possible.

The CHAIRMAN suggested setting the date of September 30, which was the date set by the Fund for the possible extension of the time limit to Haiti.

This was agreed.

The CHAIRMAN explained that this decision would be given formal effect in a resolution.

Mr. SCHMITT (New Zealand) thanked the Fund for the advice contained in its letter of 3 March (document GATT/CP/52). With regard to New Zealand's special position, he explained that there were further difficulties since the new government had not had sufficient time to study the question. He had instructions not to propose amendments to the text of the special exchange agreement at this Session, but he would like an opportunity to discuss in the Working Party a time limit for the entry of New Zealand into a special exchange agreement.

Finally, on the question of procedure, he thanked the United States delegation for producing so detailed a paper and considered it would be of great assistance to the Working Party. He supported

the suggestion that the question should be referred to a Working Party since it was a highly technical one and of concern to few of the contracting parties. A working party would also be assisted by the consideration during the Annecy meeting of the question of inter-sessional procedures. This whole question seemed to him an example of the difficulty of taking a text from the Havana Charter and trying to apply it under the General Agreement.

Mr. JONSSON (Sweden) explained that Sweden was now considering applying for membership in the Fund and was aware of the requirements concerning a special exchange agreement in the event that it did not become a member of the Fund. He said he would welcome an opportunity to discuss this with the Working Party.

Mr. WALKER (Australia) agreed with the New Zealand delegate that the document circulated by the United States delegation would be very useful as a basis for discussion. Australia considered it both very important and also a question of principle that limits should be clearly set within which contracting parties were required to accept decisions of the Fund. He felt that this paper went further in certain points than Article XV itself and required careful consideration.

Mr. DEUTSCH (Canada) hoped that the Working Party would consider whether it was necessary or desirable to codify so detailed a set of regulations at this stage. It appeared that almost every government needing a special exchange agreement was contemplating joining the Fund and since the future organization of the Contracting Parties was not known, it might be preferable to wait.

Mr. EVANS (United States) agreed that this paper required careful examination and said that the United States would be glad to have the Australian and Canadian points raised in the Working Party. His delegation would also be glad to see the length and complexity of the rules reduced. The United States had felt, however, and he thought it had also been the opinion of the Working Party in Annecy, that it was necessary to codify the rules of procedure in this case even if all the contracting parties should become members of the Fund. There remained the problem of future acceding governments who should know at the time of accession precisely what was involved.

The CHAIRMAN suggested terms of reference for a Working Party on Special Exchange Agreements to cover all the questions raised in the discussion, and membership based on the membership of the Working Party at the previous session and during the inter-sessional period. The only change was the substitution of Indonesia for Pakistan, since the delegate of Pakistan was leaving Geneva. Mr. Steyn was named as Chairman in his personal capacity, and Belgium, Burma, Ceylon, France, Indonesia, New Zealand, United Kingdom and United States were appointed as members.

3. Australian Subsidy on Ammonium Sulphate (GATT/CP.3/61 and GATT/CP.4/23)

The CHAIRMAN explained that no action had been taken on this question at the Third Session as Chile had requested time to negotiate directly with Australia, but had also requested that it be kept on the Agenda for the Fourth Session.

Mr. ALFONSO (Chile) thought that sufficient details were contained in the paper which had been circulated. He did wish to point out, however, that this was a question of principle rather than of the amount involved, since the imports by Australia of Chilean nitrate were relatively small. He also wished to emphasize that his government was not asking for the payment of a subsidy to Chilean nitrate but only that it be given equality of treatment with a like product. The subsidy on ammonium sulphate made it impossible for sodium nitrate to compete freely in the market. He considered that this involved the basic principles of the Agreement. He was anxious to hear the Australian explanation since in the last conversation between the two governments the Australian delegation had agreed to recommend the reinstitution of a subsidy on sodium nitrate.

Mr. WALKER (Australia) complimented the Chilean delegation on its clear declaration and said that, except for paragraph 12(b), which he could not accept at all, the situation was set out very fairly from Chile's viewpoint. However, the facts were more complicated than appeared from the Chilean statement and he felt it necessary to supplement that statement at several points.

Firstly, he explained that the subsidy on sodium nitrate had been instituted in 1943 as part of the organization of the country's economy for war, and the resulting price stabilization and control of production of certain primary products. Before the war, sodium nitrate and ammonium sulphate had been sold commercially at the same price. In the course of the policy of price stabilization, existing price relations were frozen and the government proceeded to subsidize imports of goods which were considered essential and whose landed cost was rising. Accordingly, the subsidy varied from time to time and from product to product. In the case of nitrogenous fertilizers, it was decided, upon the outbreak of war, to set up a pool of all such fertilizers and to procure them wherever possible, depending upon shipping and availability. This pool

would distribute the fertilizer to producers at a fixed price of £16.10. -. a ton. No subsidy was required in the first year of the pool since no losses were incurred, but when it became apparent that the pool was losing by adhering to the fixed price, the losses were met by the government. This was the subsidy referred to. No direct subsidy was paid on the importation of either commodity, and the total subsidy to the pool could only be attributed to that product by calculating the quantities used and the prices at which they were produced or imported. Like all other subsidy arrangements, it had to come under review after the war and it was in the course of this review that the Government, in July 1949, decided to discontinue the inclusion of sodium nitrate in the pool arrangement. The arrangement was continued with regard to ammonium sulphate, both local and imported. Such a pool had existed on a commercial basis before the war and the original war time arrangement was rather one of extending the pool to cover sodium nitrate than the application of a subsidy to both products. A subsidy was continued to cover losses made by the ammonium sulphate pool (despite an increase in price) because this type of fertilizer was used by producers of commodities still selling under a fixed maximum price such as sugar, whereas sodium nitrate was used chiefly for products not subject to price control and it was consequently felt that those producers could bear the variations in the price of the latter product. He explained, in this connection, that sodium nitrate and ammonium sulphate had somewhat different properties and that the former was needed mainly for acid soils, but, because of its moisture absorbent qualities, was unsuitable to the sugar growing areas although the soil there was acid. During the war, when supplies of nitrogenous fertiliser were distributed by the government, Australian farmers were glad to get what they could, even if the type of fertiliser was not what they preferred. Those conditions no longer existed and farmers' own preferences were now effective again.

Mr. WALKER said that, while the statement in paragraph 4 was correct, Australia had never contemplated that the General Agreement on Tariffs and Trade would require that a subsidy introduced during the war for purposes of price stabilization be retained indefinitely. The process of decontrol went on at a varying pace for different commodities. Australia had entered into negotiations with Chile on the question of the subsidy, but he felt that paragraph 9 of the Chilean document

gave an impression that the Australian negotiators were convinced of the strength of the Chilean case. He explained that the Australian negotiators had advised their government that, while they could not agree that there was a case under the General Agreement, in view of the importance that Chile attached to the question, they suggested that the government might agree to pay a subsidy on sodium nitrate. The Australian government had considered this proposal and as a friendly gesture had suggested that an out-right subsidy be granted, based on the nitrogenous content of the nitrate. This offer was rejected and in the circumstances Australia agreed to take the question of principle before the Contracting Parties and withdrew its previous offer. His delegation would be glad to explore the situation as fully as possible in order to reach some sort of solution.

Mr. ALFONSO (Chile) referred to paragraph 9 and said that while he could not speak for the exact communication from the Australian delegation to its government, the Australian delegate had stated that he would have opposed the withdrawal of the subsidy and, while not agreeing that the Agreement had been violated, would recommend its reinstitution if the question could then be removed from the Agenda.

Mr. ALFONSO felt that Mr. WALKER'S statement made the Australian position no more tenable. He did not wish to enter into the very technical questions of the difference between the two products, but would point out that Chilean nitrate was a whole product used for agriculture everywhere and nowhere considered as non-competitive with ammonium sulphate. In the United States nitrate of sulphate was used in very large quantities and in the United Kingdom and Sweden it received a higher subsidy than ammonium sulphate. Perhaps the Contracting Parties would wish to consult, under the terms of Article XXIII, with any appropriate intergovernmental organisations on the technical qualities of the two products. He felt that it was most important for the Contracting Parties to decide whether the fundamental principles of the Agreement were being respected in this matter.

The CHAIRMAN said that the discussion would be continued at the next meeting.

The meeting adjourned at 5.45 p.m.