

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SUMMARY RECORD OF THE FIFTEENTH MEETING

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Insert after the Chairman's remarks the following paragraph:

"Mr. DHARMA VIRA (India) said that if he had understood the United Kingdom representative and others correctly, the idea was that the paper should be referred to the Working Party for examination, without committing the Contracting Parties to the necessity for such arrangements, and the Working Party, after examination, would make to the Contracting Parties such recommendation as they might consider necessary. In the circumstances, he desired clear instructions being given to the Working Party in the matter."

Pages 3 and 4

Mr. Thorp's statement should read as follows:

"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 on discriminatory administration of restrictions had a significance in the operation of the General Agreement, as steps, provided for in the Agreement, intended to facilitate the elimination of 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 with a view to permitting market forces to resume their traditional influence upon trade and finance. 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 dollar deficits. 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 countries are in a position to undertake substantial removal of discrimination and relaxation of non-discriminatory restrictions, and to make significant progress toward convertibility.

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, which was well on its way before the outbreak of hostilities in Korea, output had advanced during 1949 and 1950 by some 25%. This was the most 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 moderate; in fact, the executive branch of the United States Government had been criticized for inadequate purchasing. It might therefore be suggested that we are going through a basic change 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 preponderant 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."

Pages 4 and 5

Mr. Adarkar's statement should read as follows:

"He drew attention to the statements on pages 10 and 53-59 in which references were made to financial disequilibrium in the post-war period. It was stated that the objective of the Contracting Parties was the ultimate removal of balance-of-payments restrictions when the world economy recovered from the post-war financial disequilibrium. It was not clear, however, that such a permanent recovery had taken place. He agreed with the remarks on page 53, where the uncertainties of the future and the obstacles to the removal of restrictions were discussed. 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 - 12) that restrictions tended to discriminate only between two groups - the hard and the soft currency groups instead of individual hard and soft currencies - was worthy of emphasis. In fact, the recent licensing policy of India had been liberalised along these lines. 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 report quite correctly stated that it could not be assumed that when the distinction between hard and soft currencies had disappeared there would be no further need for import restrictions because discrimination was almost inevitable when 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."

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Mr. Leckie's statement should read as follows:

"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 main features it had ably brought into focus. Its particular merit lay in its concentration on the underlying factors which gave rise to the need for restrictions but the historical account could perhaps be brought more up-to-date. In point of detail, Section 5 appeared to exaggerate the self-perpetuating nature of restrictive measures and did not bring out the underlying difficulties of the situation referred to earlier in the draft Report. The problem of 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 in Part II dealing with the position of individual countries, since it was not intended that a study should be made of the justification for the restrictions. Part II should, therefore, include only summary notes describing the restrictions applied by individual countries and these should be prepared by the Secretariat in consultation with the Delegations concerned. 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."

