

GENERAL AGREEMENT ON TARIFFS AND TRADE

CONTRACTING PARTIES
Sixth Session

SUMMARY RECORD OF THE FIFTEENTH MEETING

Held at the Palais des Nations, Geneva,
on Friday, 28 September 1951 at 3 p.m.

Chairman: Mr. Johan MELANDER (Norway)

- Subjects discussed:
1. Signature of Protocols at end of Session
 2. Continuing Administration of the Agreement
(Secretariat Services)
 3. Balance-of-Payments Restrictions.

1. Signature of the Protocol of Modifications and Rectifications at the Close of the Sixth Session (GATT/CP.6/30)

The CHAIRMAN drew attention to the note, presented by Working Party 2 on Schedules, on the signature of the protocol to be drawn up at the close of the Sixth Session, and urged all delegations which did not possess full powers to sign such a protocol to secure powers from their governments so that they would be able to sign before leaving Geneva.

2. Arrangements for the Continuing Administration of the General Agreement: (b) Secretariat and Conference Services for the Contracting Parties (GATT/CP.6/13/Add.1) (continued from the third meeting)

Mr. THORP (United States), introducing the draft decision which called for consultation by the Executive Secretary with the Economic and Social Council in procedural arrangements to ensure cooperation (GATT/CP.6/13/Add.1) recalled the discussion at the third meeting of this Session at which many delegations had questioned the wisdom of the earlier United States proposal on secretariat services. The United States delegation, while still believing that the proposal that administration of the General Agreement should be financed by the United Nations deserved careful consideration, considered that no action should be taken along these lines unless there was general agreement among the contracting parties. His delegation had intended that the earlier proposal should be deferred to a later date, but some delegations had objected to this on the ground that it might imply approval in principle. In view of this objection the United States delegation had now decided to withdraw its earlier proposal altogether, and accordingly requested that the last paragraph

of the draft decision be deleted. The decision would then deal only with the establishment of formal relationships between the United Nations and the Contracting Parties; it would enable the two bodies to arrange procedures for the mutual transmittal of documents, for proposing items on each other's agenda and for providing common services in the interest of economy and avoidance of duplication of work. Mr. Thorp suggested that the draft decision should be referred to the Working Party on Administration.

Mr. LECKIE (United Kingdom) thanked the United States representative for modifying the draft decision, since it was more appropriate to withdraw the earlier proposal than to ask the Contracting Parties to decide to take action at a later date. The lack of formal arrangements for cooperation with the United Nations had caused no difficulty for the Contracting Parties, but it might be the view of the Economic and Social Council that formal arrangements should be made. The draft decision should therefore be referred to the Working Party for examination, but without the Contracting Parties being committed as to the necessity for such arrangements.

Mr. LECUYER (France) said that his delegation had also felt some concern about the scope of the United States proposal, but now agreed that the question of procedural arrangements for effective cooperation with the United Nations should be referred to the Working Party.

Mr. DHARMA VIRA (India) wished to know whether the Working Party was to examine the need for such arrangements, or whether it would begin its study on the assumption that the Contracting Parties had agreed that such arrangements were necessary.

The CHAIRMAN suggested that the Working Party should take account of the discussion of this meeting, which seemed to indicate that such arrangements were likely to be necessary, although there would be nothing to prevent the Working Party from reaching a conclusion to the contrary.

Mr. THORP (United States) clarified his proposal by stating that his delegation had in mind that the Working Party would first consider whether the question of arrangements with the United Nations arose, and would examine the draft decision only if the answer to that question were in the affirmative.

It was agreed to refer the draft decision to the Working Party to be examined in the light of the discussions at this meeting.

3. Balance-of-Payments Restrictions:

- (a) Review of import restrictions under Article XII and second report on discrimination (GATT/CP.6/12)
- (b) Preparations for third report on discrimination.
- (c) Procedures for consultations in 1952 (GATT/CP.6/19)

Mr. PHILLIPS (Australia), addressing himself to item (a), said that the draft report prepared by the Secretariat would provide a good basis for discussion in a working party. In the past Australia had conducted its foreign trade on a multilateral basis and now looked forward to the time when it could resume that policy. Traditionally Australia had a deficit with the United States

and Canada and a surplus with Europe - a situation which gave rise to no difficulty in the days of convertible currencies. This system had broken down in the last decade and it was the earnest wish of his country that it could be restored. As regards items (b) and (c), these were technical in nature and could best be dealt with in a working party.

Mr. THORP (United States) commended the Secretariat on a careful and thorough presentation of a difficult subject. The review of quantitative restrictions under Article XII and the reports under Article XIV on discriminatory administration of restrictions had a significance in the operation of the General Agreement, which might not be generally realised; they held an important place among the steps, provided for in the Agreement, intended to facilitate the eventual elimination of the quantitative restrictions applied for balance-of-payment reasons. Both the General Agreement and the International Monetary Fund had been launched at a time when import and exchange restrictions were prevalent and were considered necessary in the prevailing circumstances. It had been hoped that as time went on countries would be able to deal with their problems more effectively, and that both import and exchange restrictions would be progressively eliminated except in a few well-defined circumstances, the ultimate aim being that market forces should operate again. The draft report showed that encouraging signs could be discerned in the situation obtaining today, which was essentially different from the immediate post-war period. The dominating problem in those days had been the intense preoccupation of many countries with the dollar shortage. Towards the solution of that problem the United States had contributed some 30 billion dollars in the form of grants and loans. The problem which confronted many countries today, if more complex, was less acute and more diffused, and it would be fair to say that, in spite of difficulties, many were in a position to undertake a progressive elimination of their restrictions and to make their currencies convertible.

While not attempting a detailed comment on the Secretariat's draft, Mr. Thorp drew attention to one or two points. The paragraph on page 30, referring to "the purchase of raw materials for strategic stockpiles and for armament production", might create the impression that the increased dollar earnings of many countries since the middle of 1950 was of short duration and was caused entirely by United States governmental purchases. During the whole postwar period emphasis had been placed on increasing production, especially in the industrial field, and as a result of the recent industrial boom output had advanced between 1949 and 1950 by some 25%. This must have been an important element in the increased demand for raw materials and primary goods and in the shift in the terms of trade between the industrial and primary producing countries. The pressure created by armaments production had been very limited so far and a strain was felt only by a few countries. The phenomenal rise in prices during the third quarter of 1950 was due more to speculative buying than to stockpiling purchases by governments which, as far as the United States was concerned, had been anything but overwhelming in size; in fact, the executive branch of the United States Government had been criticized for inadequate purchasing. It might therefore be said that a basic change had occurred in the terms of trade, whose effect

on the balances of payments might be of a more permanent nature than was suggested in the draft report. It was also disturbing to find that the draft ended on a note of pessimism, emphasis being laid on obstacles to the liberalisation of trade. The report should not create the impression that tremendous difficulties lay ahead, and therefore the draft should be amended to indicate more hope of achieving the final goal which had been laid down in the Agreement and accepted by all contracting parties.

The EXECUTIVE SECRETARY thanked the United States representative for his generous words in describing the draft report, and mentioned that the staff of the Fund had rendered valuable assistance in its preparation. He said the draft did not purport to be complete; it had been prepared on the assumption that the Contracting Parties, after reviewing the restrictions, would themselves decide what conclusions should be added at the end of the report.

Mr. ADARKAR (India) said the draft not only dealt with the problem thoroughly and objectively, but had the virtue of being brief. He drew attention to the statements on pages 10, 46 and 47 in which references were made to the expected recovery from the postwar financial disequilibrium and to the objective of the contracting parties to conduct their trade relations in such a way as to ensure expanding production and exchange of goods. It might be inferred from the statistical table on page 13 that an improvement in the balance of payments had been achieved by many countries. But if one proceeded to examine how and why these improvements had been brought about and whether they were temporary or permanent in nature, one would soon find that the improvements since the middle of 1950 had been achieved mainly on account of the scarcity of key industrial materials; there was, therefore, no guarantee that these improvements would be lasting. The United States representative had taken exception to the passages referring to obstacles to the removal of restrictions, but it was doubtful whether this was entirely out of place. No one should be surprised that these obstacles existed, and it would be unrealistic to ignore their importance; the question was only how long the restrictions would remain and in what way they should be dealt with. All the contracting parties were no doubt working towards the objective of removing restrictions, but it might take some time to produce tangible results. Furthermore, it was worth remembering that quantitative restrictions, especially if discrimination was involved, were damaging to the interests of the importing country sometimes even more than to the potential exporters. The Indian Government had always been ready to modify or relax its import restrictions even when there was only a slight improvement in the balance-of-payment situation, with the result that sometimes relaxation had gone too far.

The point made on page 31 (lines 10 to 12) that restriction tended to be applied only against hard currencies was particularly worthy of emphasis; in this manner the licensing policy of India had recently been liberalized to a great extent. The figures given in Table II on page 14 might be misleading since increases in foreign exchange holdings of sterling area countries, including India, consisted almost exclusively of sterling balances not all of which could be regarded as monetary reserves in the sense of a source of liquidity. On page 55 the draft

stressed that discrimination was in almost all cases an essential element in the policy of restriction and that discrimination was almost inevitable when many currencies were inconvertible. This was a point which deserved the closest attention of the Contracting Parties and which should be further pursued by a working party.

Referring to the questions of procedure, to be considered under the other two items, Mr. Adarkar stressed the desirability of avoiding any duplication of work and a conflict in arrangements for the consultations which were to be carried out by the Fund in March 1952 and those by the Contracting Parties at about the same time. In view of the close connection between quantitative restrictions and exchange restrictions these consultations should be appropriately coordinated. The outcome of the consultations undertaken by the Fund might be of great importance to the Contracting Parties in carrying out their own consultations. It might be suggested that the consultations of the Contracting Parties should be arranged to follow those of the Fund. In conclusion, he assured the Contracting Parties that the Government of India was doing everything in its power to eliminate its import restrictions.

Dr. BOTHA (South Africa) agreed that the draft report would serve as a guide for the working party to be appointed to study the subject. He was very forcibly struck by the fact, amply illustrated in the draft, that the contracting parties were making steady progress towards the relaxation of restrictions and the elimination of discrimination, and that some countries had even completely dispensed with such restrictions. It was to be hoped that a new period of intensification of restrictions and extension of discrimination was not approaching, as seemed to be the fear indicated in the draft. On the other hand, the continued reliance by certain governments on bilateral arrangements would seem to be hampering further progress. The information submitted by certain contracting parties in response to Question 10 of the questionnaire seemed to confirm his Government's impression that, despite the declared intention of the contracting parties to concert their trade policies and practices with a view to promoting the early re-establishment of a multilateral system of international trade, recent developments had steadily taken governments further away from that basic objective of the Agreement. New bilateral trade agreements were still being negotiated, the basic elements of which seemed to run completely counter to what the contracting parties should try to achieve. When becoming a contracting party, in June 1948, his Government firmly believed that the early re-establishment of a multilateral non-discriminatory system of trade was the principal objective of the General Agreement and it was only in this spirit that South Africa had accepted the limitations which adherence to the Agreement imposed on its freedom of action. When bilateralism was becoming ever more the prevailing system, as at present, other countries found it increasingly difficult to observe the principles of multilateralism. Bilateral trading or quota arrangements, in restricting access to markets, affected the interests of the countries which were striving to promote the objective of multilateral trading. South Africa's export trade had in recent years suffered considerably as a result of this tendency. The Union Government naturally recognized that in the present circumstances bilateralism must be regarded as a necessary evil, arising from the disturbing economic

conditions resulting from the last war, but it nevertheless held that resort to bilateral methods of regulating trade should never exceed the bounds of necessity. The objective of multilateralism, subscribed to by all contracting parties, would suffer a severe blow to the detriment of further international economic cooperation if the countries should refuse to make sacrifices to achieve that end.

Dr. Botha wished his remarks to be regarded as an invitation to all contracting parties to take stock of the present situation rather than as an expression of antagonism or criticism. The issue confronting the Contracting Parties struck at the very foundation of the General Agreement and had to be faced squarely if a rational trade policy for the world was ever to be established. The Union Government was particularly anxious that South African exporters should enjoy fair and equal access to the markets of the other contracting parties and should not be penalised because their Government had refused to abandon the principle of multilateralism and to negotiate bilateral agreements in order to avoid discrimination against its exports. South Africa could seek redress for any impairment or nullification of its rights and privileges under the Agreement, but believed that the success of the Agreement depended very largely on the spirit in which the participating countries approached their obligations and responsibilities.

It was worth considering whether the recent tendencies in the commercial policies of many countries could genuinely be regarded as purely temporary digressions. The Contracting Parties must set a firm course in the direction of multilateral trading or they would revert individually to complete bilateralism. Unless progress were made towards the restoration of multilateralism the Agreement would gradually lose its adherents and eventually disintegrate completely. In conclusion, Dr. Botha expressed the hope that the Contracting Parties would not evade their responsibilities or fail to face issues which strike at the very foundation of the trading system which they were trying to establish for their common good.

Mr. COPPOLA D'ANNA (Italy) associated himself with the remarks made by previous speakers regarding the quality of the draft report prepared by the Secretariat. Improvements and modifications could be made so as to bring certain points more sharply into focus, but this could be done by a working party. It was not a pessimistic report; there were favourable developments as had been indicated by the United States representative, but undeniably unfavourable trends also existed, and to present a complete picture both had to be taken into account.

Mr. LECKIE (United Kingdom) thought that the draft represented a commendable practical effort; it embodied an analysis of the information received from governments concerning various types of restriction applied under different circumstances, whose common features had been ably brought into focus. Its particular merit lay in its concentration on facts, but these could perhaps be brought more up to date. In point of detail, the suggestions given in Section 5 perhaps over-exaggerated the self-perpetuating nature of restrictive measures. The problem of the dollar

scarcity had indeed become more complex and diffused, but it had also become more acute for some countries. Regarding the structure of the report the United Kingdom delegation had some doubt about the wisdom of including balance-of-payments data since it was not intended that a study should be made of the justification for the restrictions. Part II should, therefore, include one summary note on the restrictions applied by individual countries and this should be prepared by the Secretariat in consultation with the delegations concerned; but the replies to the questionnaire varied considerably in quality and it should be one of the tasks of the working party to see that there was uniformity in the information presented so as not to impair the quality of the report. Mr. Leckie believed that the questions of procedure under items (b) and (c) could be left entirely for study by the working party.

Mr. REISMAN (Canada) agreed with the representative of South Africa that this was an appropriate time to take stock of the numerous bilateral arrangements which were in existence and to consider whether they were really necessary. The prevalence of bilateral arrangements might compel other countries to make similar arrangements and thus the scope of discrimination would be enlarged. The questions to be considered at this session differed essentially from those raised at past sessions in that they related to all the restrictions maintained for balance-of-payment reasons.

Four years ago when the General Agreement was drafted it had been the general expectation that multilateral trade would be re-established and discrimination totally eliminated within a foreseeable time. A transitional period was provided within which discriminatory restrictions could be maintained only because it was thought that the post-war dislocation in international financial relations could not be put right at one stroke. Since then there had been some progress but it was insignificant compared with what had been originally expected. The divergence between the original expectation and the present circumstances might be explained by developments in the world political situation. But, taking into account the rise in the level of production and the financial stability achieved in recent years the progress made in the liberalization of trade had indeed been disappointing. The effect of the Korean war and of the ensuing defence preparations had not been entirely negative; some of the consequences might be held to be beneficial to the balance-of-payments situation of many countries. Taking account of all these factors the Canadian delegation was of the opinion that many contracting parties had not taken full advantage of the circumstances and had not moved forward as far as they could have done.

Canada's experience in the application of quantitative restrictions and her attitude towards them had been outlined by Mr. Howe at an earlier meeting. The Canadian Government believed that it was wrong to regard quantitative restrictions and discriminations merely as passive effects of other factors; they were sometimes a cause of stagnation or further deterioration. The removal of many restrictions, especially those of a discriminatory nature, might very well prove an effective cure of existing difficulties. The draft report suggested that discrimination must in most cases be regarded as an essential part of restriction, but no logical

link was provided in the Agreement between quantitative restrictions as such and their discriminatory application. Balance-of-payment restrictions were accepted as a permanent feature of the Agreement to be applied in certain circumstances, but discrimination was allowed only during the post-war transitional period. With the recent improvement in the dollar position of many countries it was reasonable to expect that progress would be made in ending discrimination, and this should be given particular attention by the working party when considering the draft report. In the view of the Canadian legation, some contracting parties could take immediate steps towards the elimination of restrictions and discrimination. With the present acute shortage of certain materials and inflationary pressures in many countries the existing structure of restrictions must have become obsolete. No doubt some form of control was necessary, but quantitative restrictions maintained ostensibly for balance-of-payment reasons could not play that role. The Contracting Parties should not let the present opportunity pass without taking effective action lest when the present emergency was over the restrictions be found so deep-rooted as to be impossible to remove.

The discussion was adjourned.

The meeting rose at 6.20 p.m.

