

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.11/10

1 November 1956

Limited Distribution

CONTRACTING PARTIES
Eleventh Session

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SUMMARY RECORD OF THE TENTH MEETING

Held at the Palais des Nations, Geneva,
on Monday, 29 October 1956, at 2.30 p.m.

Chairman: Sir Claude COREA (Ceylon)

- Subjects discussed:
1. United States waiver - Agricultural Adjustment Act
 2. United States restrictions on dairy products
 3. New Zealand request for authority to **renegotiate**
under Article XXVIII
 4. Nicaragua/El Salvador free-trade area
 5. Central American free-trade area

1. United States waiver - Agricultural Adjustment Act (L/540)

The CHAIRMAN referred to the discussion of this subject at the Ninth Meeting of the CONTRACTING PARTIES (SR.11/9) and invited further comment on the second annual report by the Government of the United States (L/540) under the Decision of 5 March 1955, which granted a waiver in connexion with import restrictions imposed under Section 22 of the Agricultural Adjustment Act of 1933.

Mr. PRENDERGAST (New Zealand) expressed the appreciation of his delegation for the comprehensive report submitted by the Government of the United States but regretted that the report had not been distributed in time to obtain detailed comments from his Government. He recalled that his delegation had opposed the granting of the waiver on the ground that the import restrictions were imposed because of the United States surplus problem which in turn resulted from their domestic agricultural policy. These views were still held and the situation in the United States had had grave repercussions on countries vitally dependent on exports of agricultural products, such as New Zealand, which could have been prevented by a rationalization of United States internal agricultural policy. As the waiver had been granted on the understanding that the United States had every intention of eliminating and relaxing the restrictions, his delegation attached the utmost importance to the annual reports which showed the progress made towards these objectives. His delegation was pleased to note in the report the positive efforts being made by the United States Government to overcome the problem of agricultural surpluses, particularly the Soil Bank programme. Whilst it was suggested in the report that this programme might have some effect on the

reduction of surplus dairy production, his delegation felt this would be slight, and was disappointed that more direct and positive measures to correct the imbalance between production and consumption of dairy products had not yet been taken. It had also been observed in the report that stocks of surplus dairy products had been considerably reduced, though largely by an increased rate of overseas disposals; nevertheless, it was felt that there would be justification for some relaxation of the restrictions on imports into the United States. He welcomed the suggestion that the report be referred to a working party for examination in order to give delegations an opportunity to discuss points in which they were interested with the United States representatives.

Mr. OSMAN ALI (Pakistan) said that his delegation had read the report with great interest, with special attention directed to those sections relating to surplus disposals, as action in this field closely affected Pakistan, particularly with respect to cotton. While it was gratifying to note the steps being taken to restrict cotton acreage and increase consumption, the results would be watched carefully. Although the report showed that cotton acreage in 1956-57 would be at the minimum level required by law, the supply was estimated at 27 million bales, or 1.3 million more bales than in the 1955-56 season, and this would be the sixth consecutive year in which the supply of cotton had increased over the previous year. It appeared, therefore, that the problem of surpluses of cotton would remain, and this was particularly disturbing due to the dual price system of maintaining export prices lower than domestic prices. He had also noted that up to 6 September 1956, the Commodity Credit Corporation had sold 3.5 million bales of cotton, and his delegation would enquire in the working party how much of this would enter the export market and whether the United States Government had in mind any upper limits to such measures.

Mr. JOCKEL (Australia) welcomed the comprehensive nature of the report and said it would greatly assist the CONTRACTING PARTIES in examining the situation. Although the report showed that import controls were now in operation on six commodity groups, as compared with nine commodity groups when the waiver was granted, the most important controls remained and there seemed little prospect of their early removal. While his delegation appreciated the various measures taken by the United States Government to deal with its surplus problem from the production end, it found no firm indications in the report to support any expectations of an early removal of the restrictions. He had observed with concern that there had been little change in the underlying production situation in the past year in the case of many products, in particular dairy products. He recalled the hope expressed in the report of the Working Party at the Tenth Session that progress would be made in relaxing the restrictions on dairy products but had noted that there seemed to have been no progress in the past year in terms of trade opportunities. His delegation had recorded at the Ninth Session that the examination of the reports should be of increasing rigour each year to emphasize to the United States Government the importance which other contracting parties attached to the waiver. From this viewpoint he supported the establishment of a working party.

Mr. NAUDE (Union of South Africa) recalled that his Government had had serious misgivings on the waiver which began at the time the application was made and had decided not to vote in favour of it. His Government now felt that the fears felt at that time were justified although it had noted with some satisfaction the steps taken by the United States Government to improve the situation and to reduce surpluses. He expressed the hope that in future the annual reports would be submitted in time for study by trade departments at home.

Baron BENTINCK (Kingdom of the Netherlands) said that though his delegation appreciated the comprehensiveness of the report, the attitude of his Government towards this problem was well known and had not changed. His Government recognized the considerable efforts being made by the United States Government to find a solution in the field of agricultural production by the inauguration of a Soil Bank programme. This programme would be more effective than the system of acreage allotments and marketing quotas, which involved the risk that the production of the restricted product would be replaced by production of another, and indicated that the United States Government had chosen a policy of restricting production rather than adapting the price levels. He drew attention to two sentences on page 2 of the report which stated that: "In evaluating the effect of the action taken, it is important to note that these commodities are produced in a number of countries. Under these circumstances, solution of the problem of surpluses thus depends upon action which other producing countries may take as well as the action being taken by the United States." He thought that in the absence of further explanation, this statement could lead to odd conclusions in that it would mean that these other countries should restrict their production, or stop their exports, so as to enable the United States to maintain their high price levels and enter world markets. Though he would seek further clarification on this particular point, these observations had also led to the recognition of the fact that the maintenance of high price levels for agricultural products by the United States had stimulated production in many countries, and, under this protective umbrella, their recovery from the damage caused by the last world war was made possible. However, what was good in the period after the war was not necessarily good now. The Soil Bank programme would result in a decrease of surplus stocks, but it would maintain the umbrella over world markets, and, as a consequence, would still necessitate the isolation of the United States market as regards some agricultural products and therefore the need for the United States to have recourse to the provisions of the waiver. He thought the Soil Bank programme alone would not bring production and home consumption into balance and that part of production would need to find consumers abroad; because of the high price levels in the United States this was difficult. A system of export subsidies would have disrupting effects and serious implications for the exports of other exporting countries, particularly the smaller ones. Some harm had already been done, but he would refer to this under another item on the Agenda. According to the report the restrictions on the imports of cheese were to be continued, but he noted that the list of cheeses under restriction included some types which, in the opinion of his delegation, did

not compete with domestic production. He said he would seek information from the United States delegation about the criteria used in the selection of the types of cheese restricted and expressed the hope that the United States Government would continue to aim at an early abolition, or at least a relaxation, of the import restrictions.

The CHAIRMAN stated that the first annual report submitted to the Tenth Session had been referred to a working party and it seemed desirable, from the discussion, that this procedure should be followed again this year. However, before deciding upon the terms of reference the next item on the Agenda could be taken up as the CONTRACTING PARTIES might wish to refer that question to the same working party.

The CONTRACTING PARTIES agreed to this procedure.

2. United States restrictions on dairy products

The CHAIRMAN recalled that this complaint by the Government of the Kingdom of the Netherlands had been considered at several past sessions. Last year the Netherlands Government had been authorized to continue the suspension of the application to the United States of its obligations under the General Agreement, to the extent necessary to allow it to apply a limit of 60,000 metric tons on imports of wheat flour from the United States during the calendar year 1956.

Baron BENTINCK (Kingdom of the Netherlands) said that his Government's attitude towards this problem was well known and referred to the statements made by his delegation at the last four sessions. His delegation regretted that the United States import restrictions on dairy products had remained substantially unchanged during the past year. As a result the concessions granted by the United States Government to the Netherlands remained impaired, in the sense of Article XXIII, to virtually the same degree as before and he was instructed to request an extension for another year of the authorization to apply a limit of 60,000 metric tons per annum on imports of wheat flour from the United States. He suggested that this request be referred to the working party on the United States waiver.

The CONTRACTING PARTIES agreed to refer this matter to the working party on the United States waiver to be established with the following terms of reference and membership:

Terms of reference:

To examine the Second Annual Report by the United States Government under the Decision of 5 March 1955 and to consider the complaint by the Government of the Kingdom of the Netherlands concerning the maintenance of restrictions by the United States on imports of dairy products, and to report thereon to the CONTRACTING PARTIES.

Membership:

Chairman: Mr. W.R. Bertram (Federation of Rhodesia and Nyasaland)

Australia	France	Netherlands,
Belgium	Germany, Federal	Kingdom of
Canada	Republic of	New Zealand
Cuba	Greece	Peru
Denmark	Indonesia	Union of South Africa
Dominican	Italy	United Kingdom
Republic	Luxemburg	United States

3. New Zealand request for authority to renegotiate under article XXVIII (SECRET/74)

The CHAIRMAN stated that the Government of New Zealand had submitted a request for authority to renegotiate one item in Schedule XIII, details of which were set out in SECRET/74. He recalled that under the Declaration of 10 March 1955 most contracting parties had undertaken not to invoke the provisions of Article XXVIII for the modification of concessions prior to 1 January 1958; but, under paragraph 2(a) of the Declaration, a country might plead special circumstances, in the sense of Article XVIII:4 (Revised), in seeking authority to renegotiate particular items in its schedule. In accordance with the Notes and Supplementary Provisions relating to Article XXVIII:4 (Revised) the CONTRACTING PARTIES were required to deal with any such request within thirty days of its submission.

The CONTRACTING PARTIES agreed to include this item on the agenda for the Eleventh Session.

Mr. PRENDERGAST (New Zealand) recalled that his Government had had great difficulty in accepting the Declaration of 10 March 1955 which prolonged the assured life of the Schedules as it had expected at that time that it might wish to renegotiate some items in its schedule. However, this was only the third item on which New Zealand had requested authority to renegotiate. As with the other two items for which permission to renegotiate had already been obtained, this request was submitted for consideration in the light of Note 2 to paragraph 4 of Article XXVIII (Revised) and was put forward in order that a change in the classification and rates of duty might be made to

bring about a reconstruction of the tariff item as a result of a tariff enquiry conducted by the New Zealand Board of Trade. The stability of the Schedules would not be affected, as the item to be withdrawn, which had been initially negotiated with the Benelux countries, would be replaced by other concessions.

The CONTRACTING PARTIES agreed that special circumstances existed in the sense of Article XXVIII:4(Revised) and that authority should be granted to New Zealand to enter into the proposed negotiations with the Benelux countries.

The CHAIRMAN then enquired whether any contracting party considered that they had a "principal supplying interest" or a "substantial interest" in the item. The representatives of Australia and the United Kingdom said that their Governments claimed a substantial interest. The representative for New Zealand said that these claims would be examined by his Government in consultation with the contracting parties concerned. The representative of the United States said that, as this request had only recently been received, there had not been time to receive his Government's views as to whether or not his Government had an interest in the item.

The CHAIRMAN said that discussions could be arranged with the Government of New Zealand and that any claim recognized by New Zealand would be deemed to be a determination by the CONTRACTING PARTIES. In the event of disagreement concerning any such claims the matter could be referred to the CONTRACTING PARTIES.

4. Nicaragua/El Salvador Free-Trade Area (L/504, L/565)

The CHAIRMAN said that the Government of Nicaragua had submitted its Fifth Annual Report (L/504) under the Decision of 25 October 1951. The secretariat, after examining this report, had, in a Note (L/565), drawn attention to certain aspects of the trade between the two countries. It appeared that substantially all the trade between the two countries in products originating in the free-trade area continued to be governed by the Treaty in accordance with the requirements of Article XXIV.

Mr. PORTOCARRERO (Nicaragua), introducing the report which his Government had submitted, said that the two participating countries in the free-trade area were fully satisfied with the results of the existing arrangements. Notwithstanding that shortages had compelled the Nicaraguan Government to prohibit exports of grain, which was permitted by the provisions of Articles XXIV and XI of the General Agreement, his Government felt that, after five years of operation, the Treaty had justified itself in establishing a free-trade area in the sense of Article XXIV. This free-trade area could now be considered as a stepping stone towards the formation of a much broader free trade zone, which would include the five Central American republics.

Mr. AMY (Observer for El Salvador) thanked the CONTRACTING PARTIES for inviting his Government to this Session. The Note by the Executive Secretary on the free-trade area was very complete and informative. His Government had been satisfied with the agreement and associated itself with the views expressed by the delegate for Nicaragua.

The CONTRACTING PARTIES took note of the Fifth Annual Report by the Government of Nicaragua on the free-trade area between Nicaragua and El Salvador.

5. Central American free-trade area (L/508 and Add.1-2, L/560)

The CHAIRMAN, referring to a communication from the Government of Nicaragua (L/508), stated that Nicaragua was considering entering into a free-trade arrangement and eventually a customs union with Costa Rica, and further, that the five republics of Central America had drawn up a free-trade area treaty which would be submitted to the five governments for approval. The draft Treaty had been distributed in document L/508/Add.1, and the Government of Nicaragua had requested the CONTRACTING PARTIES to take a decision (similar to that of 25 October 1951, relating to the free-trade area with El Salvador), to release Nicaragua from the obligation to extend to other contracting parties the treatment it proposed to grant to the four Central American republics. In connexion with this Treaty the Central American republics had prepared draft regulations for the integration of Central American industries, the text of which had been distributed in document L/508/Add.2. The important aspects of these drafts were set out in a Note by the secretariat (L/560) in order to assist the CONTRACTING PARTIES in the consideration of Nicaragua's request. The CONTRACTING PARTIES should examine these proposals in the light of paragraphs 7(a) and 10 of Article XXIV.

Mr. PORTOCARRERO (Nicaragua) said that, in accordance with the dispositions of Article XXIV:7(a), his Government had presented for the consideration of the CONTRACTING PARTIES two projects of the utmost importance for the future development of Nicaragua. The first project was a multilateral free-trade agreement with the other Central American republics and the second - its complement, an agreement for industrial integration among the same parties. The two documents only formed one step of a long-term programme of economic integration of the five republics. Five years ago the Central American republics, recognizing the difficulties of economic development within their limited domestic markets had requested the United Nations Economic Commission for Latin America and the United Nations specialized organizations to afford technical assistance in the formation of a free-trade area and a common market in Central America. That request had been received with the greatest sympathy by all the governments of Latin America and by the United States of America, the United Kingdom, the Kingdom of the Netherlands, and France which were also members of the Commission. The progress obtained

in the four years of effective work in the integration programme, and the conclusion of several bilateral free-trade treaties between the Central American republics showed that within a reasonable length of time a customs union, conforming to Article XXIV of the General Agreement could be formed. This purpose was clearly stated in article I of the draft Treaty for free trade and economic integration. The adoption of a common tariff nomenclature, the decision to unify customs legislation, and the request for technical assistance showed that steps had already been taken. If the CONTRACTING PARTIES considered it necessary his Government would ask for the inclusion in the Treaty of a clause establishing a definite period of ten years for the achievement of the customs union. Nicaragua could not commit the other four Central American republics to this effect, but in official consultations these countries had stated that they would be ready to accept the inclusion of such a clause.

With respect to the percentage of trade covered by the Treaty there were statistical adjustments to be taken into account and possibly the inclusion of other agricultural commodities, as pointed out in the Note by the secretariat (L/560). As shown in the table attached to L/560, the trade with El Salvador, already subject to a free-trade arrangement, represented in 1955 more than 77 per cent of the total exports of Nicaragua to the area and more than 55 per cent of her imports from the same area. Further, the amount of trade covered by the free-trade arrangements would be substantially increased by the signature of bilateral free-trade treaties with Costa Rica and Guatemala. The formation of a customs union in Central America would be to the benefit of all contracting parties since it would tend to bring down customs barriers and increase the capacity to import capital goods. The Nicaraguan Government therefore believed that the proposed free-trade area would be within the definition in paragraph 3(b) of Article XXIV.

Since the signature of these treaties was imminent his Government requested the CONTRACTING PARTIES to consider the matter urgently. His delegation was at the disposal of the CONTRACTING PARTIES to furnish any information which they may deem necessary on the free-trade area as well as on the bilateral agreements envisaged.

Mr. VARGAS GOMEZ (Cuba) said that his delegation felt great sympathy with Nicaragua's intention to enter into a free-trade area and to participate in an economic integration programme with the other Central American states. His Government would, in principle, support this request because it was aware that these countries, with their small population and limited natural resources, could not make progress in their development unless their economies were integrated in a common market. The establishment of a free-trade area and the industrial integration treaty were not new initiatives in Central America; since 1952 the five governments had been preparing these projects under the guidance and with the cooperation of the Economic Commission for Latin America. The fact that the Commission had promoted the establishment of this free-trade area and given constant assistance

during the preparatory work was a guarantee for the CONTRACTING PARTIES. In view of the assurances given by the Nicaraguan representative, to the effect that the purpose of this free-trade area was to facilitate trade between the member countries and not to raise barriers to trade with other countries, his Government welcomed the Nicaraguan request, but at the same time wished to state that its attitude to this application should not be considered as a precedent for other cases of economic integration.

Mr. BARBOZA-CARNEIRO (Brazil) said his delegation would consider the request for entering into a Central American free-trade area with the greatest sympathy. In paragraph 4 of Article XXIV the CONTRACTING PARTIES had recognized the desirability of expanding trade by closer integration between economies through voluntary agreements. This proposal for a free-trade area was similar to that which highly developed countries had submitted to the CONTRACTING PARTIES some years ago for the setting up of the European Coal and Steel Community. As they had done in that case, the CONTRACTING PARTIES should encourage countries which were unifying their efforts to improve their economies, and permit the Nicaraguan Government to participate in the proposed Central American free-trade area.

Mr. ARMENTEROS (Dominican Republic) stated that his Government would be willing to support the request by Nicaragua to participate in this free-trade area, as it felt the proposal fell within the scope of Article XXIV. The delegate for Nicaragua had given assurances that this free-trade area would facilitate trade and not raise barriers to the trade of other contracting parties. This scheme for economic integration was different in character from projects which were presently being studied elsewhere. The CONTRACTING PARTIES should examine this problem with care and sympathy.

Mr. GARCIA OLDINI (Chile) said that his Government would support Nicaragua's request for participation in the free-trade area. The problems which the plan for closer integration attempted to solve were of concern to all Latin American countries, which would undoubtedly benefit by such a free-trade zone. The institution of such a free-trade area also represented a success for the drafters of the General Agreement, for it showed that they had rightly held that not only the removal of barriers to trade, but also the setting up under certain conditions of free-trade zones or customs unions would contribute towards the achievement of the objectives of the General Agreement. Since these ideas were put forward they had made headway; after the establishment of a free-trade area between Nicaragua and El Salvador there had been the institution of the European Coal and Steel Community, and now there existed a possibility for the setting up of a common European market. This proposal drew attention to a problem which was not only regional in character, but universal, and required a solution which would eventually become a general solution.

Mr. GERIGK (Federal Republic of Germany) thought the proposal was in the interest not only of the five participating countries, but also of all contracting parties, in that it would help to expand world trade. His Government, therefore, would consider the Nicaraguan request with sympathy and understanding.

Mr. PHILIP (France) was grateful to the Chilean delegate for recalling the discussions which had led to the present Article XXIV. Indeed, it had been realized at the Havana Conference that many national units were too small for modern economic development and that, in addition to the reduction of customs tariffs and the abolition of import restrictions, there should be a possibility of concluding special agreements in a regional framework in order to accelerate progress towards free multilateral trade. When this proposal had been submitted to the Economic Commission for Latin America, France had immediately endorsed it, since it believed that a closer integration of the economies of these countries would contribute to an extension of world trade. He hoped the CONTRACTING PARTIES would agree to this proposal.

Mr. STANDENAT (Austria) said that his country had no particular economic interest in this proposed free-trade zone. He congratulated the five countries on their efforts to raise the standards of living of their peoples. However, the CONTRACTING PARTIES should keep in mind that this request raised political and juridical problems and might establish precedents. The Nicaraguan request certainly deserved proper consideration, but the CONTRACTING PARTIES should proceed with care and diligence, in order to arrive at a decision which would take into account all the political and juridical factors that were involved. The Austrian delegation therefore proposed that a working party be appointed to study the matter in the light of the present discussion.

Mr. CORSE (United States) said that his Government would give the most friendly attention to this proposal, which in its view would contribute to improving the economic conditions in Central America.

Mr. MUŽIN (Czechoslovakia) stated that his Government followed with great interest and sympathy the efforts of the governments of Central America to increase the well-being of their people by closer economic integration. However, the case under consideration should not set a precedent for similar schemes in other regions on the world where conditions were different.

Mr. SWAMINATHAN (India) supported the views of the delegates who had suggested that the proposal deserved sympathetic but careful examination. He agreed with the delegates who had said that what applied to one free-trade area should not necessarily apply to other similar schemes and that each case should be considered on its own merits.

Mr. GRANDY (Canada) shared the view of other delegates that this request should be considered with great sympathy. His Government would appreciate the inclusion in the treaty of a clause establishing a definite period of ten years to achieve a customs union. Each such scheme had to be judged on its own merits and not on the basis of similar schemes instituted in other regions. In view of the special circumstances in which the five Central American countries found themselves and taking into account the assurances that it was the intention of the Nicaraguan Government to achieve a full free-trade area, it should be possible to find a satisfactory solution within the terms of Article XXIV.

Mr. POLLARD (United Kingdom) said that his delegation would examine this proposed free-trade area treaty with understanding but as it had only been in possession of the relevant documents for a short time it could not express definitive views. His Government was particularly interested that Nicaragua was prepared to assume certain obligations to achieving a customs union in a period of ten years. It was not certain whether a working party would be needed but in any case the relation of this proposal to the provisions of Article XXIV required careful study.

Baron BENTINCK (Kingdom of the Netherlands) associated himself with the delegates who had expressed their sympathy with the plans aiming at economic integration. In introducing his request the Nicaraguan delegate had mentioned that the Government of the Kingdom of the Netherlands had already given its support to the scheme; in this forum his Government wished to reiterate its support. He was convinced that this initiative would be conducted in accordance with the provisions of Article XXIV and the general principles of the General Agreement.

The CHAIRMAN, in summing up the discussion, suggested that a few days might be allowed for reflection before the item was taken up again at a plenary meeting.

This was agreed.

The meeting adjourned at 4.05 p.m.