

GENERAL AGREEMENT ON TARIFFS AND TRADE

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ORIGINAL: ENGLISH

CONTRACTING PARTIES
Sixth Session

SUMMARY RECORD OF THE SEVENTEENTH MEETING

Held at the Palais des Nations, Geneva
on Monday, October 1, 1951, at 10.30 a.m.

Chairman: Mr. Johan MELANDER (Norway)

- Subjects discussed:
1. Accession of Germany
 2. Balance-of-Payment Restrictions (concluded)
 3. Membership of International Monetary Fund and Special Exchange Agreements

1. Accession of Federal Republic of Western Germany

The CHAIRMAN welcomed the German delegation whose Government, from today, had become a contracting party to the General Agreement.

Mr. HAGEMANN (Germany) thanked the Chairman for his words of welcome and referred to 1st October 1951 as being an important date for German policy in foreign trade. Western Germany was now a contracting party with full and equal rights and obligations under the General Agreement. The new customs tariff, the classification of which was based on the Brussels Convention, was coming into force today, and the concessions negotiated at Torquay would now be applied to all contracting parties.

2. Balance-of-Payment Restrictions (Concluded)

Mr. HASNIE (Pakistan) expressed his appreciation of the Secretariat draft. His own country had had to maintain import restrictions, although their extent had been reduced to the minimum admissible in the circumstances. Some restrictions were of a unilateral character, though applied on a strictly non-discriminatory basis, while others were arranged bilaterally. Of all imports only about 20-25% were subject to control. Restriction in the narrow sense of the word did not exist in Pakistan since, within the wider boundaries drawn by permissible expenditure on hard-currency goods, no discrimination or obstruction of any kind existed as to sources of origin of imports. Pakistan did not have any state-controlled import monopolies, nor did the Government exert any influence on the composition or provenance of such imports except where hard-currency imports were concerned. Although his country was not, strictly speaking, in balance-of-payment difficulties, the commercial structure of its foreign trade required control over expenditure of hard currencies. Exports from Pakistan had greatly increased in recent years, but the country was still not being adequately supplied with essential consumer and capital goods; the effect of this was

that the net balance of payments at any moment could not be called favourable since present and future export earnings were constantly being mortgaged for the procurement of essential goods.

These circumstances had forced a policy of bilateralism upon his country, which in some cases was the only means of fulfilling essential needs. They had found that the multiplication of bilateral deals was one way of achieving the ends of multilateral trade in general; sometimes the natural and traditional channels of trade would get blocked and if its flow was then not actively directed by the government into a series of bilateral channels, flooding of the markets with certain products, and therefore waste, would result. This practice was at the same time used to fill essential needs, and he felt that, in doing so, his Government was also serving the purposes of the General Agreement since it promoted trade in circumstances under which, without this intervention, trade would inevitably have suffered. His country's trade was constantly on the increase and when its volume reached the desired level any remaining interference could be abolished. But even at present this interference, especially in connection with trade with the dollar area, was not causing any decline, since his country was still able to spend more on dollar imports than it was earning by exports to the dollar area. Trade with that area could be increased whenever opportunities of selling raw materials, produced by Pakistan could be increased and the capital goods required in exchange could be supplied.

Referring to the remarks of the Netherlands delegate, who compared the incidence of high tariffs with that of quantitative restrictions, he agreed up to a point only, since the two methods could not be held to overlap entirely. Countries which imported raw materials and produced manufactured goods had every reason not to have high tariffs, since these would only increase production costs and be detrimental to their own exports as well as to the purchasing power of countries importing their goods. There were important reasons, however, for countries which relied heavily on imported manufactures and whose main exports consisted of raw materials, to maintain relatively high tariffs. Such countries had on the whole very few sources of revenue and it would be damaging to the economy of the whole country not to use the tariff. For all these reasons he could not be in favour of a general reduction of tariffs at the present time although such reduction remained the ultimate aim of his Government.

Mr. TUOMINEN (Finland) also commended the Secretariat on its draft report. In the first place, however, he felt that some comment was due concerning the part which described discriminatory arrangements resulting from the trade policy of the Organization for European Economic Cooperation. The report did not state sufficiently clearly that countries which did not form part, for one reason or another, of the European Payments Union, would be meeting with greater difficulties in the future, as far as the abolition of restrictive practices was concerned, than countries which were members of the Union, and which had thereby achieved a certain convertibility of their currencies. Lifting restrictions would be a much more difficult process for non-member countries since for them the exceptional circumstances, justifying the restrictions, had not ceased to exist.

The question which would have to be decided upon in the future would then arise, i.e. at what stage justification for maintaining restrictions would cease. In this connection he would like to make some suggestions to the working party which would be studying these matters. In his view the time to lift these restrictions had not yet come, especially in view of the difficult circumstances which had been confronting countries like his own which were not members of the European Payments Union. Since these countries did not share any system of convertibility of currencies it would be extremely risky to start lifting restrictions now. Due to this inconvertibility, imports from countries whose currency was scarce had to be limited. On the other hand, Finland was doing what it could to compensate for this situation by facilitating as much as possible imports from countries which were willing to buy Finnish goods. This, in short, was the essence of their trade policy.

Commenting further on some conclusions drawn in the report, there were some contentions with which he could not agree, such as the statements tending to prove that the incidental effects of import restrictions would lead producers to concentrate unduly on satisfying the needs of their own internal markets. He would quote the Finnish cellulose and newsprint industries as examples. Current production of cellulose and newsprint amounted to 1.2 million tons and 420 thousand tons respectively, while exports of these products were at a level of 880 thousand tons and 380 thousand tons, representing over 70% and 90% respectively of production. The report's conclusions were, therefore, somewhat too sweeping. Equally he could not subscribe to consequent observations to the effect that the interference with trade, which went with restrictive practices, would cause exporters to neglect hard-currency markets and that governments did not always sufficiently counteract this tendency. He would stress that his Government did not regard bilateral trade dealings as more important than trade carried on freely with other countries. Finland's exports under bilateral agreements were not holding up in any way the traditional exports to the United States, Brazil, South Africa and other countries. Bilateral agreements were concluded only when necessary because of inconvertibility of exchanges; in no case, however, would trade with other countries or areas be made to suffer because of their existence.

On the last part of the report he could not agree with those who found that the pessimistic note was unjustified. It was said at the end of the report that contracting parties should prepare to abolish restrictions and to take measures to prevent the necessity of such restrictions in future. Finally he stressed that the best course for his country would appear to be to proceed slowly since it could otherwise well find itself in a still more difficult position than before.

Mr. MELLO (Brazil) stated that Brazilian commercial policy was based on the need to assure a reasonable equilibrium in the balance of payments, due regard being given to the maintenance of essential imports at a sound level. The level of imports was therefore limited to foreign currency earnings from exports. The control policy, however, also aimed at the greatest flexibility in the control of non-essential imports consistent with the balance-of-payment situation. Hence, early in 1951, the quota system was no longer applied to essential imports and a more

flexible treatment was adopted for less essential imports. In the absence of international equilibrium the need to apply strict control to imports was evident especially when a country had no other resources than the proceeds of exports to meet its foreign liabilities. But even so Brazil had liberalized its trade control not only on imports from the dollar area, but also from those countries with which any deficits under barter or payments agreements had to be paid in gold or hard currency. The Brazilian reply to the questionnaire indicated that import licences were being issued for greater amounts than present imports; the value of imports for which licences were issued during the first half of 1951, had been greater than total imports of the same period of 1950 by more than 150%. Future policy depended to a great extent on world prices of Brazilian exports. As these had been subject to violent changes in recent months, it had been impossible to formulate a long-term policy. At present import restrictions were necessary in Brazil, as in many other countries; circumstances had rendered multilateral trade impossible and had compelled many soft-currency countries to make bilateral arrangements. But the quotas which had been established by Brazil and her trading partners under bilateral agreements had been in each case higher than the traditional trade between the countries concerned. The present commercial policy of Brazil, while being of necessity restrictive, was as liberal as it could possibly be, and had not been discriminatory in any unjustifiable way.

The CHAIRMAN, summing up the discussion, stated that several tendencies revealed themselves in the course of this general debate. First, while some contracting parties felt that the time was now ripe for a gradual relaxation of import restrictions, the majority, though agreeing as to its desirability, maintained that it would not be practicable to liquidate restrictions at this juncture. Secondly, since the General Agreement required that restrictions should be as far as possible non-discriminatory, it was natural that those countries whose exports were discriminated against would wish to see all possibilities being explored for the removal of discrimination. But in the present circumstances, while many countries operated their trade under group arrangements, the problem had also become a more difficult one for those countries which did not belong to any of these groups. These countries had to adopt the bilateral approach. To be realistic one had to take note of the fact that convertible currencies did not generally exist. The Contracting Parties should give sympathetic consideration to the position of those countries which were compelled by circumstances to adopt bilateral methods.

It had also been brought out in the discussion that commercial policy should not be pursued too vigorously or be unnecessarily restrictive. But practices such as "tied-sales" was in fact a symptom of the present scarcity of many important commodities and could perhaps not be avoided altogether before the scarcity problem was solved. Generally speaking it was felt by some countries that equilibrium could be achieved through internal financial measures, but the majority of the contracting parties did not seem to accept this view. Some were keen to increase productivity and to hasten industrialisation, and hence did not feel disposed to give up the control of their trade which was often necessary to the overall policy adopted. It was their aim that imports essential to the economic development of their resources should have priority over unessential or

luxury imports. Countries were at different stages of economic development and belonged to different categories of economies, and could therefore hardly be expected to apply the same measures for the cure of this disequilibrium. That a very long time might be needed for the solution of the general disequilibrium, seemed to be a belief generally accepted, the important consideration being that during that period the policies adopted should aim at avoiding any unnecessary damage to the interests of other countries.

The CHAIRMAN then proposed the appointment of a working party, on the understanding that all contracting parties might attend meetings and ask to be heard, with the following terms of reference:

"(a) to carry out the review, required by Article XII:4(b), of import restrictions applied by contracting parties under Article XII, and to prepare the second annual report, required by Article XIV:1(g), on the discriminatory application of import restrictions;

(b) to recommend a procedure for the preparation of the third annual report on the discriminatory application of import restrictions;

(c) to recommend a procedure for conducting, in March 1952 or thereafter, any consultation which the Contracting Parties may have to undertake, in accordance with Article XIV:1(g), with contracting parties still entitled to take action under the provisions of Article XIV:1(c) or of Annex J."

Membership:

Chairman: Mr. J. G. Phillips

Australia	Cuba	India
Belgium	France	Norway
Brazil	Germany	United Kingdom
Canada	Haiti	United States

Mr. LEDDY (United States) thought that the summary of the discussions by the Chairman was not fully representative of the views expressed and was perhaps a little too pessimistic. He would have stressed the progress which had been made towards the achievement of international equilibrium in recent years and in the relaxation of restrictions. It was not quite true that import restrictions had been generally viewed as a long-term measure; they were rather a transitional measure called for by the present temporary financial disequilibrium. However, each member of the Working Party would be guided by his own interpretation of the discussions at the plenary meeting, in the light of which the Working Party should strive to produce a report which agreed with the facts and would not be contrary to the objectives of the General Agreement.

M. BONHOMME (Haiti) suggested that considering the nature of the subject the representative of the Fund might be made a member of the Working Party in his own right.

The CHAIRMAN replied that although the representative of the Fund would, of course, be invited to attend its meetings it would not be appropriate to appoint the Fund representative as a member of the Working Party. He agreed with the representative of the United States that in the Working Party each member had to be guided by his own interpretation of the discussions of the plenary meeting.

The terms of reference and the composition of the Working Party as proposed by the Chairman were approved.

3. Membership of the International Monetary Fund and Special Exchange Agreements (GATT/CP.6/18 and 33)

- (a) Report by the Chairman on action taken in accordance with the procedural arrangements in GATT/CP.5/44 (GATT/CP.6/18, Section (a))

The CHAIRMAN explained that in accordance with the procedural arrangements made at the last session, he had taken certain action for the implementation of the special exchange agreements with Haiti and Indonesia. In the case of Haiti he had consulted with the Fund on the question of the determination of the par value of the gourde for the purposes of its special exchange agreement. He thought that the report which he had submitted on the action taken during the intersessional period was principally of a routine nature and referred to non-recurrent action. The Contracting Parties might wish to take note of it without detailed discussion.

The Contracting Parties accordingly took note of the report by the Chairman annexed to GATT/CP.6/18.

- (b) Preparations for the report and consultations under Article XI of Special Exchange Agreements (GATT/CP.6/18, Section (b) and GATT/CP.6/33)

The CHAIRMAN said that the question of making procedural arrangements for the preparation of the report and the consultations on exchange restrictions applied under Article XI of special exchange agreements could perhaps be taken up at a later time in the light of the outcome of the deliberations on procedural questions in the Working Party on balance-of-payments restrictions.

Mr. LEDDY (United States) said that the reports by the Fund on exchange restrictions in Haiti and Indonesia which had been distributed that morning appeared to be straightforward factual accounts of the actual situation and should be taken up by the Contracting Parties after a delay of a few days for reflection. As regards the procedure for consultations in March 1952, it was clear from the report submitted by the Fund that Haiti was not applying any exchange restrictions under Article XI of its special exchange agreement; And since Indonesia had the right to enter into direct consultations with the Fund, there would seem to be no need to provide the procedure in question. The required consultations, as well as

the preparation of future reports, could be entrusted to the Fund. If, however, the Contracting Parties felt that such procedures must be provided, the matter could be referred to the existing Working Party on Balance of Payments Restrictions, whose terms of reference could be broadened for this purpose.

M. BONHOMME (Haiti) said that the views of his delegation were similar to those put forward by the United States representative. His delegation would like to make a statement at a later meeting concerning his Government's communication to the Contracting Parties that it wished to avail itself of the transitional arrangements under Article XI of the Special Exchange Agreement for a further period of nine months.

Mr. LECKIE (United Kingdom), referring to the statement by the United States representative, considered that the result of any consultation directly entered into by a contracting party with the Fund on matters falling under the provisions of a special exchange agreement had to be reported to the Contracting Parties, who would decide whether the result was satisfactory, even though this might often be no more than a formality.

Mr. OESMAN (Indonesia) recalled that his delegation had announced at Torquay that the Special Exchange Agreement which it accepted would be of an interim character and that negotiations were being carried out with the Fund regarding membership. His delegation would, therefore, suggest that, pending the final decision by the Fund on Indonesia's membership, the Contracting Parties should defer a discussion of the report submitted by the Fund on exchange restrictions in force in Indonesia. Consideration of the report would be unnecessary if Indonesia became a Fund member in the near future.

M. CASSIERS (Belgium) agreed with the United Kingdom representative that the result of any consultation between a contracting party and the Fund should be reported to the Contracting Parties. Further consideration of this question was deferred for a later meeting.

(c) Action required of Burma, Liberia and the new contracting parties not members of the Fund (GATT/CP.6/18, Section (c))

The CHAIRMAN requested the representatives concerned to supply information regarding the position of their respective governments.

U SAW OHN TIN (Burma) said that the International Monetary Fund had determined the conditions and terms of membership for Burma and that his Government, in spite of its preoccupation with internal problems of a grave nature, was attending to the matter. However, in view of the legislative and other formalities involved, it might still be some time before Fund membership could be formally accepted. It would, therefore, be appreciated if the Contracting Parties could allow a further period of time for his Government to complete action. He would suggest that the time-limit be extended until the opening of the Seventh Session.

Mr. FRIEDMAN (International Monetary Fund) confirmed that the Board of Governors of the Fund had approved the conditions and terms of

membership for Burma, October 15 had been fixed as the date by which Burma should join, but the Executive Board could extend that period to April 15, 1952.

The request of the representative of Burma for an extension of time to join the Fund or to accept a special exchange agreement with the Contracting Parties was deferred for consideration at a later meeting.

Mr. HAGEMANN (Germany) informed the Contracting Parties that Germany had applied for Fund membership some time ago and had hoped that its application would be taken up by the Board of Governors of the Fund at their last meeting. Contrary to expectation, the application had been referred to the next session of the Board which would meet in about three months' time. As it was almost certain that Germany would be accepted by the Fund as a member within the near future, it did not seem necessary for it to consider entering into a special exchange agreement with the Contracting Parties.

The Contracting Parties noted that under a resolution of the Third Session Germany would have until 1 February, and Korea until four months after signature of the Torquay Protocol to join the Fund and to enter into a special exchange agreement.

With respect to Liberia, the CHAIRMAN said that the position of that Government in relation to the Third Session Resolution referred to in the document was being considered by the International Monetary Fund, and suggested that the matter be deferred for consideration when further advice had been received from the Fund.

This was agreed.

Mr. LEDDY (United States) said that his Government continued to be concerned about the situation in which some contracting parties which were not members of the Fund had not accepted special exchange agreements. His delegation therefore proposed that the Contracting Parties should give attention to this question at their next session.

The meeting rose at 1.15 p.m.

