

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.8/10

12 October 1953

Limited Distribution

CONTRACTING PARTIES
EIGHTH SESSION

SUMMARY RECORD OF THE TENTH MEETING

Held at the Palais des Nations, Geneva,
on Thursday, 1 October 1953 at 3. p.m.

Chairman: Mr. Johan MELANDER (Norway)

- Subjects discussed: 1. Balance-of- Payment Import Restrictions
(continued)
2. Special Exchange Agreements

1. Balance-of-Payment Import Restrictions (continued)

Mr. KEISMAN (Canada) said that the views of the Canadian delegation on restrictive and discriminatory practices in international trade and the progress which had been made in this field had already been noted by Mr. Howe at a previous meeting. At the time of the consultations at the Seventh Session, many countries had been confronted by serious financial difficulties and compelled to adopt new measures to deal with the crisis. The CONTRACTING PARTIES had endeavoured to review the entire situation and to get at the real, underlying causes of the difficulties. The CONTRACTING PARTIES had generally agreed on the importance of anti-inflationary internal fiscal policies in restoring external equilibrium, and on the ineffectiveness of quantitative restrictions and discrimination as measures to redress any disequilibrium; it was recognized that such measures, when applied for long periods, would only aggravate the difficulties. At the present Session, the atmosphere surrounding a similar set of consultations was much more wholesome as the international financial situation had improved considerably. For many countries the trade and payments deficits had been narrowed and the domestic economies in many cases had become more stable. A number of countries had relaxed their restrictions and reduced the degree of discrimination. There was now a new and widespread determination to move as quickly as possible in the direction of convertibility and a truly multilateral system. The CONTRACTING PARTIES must experience considerable satisfaction in finding that the policy they had recommended had proved to be the right one and had produced positive results. It was no accident that those countries which had moved most courageously in the direction of controlling inflation and relaxing restrictions should have made the greatest progress in overcoming both their domestic and external economic problems. In particular the United Kingdom, although remaining in serious

financial difficulties, had taken important steps in the past year to relax restrictions on the import of foodstuffs and raw materials. The reduction of discrimination had enabled her essential imports to be obtained at lower prices, and this, by reducing the costs of production, had enhanced her competitive position in the world market. The United Kingdom showed that in dismantling discriminatory restrictions on raw materials and foodstuffs a really effective advance could be made. In the view of the Canadian Government, the time was now ripe for more countries to follow that lead. Raw materials and foodstuffs accounted for a very large proportion of world trade, and relaxation here would have far-reaching results. He hoped the forthcoming consultations would encourage countries to move in that direction and thus to make a real contribution towards increasing international trade on a multilateral basis.

Mr. RIEU (Norway) thought that the report on international trade in 1952 published by the secretariat would be useful to the Working Party in preparing the fourth annual report on discrimination. The Norwegian delegation fully agreed with the conclusion given therein that the profound changes which had taken place in the network composition of international trade could not be ascribed entirely to transitory disequilibria resulting from the war, nor could their results be dealt with by purely financial measures alone. No-one still held the view that the difficulties in the way of returning to a system of multilateral trade and payments were temporary or solely due to war-time maladjustments. When a review was made of the provisions of the Agreement, no doubt account would be taken of the underlying causes of the difficulties confronting the contracting parties. For the present, more stress should be laid on these underlying factors in the preparation of the report and in the consultations at this Session. The obligations under the Agreement had been accepted by governments because it was considered that international economic co-operation was conducive to the attainment of higher levels of production, higher standards of living and full employment. The fulfilment of the obligations under the Agreement was therefore not an end in itself. Further, it was not a matter of indifference what kind of internal economic policies were being pursued by contracting parties to provide a basis for freeing trade from restrictions and discrimination. Countries pursuing a deflationary policy, for instance, might reach a better external position and be able to relax restrictions on imports, but it might well have an adverse effect upon the external position of other countries. In 1952 and 1953 Norway's balance of payments deteriorated seriously, partly as a result of the worsening of her terms of trade. But it was also due to a stagnation in the development of production in the past two years in many of Norway's most important trading partners in Western Europe, which had limited the volume of Norwegian exports. At the same time the import volume had reached a fairly high level due to the very high rate of investment and full employment in the country. This was an example of how an unfavourable development in the economic activity in some countries might seriously affect the external position of other countries especially if the latter were attempting at economic expansion and development. In discussing import restrictions, account should be taken of the close connection

between the internal and external measures to achieve stability should therefore not necessarily take precedence over policies designed to achieve higher production and employment. A high and stable level of economic activity and employment would prove the best basis for remedying present trade and payments difficulties.

Mr. ALMEIDA (Brazil) drew attention to the difficulties for an under-developed country to reconcile their aims of economic development with a policy of free trade. Economic development took place when a country's per capita income increased, indicating that higher productivity and greater national output were overtaking the growth of population. A country in the process of development might well find that, in addition to the inadequate amount of saving and investment for further expansion, the staple products of the country were neither the type required to meet essential consumer demand, nor the capital equipment needed for investment. The fundamental rôle of international trade in development, therefore, was essentially to enable the actual composition of national output to be transformed into essential consumption goods and capital equipment essential for development. As was well known, international demand for primary commodities generally had very low price-elasticity and income-elasticity, that is to say, the quantity demanded was not very responsive to price changes, and it changed with the level of income in industrial countries only in a decreasing proportion. Increased production of primary products by itself would therefore not increase a country's international income, and as in the case of coffee, higher receipts might be obtained only by restricting output. On the other hand, low income was inseparable from a high marginal propensity to consume, and hence to import. The demand to import in under-developed countries, therefore, was represented by an increasing proportion of growing income. In countries of very low income, as soon as income by-passed subsistence level, production became inadequate for both new investment and consumption, and the strong tendency to import was soon manifest in a disequilibrium in the balance of payments. In Brazil, the increase of per capita income was accompanied by a marked tendency to import consumer goods which, if left unabated, could absorb most of the foreign exchange derived from exports. The long-run problem for the country was, therefore, not the protection of infant industries, but to allocate the limited foreign exchange resources in such a way as to provide to the maximum the basic requirements of living, and of economic development. Foreign trade was essential to economic development, and the rational apportionment of foreign exchange among various uses would in no way reduce the total trade. The curtailment of luxury imports in the interest of investment, by raising the standard of living, could not in the longer run but promote international trade. When import licences were refused for goods on the grounds of adequate domestic production, the intention was not to protect new industries, but to release exchange resources for obtaining essential imports. Comparative costs became irrelevant when the alternatives were to have or to go without essential goods. The Brazilian Government wished to draw the attention of the CONTRACTING PARTIES to the need for taking into account the structural problems behind questions of disequilibrium and balance of payments, and to the importance of giving proper treatment to the long-run problem of development. Economic development was the only really effective

means of permanently banishing import restrictions, and of expanding trade.

Mr. SANDERS (United Kingdom) thanked the Canadian delegate for his appreciative tribute to the progress made by the United Kingdom both in relaxing the import restrictions and in reducing discrimination. An account of recent developments in the United Kingdom import licensing policy had been supplied to the CONTRACTING PARTIES in the reply to a questionnaire and his delegation would be prepared to furnish any further information if required by the CONTRACTING PARTIES or by the Working Party. In view of the improvement in the balance-of-payments position, the United Kingdom, in April 1953, liberalized a wide range of imports from the OEEC and certain other countries. The policy of relaxing import restrictions, which the country had been forced to interrupt at the end of 1951 and early in 1952, was thereby resumed. Substantial results had also been obtained in reducing the discriminatory element in import policy. The policy of enabling importers to purchase without restrictions on a non-discriminatory basis had been appreciably extended and now applied to soft-wood, wood pulp, aluminium, copper, lead, zinc, nickel and some foodstuffs. The cereal trade had been returned to private hands and open individual licences had been issued, enabling importers to purchase without restriction from any source. Another important measure was the re-opening of some of the international commodity markets which had operated in the United Kingdom before the War, such as the copper market and the London Metal Exchange. The United States representative had reminded the CONTRACTING PARTIES of the danger of restrictions and discrimination to the countries operating them. The Leader of the United Kingdom delegation had also made clear in the opening meeting that the United Kingdom recognized the responsibilities of a debtor country. But there was a limit to what a debtor country could do unaided, such as combatting inflationary pressures, and the next step would have to be taken by the creditor nations, and in particular the United States. Regarding procedures for consultations, it seemed unreasonable that a small group of countries, which had elected to be governed by the provisions of Annex J, should have to consult each year with the CONTRACTING PARTIES, while all the others which discriminated, because they had opted to be governed by the alternative provisions of paras. (b) and (c) of Article XIV, were exempt from this obligation. In the forthcoming review of the Agreement, the provisions dealing with import restrictions would doubtless have to be remodelled, and the United Kingdom Government would raise the point at the appropriate time. The United Kingdom delegation were in favour of the recommendation by the Intersessional Committee that there should be no postponement from one year to another of consultations, but that if an initiated consultation could not be carried out within a reasonable time at a following Session, the contracting party concerned should be deemed to have fulfilled its obligation to consult.

Baron BENTINCK (Netherlands) drew the attention of the CONTRACTING PARTIES to the important action which was being taken by the Netherlands Government towards the elimination of quantitative restrictions. In order to safeguard the balance of payments, the Government had had to introduce restrictions on

dollar and other imports after the war. Although the general position of the balance of payments had improved after the end of 1951, the dollar balance continued to show a substantial deficit. During the past twelve months, the dollar position had also improved, but a deficit remained. The currency position had not deteriorated owing to an overall surplus and to a residual amount of economic aid from the United States. The gold and dollar reserves had even shown a marked improvement. In view of this and on the assumption that the dollar position would be further strengthened, the Netherlands Government had recently announced a substantial relaxation of dollar import restrictions. Complete balancing with the dollar area was not tenable even with the present restriction and it was hoped that the remaining deficit would be covered by converting into dollars at least part of the surpluses with other monetary areas. With an uncertain dollar position, the Netherlands Government deemed it advisable to proceed with caution, as it would be extremely undesirable to reinstitute any restrictions once they were withdrawn. The ultimate goal would be reached quicker by advancing cautiously than by taking hasty action.

During the past years, dollar imports into the Netherlands had consisted almost entirely of raw materials, semi-finished and capital goods. The Government intended to eliminate to a large extent the restrictions on these imports. A list is being drawn up of goods which might be imported without restriction from any area, and would be published shortly. The present quota for a number of items in the dollar import programme would be enlarged. The speed with which the Government would be able to proceed along these lines would be determined by development of the dollar position, which remained uncertain. It was to be hoped that exports to the dollar area would continue to rise.

On the assumption that other countries would follow suit, the Government had decided to discontinue in the near future the bonus scheme introduced in 1949, which allowed exporters of goods to the dollar area to retain 10 per cent of their dollar receipts for purchasing non-essential dollar goods not provided for in the official programme. It was intended that upon the abolition of the scheme, provisions would be made in the dollar programme for the import of non-essential goods, in approximately the same quantities as before. In conclusion the Netherlands representative thought that the above mentioned measures would be taken as a proof of the continuous aim of the Netherlands Government to eliminate quantitative restrictions as soon as conditions permitted.

Mr. BROWN (United States) welcomed the statement of the Netherlands representative and said that his delegation was gratified at the proposed liberalization of certain dollar imports.

M. DONNE (France) recalled that the French Government had stated in its reply to the questionnaire that France, as a result of the deficit in its balance of payments, was obliged to maintain in 1953 the measures which it had introduced in February 1952. All imports were now subject to licence and programmes were established periodically for each monetary area: dollar, EPU and others. Licences were issued within the limits fixed for each of these areas on the basis of currency availability.

The methods of restriction had been described to the CONTRACTING PARTIES at the Seventh Session and had been notified to the secretariat. In the 1952 consultations between France and the International Monetary Fund, the Fund had recognized that France still found itself in acute difficulties and was experiencing a serious disequilibrium in her balance of payments. The Fund had noted with satisfaction the efforts then being made by the French Government to combat inflationary pressure and improve monetary stability. Those measures could obviously not have immediate results.

But, as M. Lafay had pointed out, French exports had increased in value and volume in recent months as compared with the corresponding period in 1952. Since July, the deficit with the EPU, although still high and partially payable in gold, had shown a downward trend. There had been a slight improvement in the trade balance. The monthly dollar deficit had dropped from 27 billion francs in February 1952 to 10 billion francs in June 1953; and sterling deficit from £28 billion in February 1952 to £18 billion in May 1953. In view of this improvement, the French Government had recently adopted certain measures to relax the present import restrictions. A notice in the Journal Officiel of 25 September 1953, had informed importers that henceforth certain imports from OEEC countries would no longer require a licence. New internal measures had also been adopted recently to combat inflation, to halt the rise in prices, to reduce budgetary expenditures and to reform taxation.

The financial and economic experts of the French delegation would be prepared to supply any additional information a working party might require regarding the present position of the balance of payments of France, the measures envisaged to remedy the situation, the criteria selected for the preparation of future import programmes and the evolution of the trade balance and reserves in gold and currency of the French Government.

Mr. SINGH (India) stated that India's discriminatory restrictions fell under Article XIV:1(b) and consequently no consultation was required pursuant to Article XIV:1(g). His delegation would support the recommendations of the Intersessional Committee regarding consultations under Articles XIV:1(g) and XII:4(b) which could not be completed at this Session.

The CHAIRMAN, summing up the general discussion on balance of payments import restrictions, said

(a) that there was a consensus of opinion that a general improvement in the reserves of the non-dollar countries had taken place in the past year. This had brought about certain relaxations of import restrictions. Among commodities, the tendency was towards a higher degree of relaxation for raw materials, basic foodstuffs and certain capital goods;

(b) that in his opinion the general improvement in the reserves and balance-of-payments position of non-dollar countries had taken place partly as a result of stagnation in Western Europe while the rate of production increased in the United States;

(c) that it was generally recognised that there was a relationship between internal fiscal exchange policies of the countries and their external financial position;

(d) that the problems of underdeveloped countries had been alluded to by the representative of Brazil; the question of how to increase production and income, without causing difficulties in the balance of payments, called for special study, and ought to be examined by the working party;

(e) that under the rules of the Agreement, only certain countries were under the obligation to consult annually with the CONTRACTING PARTIES. This lack of equity should be noted in the forthcoming review of the Agreement; and

(f) that the recommendations of the Intersessional Committee to the effect that consultations should not be held over from one year to another, were agreed to by the meeting.

At the proposal of the Chairman a Working Party was set up to deal with all the matters falling under this item, and was given the following terms of reference:

1. To conduct the consultations which have been initiated by contracting parties under Article XIV:1 (g) and regarding which the International Monetary Fund is ready to consult with the CONTRACTING PARTIES pursuant to Article XV, and to report thereon to the CONTRACTING PARTIES.
2. To prepare the report on the discriminatory application of restrictions required by Article XIV:1 (g).
3. To recommend procedures for the conduct of consultations and for the preparation of a report on discrimination under Article XIV:1 (g) in 1954.

4. To carry out the consultations which have been initiated under Article XII:4 (b) and in connection with which the International Monetary Fund is ready to consult with the CONTRACTING PARTIES pursuant to Article XV, and to report thereon to the CONTRACTING PARTIES.

The membership of the Working Party as agreed was as follows:

Chairman: Mr. A.J. Guerra (Cuba)

Australia	Cuba	Norway
Belgium	France	Union of South Africa
Brazil	India	United Kingdom
Canada	Netherlands	United States
Chile		

The Chairman added that the International Monetary Fund would participate in the work of the Working Party and that the Working Party should consult with the representative of the International Monetary Fund, especially regarding the Fund's preparedness to consult with the CONTRACTING PARTIES under Article XV, so that its programme for consultations could be arranged accordingly.

2. Special Exchange Agreements. (L/138 and Add.1)

Mr. NATADININGRAT (Indonesia) said that regarding the exchange restrictions in Indonesia he had nothing to add to the Fund's report in L/138/Add.1.

The CONTRACTING PARTIES agreed to adopt as their 1953 report required by Article XI:3 of the Special Exchange Agreement with Indonesia the statement supplied by the International Monetary Fund on the restrictions on payments and transfers in Indonesia (paragraph 5 of L/138).

It was agreed to waive Indonesia's obligation to consult pursuant to Article XI of the Special Exchange Agreement until March 1954 (paragraph 6 of L/138).

The CONTRACTING PARTIES agreed to adopt for the 1954 reports and consultations under Article XI:3 of Special Exchange Agreements the same arrangements which had operated in 1953 (paragraphs 7 and 8 of L/138).

The Chairman's Report (L/138) as a whole was adopted.

The meeting rose at 4.30 p.m.

