

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES
EIGHTH SESSION

SUMMARY RECORD OF THE NINTH MEETING

Held at the Palais des Nations, Geneva
on Thursday, 1 October 1953, at 10.45 a.m.

Chairman: Mr. Johan MELANDER (Norway)

- Subjects discussed:
1. Australian Treatment for Products of Papua - New Guinea
 2. Balance-of-Payment Import Restrictions

1. Australian Treatment for Products of Papua - New Guinea (L/133)

Mr. CLARK (Australia) said the proposal contained in L/133 which he was submitting to the CONTRACTING PARTIES sprang from the desire of the Australian Government to encourage development in Papua and New Guinea and to raise the living standards of the native population. Those countries which had had experience in promoting the development of under-developed countries, particularly in tropical regions, would realise the difficult nature of the problems involved. The main requirement was investment capital. Because the territory in question could offer no market for an increased range of products, the Australian Government could only give encouragement to capital investment and the establishment of new types of production by ensuring investors and producers a market in Australia.

The Australian Government considered that the best solution of the problem would be a restricted waiver, to enable Australia to apply to the Territory of Papua and New Guinea those measures which the General Agreement allowed Australia to apply to the products of the Northern Territory of Australia, which was a part of the Australian Customs Area. If the proposal were approved by the CONTRACTING PARTIES it would serve as a practical recognition of one of the main objectives of the Agreement. The waiver would have no direct effect on the trade of any other contracting party.

Mr. JAYARATNE (Ceylon) considered the Australian proposal from the angle of its impact on the trade of Ceylon and from the point of view of its implications in relation to the General Agreement. The proposal would probably have an adverse effect on Ceylon's exports to Australia, which accounted for a sizeable proportion of the entire export trade of Ceylon -

very nearly 10 per cent in 1952 - and covered almost the entire range of export commodities. By reason of its rapidly expanding economy, the Australian market offered a significant potential outlet for products from Ceylon. Moreover the soil and climate of Papua and New Guinea were such that one could envisage the production of practically all the commodities now supplied by Ceylon to Australia. Sooner or later, if fully implemented, the Australian proposal could mean the virtual elimination of Ceylon produce from the Australian market.

Although a newcomer to the sessions of the CONTRACTING PARTIES, he could see that the Australian proposal raised important issues of principle. The Australian paper, however, gave no precise indication as to the implications or even the exact nature of their proposal. He asked for clarification of the Australian reference to a "one-way free-trade area" and whether it was the Australian intention to request a waiver of the provisions of Article I giving freedom to increase existing preference margins or to establish new preferences. He assumed that that freedom of action would not extend to items at present bound in the schedules, nor would it permit the Australian Government to impose discriminatory quantitative restrictions. The waivers granted to the United States in favour of their Pacific Trust Territory and to Italy in favour of Libya were of a limited nature.

Ceylon supported, in principle, the broad objectives of the Australian proposal despite the immediate and potential dangers to her own trade. He paid tribute to the important role played by Australia, in assisting the development of their part of the world. Her active support of the Colombo Plan was well known to all and Ceylon was grateful for the assistance received from Australia. In developing Papua and New Guinea, he trusted the lofty aims of social and political development of the natives would proceed apace with economic development and that their efforts would not merely result in increased material production in exchange for foreign capital investment. He trusted that the Australian proposal would be framed in more precise terms defining the scope of the scheme and that the CONTRACTING PARTIES would be given more information on the "special measures" contemplated. Under the General Agreement, contracting parties were required in all their actions to give due regard to the interests of other parties. The CONTRACTING PARTIES should examine the Australian proposal carefully and prescribe such safeguards as might be deemed necessary in the interests of other contracting parties.

Mr. NATADININGRAT (Indonesia) said he had not yet received instructions from his Government but hoped to be able to take part in the discussions at a later stage.

Mr. BROWN (United States) sympathized with the objectives which had prompted the Australian delegation to put forward their proposal. He recalled that his country had, on a former occasion, applied to the CONTRACTING PARTIES for a waiver to enable them to assist their Trust Territory of the Pacific Islands. He also shared, however, the perplexities of the delegate of Ceylon with regard to the details of the Australian proposal, and supported the suggestion to set up a working party to study the matter.

Mr. ALMEIDA (Brazil) viewed the Australian proposal as a difficult problem of reconciling economic development with implementation of the general principles of the GATT. He supported the proposal to discuss the full implications of the measures proposed in a working party, and assured the CONTRACTING PARTIES of the full sympathy of the Brazilian delegation for any measures conducive to developing under-developed countries.

Mr. GUERRA (Cuba), asked the Australian delegate why incorporation of Papua and New Guinea into the customs territory of Australia had not been pursued.

Mr. SANDIERS (United Kingdom) said his delegation considered that the Australian objectives in the proposal submitted were such that the CONTRACTING PARTIES should consider them sympathetically, the territories in question being under the responsibility of Australia and being situated very close to it geographically. He agreed to the suggestion that the matter be referred to a working party.

Mr. SINGH (India) was of the view that the proposal raised very important questions of principle as well as of practical application. There was the question of extension of preferences, which had far-reaching implications and which his Government had not had time to study in all its details. He was therefore unable to communicate a reasoned opinion of his Government on the question. With regard to the general aspect, the CONTRACTING PARTIES were handicapped by not knowing the schedule of products to which free entry was to be granted. He wished to reserve his position until he had had time to consider the proposal in all its aspects.

Mr. CLARK (Australia) explained the reasons why his Government had not developed a more precise proposal. The Australian Government were not asking anything for themselves, but were presenting a problem to the CONTRACTING PARTIES which was also their responsibility: to assist in developing a backward area. Referring to the generous tribute by the delegate of Ceylon to the assistance afforded by Australia under the Colombo Plan he noted that the present problem was of the same order, but somewhat nearer home. The Territory which the Australian Government proposed to assist was separated from the Northern mainland by only 150 miles. The area was a very backward one and it was difficult for the Australian Government to assist in developing it unless they could treat its products in the same way as they treated those of the Northern Territory of Australia. Replying to the remarks of the delegate for Ceylon, he said their plan reflected a very long-range view, carrying the problem far beyond the present generation. The natives of Papua and New Guinea were in a very backward state and it was a matter of carving out development from a jungle area with untrained labour and extremely limited resources. The means of access and communications were also very restricted. The proposal by the Australian Government was confined to asking for the ability to assure investors and producers that their initial efforts to broaden production in that territory would find a sure market in Australia. His country alone would bear the costs. Such measures could have no effect in the short period on the trade of other countries. He agreed that the matter should be referred to a working party where questions of detail as to the possible limits and safeguards could be examined and a report prepared for the CONTRACTING PARTIES.

In reply to Mr. Guerra's question, Mr. Clark said that his Government had examined the possibility of incorporating the Territory into the Customs Territory of Australia. He himself had been a member of the commission in the preceding year which had examined the position and had made recommendations to the Government on that particular point. The conclusion was reached that a customs union including territories such as Papua, New Guinea and Australia would be wholly unsuitable and inapplicable to existing conditions. It would mean that the duties applied in Australia would be imposed on imports into the territory of an undeveloped state, a burden which would weigh unduly on that area in the form of higher costs. The suggestion had been ruled out in the early stages of the enquiry. With regard to the establishment of a free-trade area, on a two-way basis, in accordance with Article XXIV, the effects could not possibly be felt for a number of years in the case of Papua and New Guinea's exports; while on the other hand, Australian exports would immediately have access to the territory. Such a measure would only benefit Australian exporters. With a view to avoiding disturbance to the trade of other countries the best method appeared to be to ensure a market for the territory's products in Australia - in other words, to apply the principles of a free-trade area on a one-way basis. Amongst other activities of the Australian Government in Papua and New Guinea, experimental stations and farms had been set up and had shown the technical possibilities of growing most tropical products. However, a number of years would have to elapse before technical production could become commercial production. It was at present impossible to foresee what products could be developed and how long that process would take. He could not therefore indicate which products would be best suited for development. For these various reasons the Australian Government had refrained from proceeding under Article XXIV which would have ensured for them the approval of the CONTRACTING PARTIES for the establishment of a free-trade area.

The CHAIRMAN, summing up the discussion, said that there had been general approval of the aims of the Australian Government but that the proposal gave rise to certain doubts which he thought could best be cleared up in a working party.

He proposed the appointment of a working party with the following terms of reference:

To examine the request of Australia for a waiver of obligations under the General Agreement, and to submit recommendations to the CONTRACTING PARTIES

and composed as follows:

Chairman: Mr. H. Isik (Turkey)

Australia
Brazil
Ceylon

Finland
Germany
India

Indonesia
United Kingdom
United States.

This was agreed.

Mr. BROWN (United States) commented on some recent developments in the world payments situation and on their broad implications for the subject of trade discrimination. The leader of the United States delegation, at the opening Session, had referred to the great improvement in the world dollar situation in the past eighteen months. In the second half of 1952, the non-dollar world had not only eliminated its dollar deficit but had actually succeeded in earning a small dollar surplus on current and private capital account, and that improved situation had carried over into 1953. As a result, the gold and dollar reserves of other countries had very substantially increased and were approaching a record high level. That development was more especially gratifying because it testified to the result of fundamental readjustments which gave promise of being permanent. It should, of course, be added that equilibrium had been achieved through certain temporary or artificial factors including the continuing high level of restrictions against dollar area goods and the heavy volume of United States military expenditures and off-shore purchases abroad.

The International Monetary Fund, in its annual report for the current year, had indicated that much of the improvement in the world dollar situation, appeared to be due to more basic causes than those just mentioned. There had been, for instance, a noticeable lessening of inflationary pressures due not only to the recession of the abnormal demands which had arisen out of the Korean War, but also to the wise policies pursued by many countries to attain and maintain internal financial stability. The result had been a definite decline in the previous seemingly insatiable demand for imports, and the non-dollar world had increased its output to a point where it was considerably less dependent on the dollar area for certain essential commodities. In addition, within the past year, a number of industrial countries had successfully competed with the United States and Canada in third markets. Finally, the high level of business activity in the dollar area had been responsible for large and expanding imports from the rest of the world. It was an encouraging fact that in the first half of 1953, the value of imports into the United States was five per cent higher than in the corresponding half of 1952, and the volume was now at the highest level in history.

All these factors tended to prove that improvement in the world dollar situation reflected a readjustment of world production and trade along the lines of a more normal pattern. By pursuing appropriate policies, creditor as well as debtor countries might succeed in placing world trade on a fully balanced and self-sustaining basis. The United States Government felt that the present situation offered a challenge to the non-dollar world to begin dismantling the structure of discriminatory restrictions which had been built up since the end of the recent War. They welcomed the initiative taken by several contracting parties such as the United Kingdom and Greece. The basic economic drawback of discrimination, as of protection, was that they encouraged production of the wrong things in the wrong places. Experience had shown that it probably harmed the discriminating country itself as much as the others. The report of the CONTRACTING PARTIES in 1952 on the "Discriminatory Application of Import Restrictions" pointed out that discrimination caused a wasteful and inefficient allocation of the resources of the

discriminating country which weakened its economy and made it less, rather than more, capable of attaining balance-of-payments equilibrium. Another effect was the encouragement of hot-house industries in both discriminating and supplying countries, and higher internal costs and prices resulting from the inflated prices paid for imports, with a consequent drag on the ability to export.

The United States Government was opposed to discrimination in principle, and it was also concerned with the effects of discrimination on the economy of the United States itself. Although, in recent years, countries had spent all their available dollars in the dollar area, so that the total volume of the United States exports had not been significantly affected, the discriminatory practices of other countries, had nevertheless harmed the United States economy by distorting the normal pattern of production. There might well be difficult problems of readjustment to be faced by industries which had either failed to expand or which had expanded too rapidly as a result of discrimination. He considered that once a country had achieved internal financial stability, it had no reason to fear significant dollar losses from a moderate liberalization of imports from the dollar area. Similarly to trade discrimination, he considered the benefits of multilateralism could also be cumulative, and every relaxation of a discriminatory restriction, by lowering costs and by promoting a stronger and more flexible economy, made possible further progress along the same road.

Mr. NOTARANGELI (Italy) stated that in the course of the consultations at the Seventh Session of the CONTRACTING PARTIES, stress had been laid on the continuous deterioration which had taken place in the Italian balance of trade since the end of 1950 when the deficit, at 153 billion lire, was at its lowest since the end of the war. In 1952 the movement of goods showed an adverse balance of 581 billion lire as compared with 325 billion lire in 1951. In the first six months of 1953, the deficit was 334 billion lire as compared with the first six months of 1952. The causes of this situation were principally: (1) the changed international economic situation; (2) the import restrictions adopted by certain countries such as the United Kingdom, the countries of the sterling area and France; (3) increased imports following upon Italian liberalization and investment policy; and (4) the competition encountered by Italian exports.

In the second half of 1950 and the greater part of 1951, as a result of the Korean War, there was a considerable expansion of international trade. Countries bought large quantities of raw materials for defense purposes and all the Western powers proceeded to lay in stocks. There was an increased demand in consumer goods, and in the second half of 1950, Italy registered the lowest deficit of her post-war history, the raw material stocks built up in the preceding year being utilised. In 1951 there was a sudden halt in the demand for raw materials on the world market and in 1952 there was a regression because the stocks which had been laid in were utilised as a result of the Korean War. In 1953 there were clear signs of a reduction in the demand for consumer goods, particularly serious in the textile sector. The repercussion on Italian trade were reflected by an increase in the value of imports as a result of increase in the price of raw materials, to

which must be added purchases of raw materials (nickel, copper, etc.) to replenish stocks. The whole network of trade between the dollar and sterling areas was disturbed by the fall of raw material prices and caused Commonwealth countries to resort to quantitative restrictions. They were followed by other countries. The trade position of Italy was rendered more difficult by measures which were taken to partially suspend liberalization in the United Kingdom and wholly, in France, while India, Australia and the Union of South Africa also applied tighter restrictions. All these countries had represented in the last year important markets for Italian goods. In addition, the development of the investment programme undertaken in the south of Italy had entailed an increased domestic demand for tools, equipment and consumer goods.

The balance-of-payment position was less serious because of an improvement in invisibles. Whereas the adverse trade balance had been 727 million dollars, this was reduced in 1952 to 311 million dollars, invisibles presenting a credit balance of 416 million dollars. In 1952 the balance-of-payment deficit was however greater than in 1951 (311 million dollars as compared with 124). Consequently in 1952 Italy had to draw on her reserves to the extent of 93 million dollars. Those reserves had increased during the preceding year by 155 million dollars. Those figures included payments under the European Co-operation Administration and the Mutual Security Administration of respectively 218 million dollars in 1952 as against 280 million dollars in 1951. The deterioration of the Italian balance of trade was still further accentuated in the first six months of 1953; 333 million dollars in 1951 and 444 million dollars in 1952, so that the total balance was 155 million dollars in 1951 and rose to 197 million dollars in 1952. In view therefore of the payments to the ECA and MSA the Italian Government had in the first half year of 1953 to draw upon its reserves to the extent of 104 million dollars, as compared with 56 million dollars in the corresponding period of the preceding year. It would therefore be impossible to meet the above situation without increasing Italian exports abroad, the alternative being the imposition of import restrictions with a view to re-establishing equilibrium in the balance of payments.

Italy had maintained the liberalization of her imports from the countries within the European Payments Union at a maximum level and Italian imports from these countries had increased considerably. As regards other countries, with which trade agreements were in force, imports took place practically without restriction. With regard to the dollar area, import restrictions were fully applied with the exception of a certain schedule of products also liberalized for that area. Within the coming months Italy might have to adopt measures to protect her balance of payments principally with regard to countries belonging to the EPU. If such measures should be taken they would be, in part, the result of the policies pursued by those countries which constituted the principal Italian markets. In 1951 the exports to EPU countries were 1203 million dollars and in 1952 they had dropped to 950 million dollars. Bearing invisibles also in mind, the balance of payments with the countries of the EPU showed in 1951 a credit balance of 192 million

dollars and in 1952 a debit balance of 113 million dollars. As regards exports to the above countries, during the first six months of 1953 there was a drop from 508 million dollars to 440 million in the preceding year. The above figures were, to a great extent due to the quantitative restrictions applied by France, United Kingdom and the sterling area countries which particularly affected Italian goods.

Mr. Notarangeli did not wish to repeat all that had been said in the OEEC. He suggested that some rules should be formulated which should be followed by countries applying quantitative restrictions, in order that the prejudice suffered by the exports of other countries should be reduced to a minimum. Such rules were applied in the OEEC. Another cause of the difficulties encountered by Italian exports were the artificial measures adopted by certain contracting parties to protect their own exports, such as tax reimbursements, export subsidies, credit facilities etc. Those measures ran counter to the liberalization of trade. He considered that all these problems, with their impact on international trading policy, should be carefully considered by the CONTRACTING PARTIES in order to avoid all forms of unfair competition.

The meeting rose at 1 p.m.

