

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.9/25

24 December 1954

Limited Distribution

CONTRACTING PARTIES

Ninth Session

SUMMARY RECORD OF THE TWENTY-FIFTH MEETING

Held at the Palais des Nations, Geneva,
on Tuesday, 21 December 1954, at 10.30 a.m.

Chairman: H.E. Mr. L. Dana WILGROSS (Canada)

Subjects discussed: Review of the Agreement:

- (a) Progress Report of the Chairman of Review Working Party II on Tariffs, Schedules and Customs Administration
- (b) Progress Report of Working Party I on Quantitative Restrictions

1. Progress Report of the Chairman of Review Working Party II (W.9/124)

Mr. SEIDENFADEN (Denmark), Chairman of Working Party II, read his Progress Report.

The CHAIRMAN thought this report clearly indicated the divergence of views expressed in the Working Party and showed that little progress had been made in reconciling these views. Some encouraging developments were to be noted, however, including the Netherlands initiative to find a common basis for tariff reductions, certain progress in the question of most-favoured-nation treatment, preferences, etc. He hoped that over the Christmas recess the delegations would consider the various proposals in the light of the reactions which had appeared in the meetings and that, particularly in the case of proposals which had received no general support, would not pursue them after the recess.

Mr. MACHADO (Brazil) thought it might be helpful to circulate an addendum to the Progress Report, listing the document references for the various proposals noted in it. Some of the proposals, including a Brazilian proposal to which reference was made on page 3 had not yet been considered by the Working Party or sub-group.

Mr. HAGEMANN (Germany) referred to page 5 of the Progress Report, paragraph 2, where the recommendation of the German Government should not be described as tending toward an "equalization" of tariff incidences, but rather that its

purpose was a certain rapprochement of tariffs. Customs duties necessarily had to compensate to some degree different economic, production and price conditions and therefore could not be equal in all countries.

Mr. PORTOCARRERO LACAYO (Nicaragua) referred to the statement of his delegation at the Working Party on 25 November requesting authorization to renegotiate its bound schedule as soon as possible. Nicaragua was preparing a new tariff using the Central American nomenclature. When his country undertook negotiations at Annecy it had expected to adjust its tariff within a few years, an adjustment which had been made impossible by the subsequent rebindings of the schedules. The present tariff dated from 1918 and in view of his Government's plans for economic development, and the extension of the free-trade area with El Salvador, obviously required a complete revision. His Government had been anxious to undertake this revision before June 1955. However, the Nicaraguan Government had reviewed the situation, and Mr. Portocarrero stated that he now had instructions to inform the CONTRACTING PARTIES that they would request no changes or modifications before 30 June 1955. At that time they would wish to renegotiate the entire schedule so as to be in a position to impose their new tariff in July.

Baron BENTINCK (The Netherlands) thought that the Progress Report gave an impression of a perhaps too definite proposal on the part of his delegation. The Benelux Governments had thus far expressed no intention to withdraw any of their previous proposals concerning tariff reductions. The suggestions of the Netherlands to which the report referred had been made because of the importance his Government attached to the subject and as evidence of their willingness to do their utmost to find a solution. He would reserve the position of his delegation to consider this matter after the recess and possibly submit a new draft.

Dr. NAUDE (South Africa) referred to the last paragraph of page 4 and the first paragraph of page 5 referring to Article XXVIII. The South African position was that tariffs and not quantitative restrictions should be used for protective purposes. This was, moreover, a fundamental principle of the Agreement. His Government had negotiated its schedule on the basis of Article XXVIII in its present form, i.e. on the understanding that periodic renegotiations were provided for without the necessity of pleading exceptional circumstances. The latter concept formed the basis of the sympathetic consideration procedures.

Dr. Naudé stated that his Government intended to use their right under the Agreement to renegotiate in order to provide protection to certain deserving industries. This was not a case, moreover, in which exceptional circumstances could be adduced. There would be a disadvantage, in his view, in making the procedures for renegotiations too rigid. It would only lead to the imposition by countries of other measures of protection and upset still further an already disturbed balance.

Dr. VARGAS GOMEZ (Cuba) referred to page 7, the first paragraph of Section A regarding new or increased preferences. The Cuban Government sympathized with the problems raised by the delegations of Australia, Chile and others regarding their difficulties with Article I. They were anxious to find a satisfactory solution to meet these difficulties and when the proposals were considered by the Working Party, the Cuban delegation had adopted a conciliatory attitude. However, his delegation was uneasy at this solution proposed by the sub-group, to the effect that these questions should be dealt with by the submission of requests under Article XXV:5(a) for waivers of obligations, rather than by amendment of the Agreement. He was doubtful about the legal interpretation on which this solution was based, as set out in the report of the sub-group (W.9/114, paragraph 2) that "there are no limitations to the obligations to which a waiver under that paragraph can apply. Therefore, the paragraph is general in its application and a waiver can relate to any of the provisions of the Agreement". His delegation could not accept this interpretation. A waiver of obligations undertaken under Part I of the Agreement implied a modification of Part I and could not be approved by a two-thirds majority of the CONTRACTING PARTIES. To permit this would simply be a means of circumventing Article XXX of the Agreement. Article I, paragraph 2 limited the preferential systems permitted within the framework of the Agreement. If by a waiver of its obligations, Chile, for instance, were permitted to establish a new preferential system, this would be a clear modification of Article I.

Dr. Vargas Gomez said he would have to reserve the position of his Government on this question pending further instructions.

Mr. OSMAN ALI (Pakistan) referred to page 5, paragraph 3 of the report and the proposals regarding an obligation to negotiate. Although Pakistan appreciated the problem of low tariff countries, it also had its own problems in this domain. The tariff in Pakistan was the main source of revenue and it would be difficult for his Government to accept any such proposal, even if it were so worded as to make the obligation recommendatory rather than mandatory.

Mr. JHA (India) remarked that it would be difficult by the end of the Review to agree on writing into the Agreement a particular plan for tariff negotiations. Moreover, it was inappropriate to provide for a particular plan or technique of negotiation in the Agreement itself, as these were matters that should be considered in the light of circumstances existing at a particular time. There seemed to be little advantage to be gained, furthermore, by inserting an obligation to negotiate since there was no way to oblige a country to reach results. It would surely be more effective to provide, as a function of the Organization, that it should call upon contracting parties from time to time to negotiate.

With regard to the references in the Progress Report to modification of schedules, he thought that the divergent views were due to the fact that, over the course of time, the balance of advantages accruing from the bindings had changed to the disadvantage of some countries, for example, countries with specific duties. For India there was the special problem that the negotiations had taken place before partition, and the political changes

Under these conditions the concessions granted in the interest of all Members who are co-operating to create a genuine multilateralism lose their real character and become a unilateral obligation of one Member in favour of another.

In order to avoid that the progressive idea of a real multilateralism in international trade, to which the Cuban Delegation adheres, could be discredited by such undesired and undesirable consequences, and to make fully clear the inter-dependence existing between the obligations set forth in Articles 14 and 24, the Cuban Delegation suggests that there be inserted in Article 14, Paragraph 1, after the words "shall be accorded immediately and unconditionally", the words "subject to the provisions of Article 24".

The Cuban Delegation also suggests that a new paragraph, 4, be added to Article 24 to read as follows:

Article 24, Paragraph 4.

"Paragraph 3 will apply correspondingly if offers made by one Member in accordance with Paragraph 1 were not met by equivalent concessions of the other so as to make possible a reciprocal and mutually advantageous agreement on tariff and/or other charges on imports, and if the first Member considers that its interests would be seriously prejudiced by the fact that nevertheless its multilateral concessions could be claimed by the other Member on the basis of the Most-Favoured-Nation clause".

Furthermore, the Cuban delegation is convinced that the preferences deliberately kept in force as a result of careful deliberations should be protected. Therefore, the Cuban delegation proposes that paragraph 1(b) of Article 24 should read as follows:

"All negotiated reductions in Most-Favoured-Nation import tariffs shall operate [automatically] to reduce or eliminate margins of preference, as far as the Member that enjoys the preference and will be affected by such reduction agrees. No margins of preference shall be increased, after the negotiations are completed."

The CHAIRMAN thought that this Working Party had made as much progress as could be expected given the complexity of the problems entrusted to it.

Mr. MONSERRAT (Cuba) thought that the time was opportune to offer some general comments on two significant trends of thought that had been present in the discussions and which, in the view of his delegation, were of a most distressing nature.

It had often been said that GATT offered few attractions for under-developed countries, while placing many obligations upon them. Perhaps the most eloquent confirmation of this fact was the absence from GATT of the majority of the under-developed countries and the inclusion of nearly all the industrial countries of the democratic world.

This was especially true in the case of under-developed countries which exported agricultural products. On the one hand there were the well-known exceptions that discriminated against agricultural products in the provisions dealing with the prohibition to impose quantitative restrictions. Any country could impose unilaterally a definite limit on the importation of any agricultural product - even if the rate of duty were bound under the otherwise sacrosanct Article II - if this were necessary in order to implement certain programmes for the protection of their domestic agriculture. This unilateral right to impair the benefits of agricultural exporters was defended on economic, social, political and strategic grounds. Thus, most of the under-developed countries whose main exports were agricultural, were denied the essential safeguards not only for the necessary expansion of their exports, but even for the maintenance of the present level of these exports. If technological improvements in the under-developed country resulted in higher productivity and, consequently, in a better competitive position for its exports, there was a likelihood that its efforts would come up against a quantitative barrier imposed for social, strategic and other reasons, by an industrialized country. But this was only one side of the picture. When the under-developed country in its turn felt the "pinch" of foreign competition in its domestic industries - in this case called a "healthy" exposure to foreign competition - then, all kinds of complicated procedures were required for the imposition of quantitative restrictions, and abundant safeguards were given to the exporting country against the impairment of any direct or indirect benefits. Thus the growth of the under-developed country through its exports could easily be limited by unilateral and uneconomic action taken by industrialized nations; but when the time came to protect the level of domestic production and the internal growth of the under-developed countries, the utmost care must be taken to see that productivity considerations and reciprocal rights were adequately taken into account.

Such a situation had its explanation, but not the kind of explanation his delegation wished to see in relation to GATT affairs; and it was unfortunate that the two trends of thought developing referred precisely to an accentuation of this unsatisfactory situation.

M. BARADUC (France) (Interpretation): Mr. Chairman, you may well consider that the point raised by the French delegation on page 2 of document 150 is a point of detail. As you pointed out yourself, this is not exactly an amendment which we want to propose but it is an old story which the French delegation has had an opportunity more than once to explain to members of this conference. We brought this point up in our meeting in London, again in the Drafting Committee in New York, and, if my recollection is correct, also at our present meeting in Geneva.

We had hoped until recently that it would be possible to amend the Draft Charter so as to introduce in the clauses of the Charter this different distinction between country of origin and country of export of certain goods. This is a traditional discrimination which exists in French legislation, and it would have suited our own legislation had the Charter recognised this principle which is important to us.

As things are now, we do not want to press our point, but feel that we will require a certain delay after the Charter has been signed to adjust our legislation to the clauses contained in the national Charter. Such adjustment in our own national legislation will not be possible until such time as the general agreement on tariffs, which will presumably deal with Article 14, has been signed.

When the Charter comes into effect, on the contrary, it will be possible for the French government to consider the necessary amendment in our own legislation so as to bring it into harmony with the clauses of the Charter.

The only practical question that I want to ask the Commission is whether members of the Commission consider that the French government, considering the peculiarity of our legislation, would

Mr. PHILIP (France) wished to explain the difficulties his Government faced and the reasons for their reservations regarding the proposal that the procedures for consultations be not only reinforced, with which they could agree, but replaced by a system of prior approval. Normally such a change would constitute progress towards the reorganization of a world market. Mr. Philip wished to recall, however, the statement he had made to the CONTRACTING PARTIES on 8 December. In brief, the free exchange system of the nineteenth century was explained and justified on the basis that the dominant country pursued a system of free trade, that the City of London carried out a directing financial rôle, that the stability of production and exchange was ensured, and, finally, that the decisions of the City of London, a truly supra-national authority, were accepted by all.

The system of prior approval contemplated replacing the City of London by the International Monetary Fund and the GATT. This objective, however, did not take account of certain realities of the present world. Firstly, nations were no longer ready to undergo the cost of adapting their economies to variations from the outside. Furthermore, the working class was organized as it had not been in the nineteenth century. In France, since 1952, the struggle against disequilibrium had first been carried out by means of classical measures which had been efficacious; but the real improvement had not occurred until the government had intervened with a policy of reconversion. In fact this intervention consisted rather in an encouragement which attempted to direct the expansion. A new equilibrium was now being reached within the framework of this expansion. Secondly, while it would be desirable to do as much on a universal level, this would require drawing up a common policy of full employment and stability. Methods to resolve the problems of the prices of primary products would have to be put into effect. The existing differences of remuneration and employment would have to be mitigated and a system of international investment established. It would be necessary for the CONTRACTING PARTIES to recognize the need for full employment and to adopt measures destined to deal with deflationary pressures. Certainly some small progress was to be noted. The CONTRACTING PARTIES had decided in principle to study the problem of primary commodities. An international society for investment had been created. The realities of the present world were beginning to be faced, but the necessary institutional framework had not yet been created.

So long as positive measures were not possible, the French delegate was disturbed by the possible consequences of simply negative measures. No doubt it was possible to reinforce the actual system of consultations, but the situation was not ripe to replace consultations by a system of prior approval so long as countries had not sufficient guarantees of full employment and equilibrium on the international plane. Therefore his Government opposed the elimination of quantitative restrictions and the establishment of a system of prior approval, fearing that at the slightest sign of the possibility of a crisis countries would return to nationalism.

Mr. Philip emphasized that the greater progress could be made within the European framework; neighbouring countries were able to progress further in international co-operation than could be envisaged on a universal plane. Countries which did advance on this level should not be considered by the CONTRACTING PARTIES as exceptions that must be supervised; on the contrary they should be regarded as setting an example. His delegation supported all measures capable of increasing international trade.

The meeting adjourned at 1 p.m.

