

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Eleventh Session

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## SUMMARY RECORD OF THE FOURTEENTH MEETING

Held at the Palais des Nations, Geneva,  
on Thursday, 8 November 1956, at 2.30 p.m.

Chairman: Sir Claude COREA (Ceylon)

Subjects discussed: (Action by the CONTRACTING PARTIES in the field of  
( tariff reduction  
(Proposals for closer European Economic integration in  
( Europe, (L/500, L/535)  
(Developments in OEEC trade liberalization  
( (L/542, Corr.1 and Add. 1).  
(continued)

The CHAIRMAN referred to discussion on these items at the Thirteenth Meeting and invited further comments.

Mr. AUGENTHALER (Czechoslovakia) said that the items under consideration were important not only to the contracting parties directly concerned, but to the whole world and for this reason he preferred to deal with this matter not so much from the point of view of the provisions of GATT but from a more general standpoint. As had already been stated at this session and on other occasions elsewhere, as a result of different studies of the world economic situation, three very alarming principal trends were evident in the development of world trade; these were the decline of trade between developed and underdeveloped countries, the decline of trade in primary commodities in relation to world production and trade, and the dividing up of the world market into compartments of varying degrees of exclusiveness and the decline of trade between the various groups of countries. He said that he intended at this moment to deal only with the latter point and congratulated the GATT secretariat, especially the Trade Intelligence Unit for having made clear the phenomenon referred to, and brought it to the general knowledge of the CONTRACTING PARTIES.

The dividing up of the world market into compartments had started after the First World War but the sharpest break occurred after the Second World War and the commercial ties between different parts of the world were greatly weakened. Approximately three-fifths of world exports in 1953 actually consisted of exchanges within the main trading areas and no less than one-fifth of world

trade consisted of the trade of the main areas with one another. The CONTRACTING PARTIES were now considering the proposal to create a West-European customs union and a free-trade area. The share of the total external trade of the six West-European countries with all the contracting parties was, 20.7 per cent on the average of 1946-1953, that is, more than the trade of the United States of America. With respect to the free-trade area, it was not yet known who would be its members, but, if the United Kingdom were to accede, the share of the external trade of the area with contracting parties would be at least 40 per cent. These were of course very rough percentages which would need correction, but they were sufficient to indicate the extent of the problem. He thought that there could be no doubt that the realization of the union and of the free-trade area would necessarily mean very profound changes in the pattern of world trade as changes would certainly occur in the pattern of regional trade and in the composition of exports.

It had been noted that the Report to the Ministers of Foreign Affairs of the West-European countries contained the provision that the union should be open for the accession of all countries ready to accept the rules. It was certainly an interesting proposition, but applied probably only to a few countries and there were no conditions of accession published in the report. It was true that Article XXIV of GATT stated that the CONTRACTING PARTIES recognized the desirability of increasing freedom of trade by the development, through voluntary agreement of closer integration between the economies of the countries parties to such agreements; however, he wondered whether this was always the case and if some of these agreements really did promote world trade and eliminate barriers and discriminatory treatment, the achievement of which was the paramount objective of the GATT.

The experiences of several contracting parties with the European Coal and Steel Community had not been the most encouraging and by solving partial problems by the granting of waivers and other means the contracting parties might be losing sight of the main objectives of the GATT. In the General Assembly of the United Nations and the Economic and Social Council through regional commissions great efforts were made to increase world trade, and to make it really universal. For this reason his delegation felt that before the CONTRACTING PARTIES proceeded further, they should instruct the secretariat to prepare the necessary information and to present to the CONTRACTING PARTIES a more detailed analysis of the possible effects of the envisaged West-European customs union and free-trade area on the foreign trade of other contracting parties and also to prepare a general report on different actions in other organizations aimed at the promotion of world trade, and removal of barriers to trade, and, with this end in view maintain liaison with other organizations. In this way the CONTRACTING PARTIES might see more clearly in which direction they were moving and act accordingly, so that the objectives of GATT would be maintained.

Mr. PEREZ-CISNEROS (Cuba) thought the plans now being considered by the six European countries in connexion with the establishment of a common market, and the discussions in the OEEC for the creation of a free-trade area to embrace the countries of the proposed customs union and other OEEC members, were matters so important from the standpoint of international trade that the CONTRACTING PARTIES should seriously endeavour to acquaint themselves with the details of these projects and should adopt adequate procedures for consultations on a continuing basis with the six European countries concerned, as well as with the organizations by which the plans were being prepared. His delegation hoped that the representatives of the Benelux, France, Germany and Italy would once again show to the CONTRACTING PARTIES their spirit of cooperation and that the OEEC would have no objection to raise to the suggested consultations. He referred to the clear and comprehensive statement delivered by the representative of Belgium, and to the remarks of the Deputy Executive Secretary of the OEEC, and said that any doubt which might have been entertained in this connexion has certainly vanished.

As a general rule, any plan or programme intended to raise living standards, ensure full employment and expand the production and exchange of goods should be welcomed and given most sympathetic consideration. Moreover, as in the case of the Central American Free-Trade Area, his delegation believed that under certain circumstances economic integration was the appropriate solution for the economic advancement of some nations. Article XXIV of the General Agreement recognized the desirability of increasing freedom of trade by the development of closer integration between the economies of the countries parties to a voluntary agreement in this field. On the other hand, the progress achieved since the war in the sector of industrial technology and the new sources of power developed in the last few years might even make a merging of markets an urgent necessity.

However, the fact that the establishment of a customs union or of a free-trade area might have great implications for the interests of third parties, had led the drafters of GATT to show very great care when giving their general support to economic integration. The wording of Article XXIV specifically emphasized that the purpose of a customs union or of a free-trade area should be to facilitate trade between the parties and not to raise barriers to the trade of other contracting parties. Accordingly, the provisions of that Article stipulated that the duties and other barriers to trade with the outside world, imposed at the establishment of a customs union or free-trade area, should not be higher or more restrictive than those applied previously. They further indicated that the formation of a customs union or free-trade area shall take place according to a preconceived plan within a reasonable length of time to prevent, for instance, that a frustrated attempt to establish a customs union or free-trade area should actually result in the formation of a lasting preferential system. Moreover, Article XXIV required that any contracting party deciding to enter into a customs union or free-trade area should promptly notify the CONTRACTING PARTIES and should make available to them such information regarding the proposed union or area as would enable them to make such reports and recommendations to contracting parties as they might deem appropriate.

These, as well as other safeguards contained in Article XXIV, were indeed rightly included in the General Agreement. Whilst the economic position of some countries might be strengthened by economic integration, the objectives of the General Agreement would certainly not be served if the arrangements only engendered a highly protectionist area disrupting both the international division of labour and the international pattern of trade, and created a new bargaining weapon forcing the outside world to grant unilateral concessions. For these reasons, before the CONTRACTING PARTIES could give their blessing to a proposal relating to the formation of a customs union or free-trade area, they must be fully satisfied that the proposed arrangement would actually promote the progressive development of the economies of all the contracting parties, which was one of the basic objectives of the General Agreement.

Although the matter was of general interest, it was important for non-industrial countries that the formation of a customs union or free-trade area between industrial states should be viewed with particular care. As pointed out at the opening of the Eleventh Session, international trade had reached an unprecedented level, but the proportion of trade carried on between the industrial and the non-industrial areas had actually declined. Mr. Wilgress had rightly emphasized that this disproportion in the share of progress in trade must be a very serious concern for all countries as the economic development of the countries of the non-industrial group must depend on the expansion of their foreign trade.

The under-developed countries were at present anxiously following the unfavourable trends of their production, exports and terms of trade and must of necessity give very careful consideration to any plan which could either open wholly new perspectives or bring about a further deterioration of their European markets. Accordingly, many questions would have to be asked regarding the economic and financial policies to be followed by the parties to the proposed customs union and/or free-trade area. For the non-industrial contracting parties the internal and external agricultural policy to be adopted by the common market would certainly be of particular interest as well as the relations to be established between the parties to the arrangements and their dependent territories. He was aware that the present drive towards European unity might open a new era in the economic and political history of that Continent and realized that European integration might contribute effectively to the objectives of the General Agreement, but his delegation sincerely hoped that all these questions would be answered satisfactorily and that in future months there would be no grounds for the doubts and apprehensions which some contracting parties were now entertaining.

Mr. ISBISTER (Canada) said he would not attempt to discuss the interesting ideas and proposals described by the Deputy Executive Secretary of the OEEC and the Belgian representative, as they were still the subject of negotiation, but they should be followed closely. At a later stage, Canada would be interested in discussing certain points such as the reduction of barriers to trade. The Belgian representative had referred to an annual

increase of twenty per cent in quotas between members of the union, but he thought that a maximum limit to the rate of progress should not be set. His Government was confident that each country had in mind its obligations under Article XII and would proceed with the elimination of quantitative restrictions as quickly as possible. Canada was interested in the proposed customs union and free-trade area because of the mutual advantages implicit in this development, which would affect Canada as much as any non-European country. As the plans developed, his Government would seek a constructive part in them, and at a later stage the CONTRACTING PARTIES would have to consider the question in the light of the relative provisions of the Agreement, and to ensure that the legitimate interests of other contracting parties were protected. It was encouraging that the countries concerned and the OEEC had indicated their intention of consulting with the CONTRACTING PARTIES at each stage, which should lead to a maximum contribution from both sides. He was also glad that arrangements had been made to enable the secretariat to be informed of developments, to study them and to give advice, as it was desirable that the secretariat should be familiar with the issues involved when the plans were submitted to the CONTRACTING PARTIES. He therefore approved of the initiative of the Executive Secretary in establishing close liaison, and proposed that the item be included on the agenda of the Twelfth Session.

Mr. TATSUKE (Japan) said that his delegation attached great importance to the projects for a European customs union and a free-trade area, which affected the interests of individual contracting parties and had a direct bearing upon the fundamental structure of the General Agreement. His Government appreciated the implications of the proposed schemes in relation to the prosperity of Europe, on which the prosperity of other parts of the world depended. The efforts of the Western European countries toward political and economic integration were to be welcomed, and he hoped that they would be successful. On the other hand these countries, in acting under the provisions of Article XXIV of the General Agreement, should take care not to raise barriers to trade of other contracting parties. Japan was concerned that various difficulties might halt the project half way, with discriminatory effects on countries not members of the union or free-trade area. He felt that the difficulties which had limited the scope of the recent tariff negotiations among the Western European countries would hinder the realization of these schemes, as it did not seem likely that they would be eliminated within the relatively short period envisaged in the proposed schemes. Article XXIV permitted members of a customs union or a free-trade area to resort to measures under Articles XII and XIV, but **apparently some of the countries involved had certain difficulties in their trade relations** with their union partners going beyond the scope of these Articles. With regard to the free-trade area, it appeared that all agricultural products might be excluded from the arrangements. In view of

these and other problems, his delegation wondered whether the type of scheme now proposed had been contemplated by the drafters of the present provisions of Article XXIV. If the scheme for a free-trade area was intended to create a third economic bloc it was debatable whether the scheme itself and the underlying philosophy were in fact in conformity with the basic concepts of the General Agreement. If a customs union or a free-trade area, covering an extensive area and comprising countries with different economies were formed, and all agricultural products were excluded from the scheme, it would be tantamount to the establishment of a large preferential area for industrial products, favouring the industries of the member countries. This type of discrimination would be a serious detriment to the development of underdeveloped countries. In view of the importance of this problem he supported the suggestion to establish working relationships between the CONTRACTING PARTIES and the Western European countries in question.

As indicated in L/542, the OEEC had made remarkable progress towards the liberalization of trade. As compared with the rapid expansion of intra-European trade, the trade of the OEEC countries with non-members had, however, increased on only a moderate scale, with the result that the percentage of imports from the non-OEEC countries had declined considerably. Though he recognized that this might be partly due to a number of circumstances, there was no doubt that the OEEC liberalization scheme had had a detrimental effect on the trade expansion of non-members. Recent information indicated that the liberalization of dollar imports had made substantial progress, but many restrictions were still in force against non-dollar imports from non-OEEC countries. In a number of trade negotiations which his Government had undertaken, certain OEEC countries had declined to grant OEEC treatment on all or a part of their imports from Japan. In the light of the economic situation of the member countries, he doubted whether their discrimination as between imports from OEEC countries and non-OEEC non-dollar countries was in fact justifiable for balance-of-payments reasons. His Government recognized that the regional liberalization of the OEEC was to be considered as a first step towards universal liberalization, but considered that liberalization should not be limited to member countries for longer than permissible under the provisions of the General Agreement. It was hoped that the discriminatory effect of the liberalization scheme would be removed as soon as possible, so that the benefits from it would be shared by all the contracting parties.

Mr. OSMAN ALI (Pakistan) said that his delegation was grateful for the assurances that the CONTRACTING PARTIES would have a full opportunity to discuss the proposals for the creation of a customs union and a free-trade area in Europe before those arrangements come into force and was specially interested to hear the assurances which had been given that GATT obligations and objectives would be kept in mind in further developing the proposals. His delegation hoped that these measures would not only result in strengthening the European economy but also directly or indirectly prove a benefit to all contracting parties through the stimulation of world trade and with the possibility of extension in due course of liberalization measures to countries outside Europe. If, on the other hand, the proposed arrangements were so conceived that they merely created a new preferential area for a group of countries, then the disadvantages of a restricted regional arrangement would result which was contrary to the spirit and objectives of GATT even if by some means the violation of the letter of GATT was avoided or overcome.

At the opening of the Session, the Chairman had drawn attention to the declining share of the underdeveloped countries in world trade. This was naturally a matter of serious concern to his delegation which was therefore particularly glad to hear from the Belgian delegate an assurance that the common market was expected to result in increased use of raw materials, stability of commodity markets and lowering of tariffs against non-participant countries and it was hoped that those results would actually follow. His Government would follow further developments with the closest interest. Meanwhile it was hoped that it would be possible for the OEEC and the Messina powers to continue to give the fullest cooperation to the CONTRACTING PARTIES by frequent consultation and close liaison.

Mr. CORSE (United States) said that his country had always supported a movement towards greater economic cooperation in Europe. Both the proposed customs union and the free-trade area were of immediate concern to contracting parties. Though it was premature to discuss these matters at this stage, his Government would wish consultations to be held later. Effective liaison should be arranged to become operative at the appropriate time.

Mr. CAPPELEN (Norway) supported the views of previous speakers on closer liaison with the OEEC, as the European countries involved needed the assistance of the GATT, which had a right to follow the work in progress. If it were decided to continue with the plans the secretariat should consider more permanent liaison with the OEEC, and he thought it would be helpful if the CONTRACTING PARTIES would authorize the Executive Secretary at the present session to establish such liaison as he deemed necessary, and provide him with the necessary financial means.

Mr. SWAMINATHAN (India) said that India was generally in favour of assisting in a movement towards closer economic integration in Europe, including the formation of a customs union, provided this did not lead to a reduction in trade of other contracting parties. It had therefore supported the establishment of the European Coal and Steel Community, and the granting of a waiver to it, and had examined its annual reports with sympathy. The Czechoslovak and Cuban representatives had given expression to the ideas of underdeveloped countries on this subject. India was in the process of economic development and was endeavouring to increase production and employment and to raise living standards. It required foreign exchange in considerable quantities to enable it to pay for imports of machinery and equipment, particularly from industrial countries, and therefore could not support a development which might restrict trade with these countries. The volume and range of primary products which his country was able to export had been declining, and it had increased production of manganese and iron ore, which it was trying to export to industrial countries. The proposal should therefore be studied with great care, but his Government was prepared to consider with sympathy any proposal put forward before a final decision was taken. He was glad that the OEEC had given an assurance that the GATT would be kept informed of progress. Concerning OEEC trade liberalization he considered that while some progress had been made in extending liberalization to countries doing their clearing through the European Payments Union as members of the sterling area, it had not been as rapid as desired. Individual OEEC members had given concessions to India which it had requested, but there had been a tendency to do so through bilateral trade agreements. His country did not discriminate against soft-currency areas and it was, therefore, impossible for it to grant concessions in return. Further, India's trade agreements were generally non-discriminatory and permissive and no fixed quantities were laid down. He would therefore urge contracting parties to extend OEEC liberalization to all countries doing their clearing through the EPU.

Mr. GARCIA OLDINI (Chile) thought that the drafters of Article XXIV had not foreseen a customs union of the magnitude of that now contemplated. The CONTRACTING PARTIES were giving their approval to Nicaragua for participation in a Central American Customs Union, as it was clear that no damage to the interests of other contracting parties would result. This, however, was not true of the present proposal, which would radically change the pattern of trade. There was serious danger involved for underdeveloped countries which depended for their development on the export of primary products. But if the developments were undertaken in a spirit of world-wide responsibility there was nothing to fear. There was, however, a tendency to seek maximum benefits without regard to the interests of other countries, as illustrated by the difficulties of the European Coal and Steel Community to keep a balance between its own interests and those of non-members. The OEEC should therefore study the relations between its members and non-members, and the secretariat should maintain permanent liaison with the Organization's secretariat and executive bodies. The item should be included on the agenda of the Intersessional Committee, in case the plans developed more rapidly than expected. When a request for a waiver was received, the CONTRACTING PARTIES should not only consider it in relation to the provisions of Article XXIV, but also in the light of views expressed at this meeting.

Mr. JOCKEL (Australia) said that his delegation welcomed this opportunity for GATT formally to take notice of the movements for closer economic association in Western Europe at this early stage in their development. The Australian delegation envisaged a two-way educational process in the GATT discussions. On the one hand, it thought that it was appropriate and in the interests of all the contracting parties for the European countries concerned to acquaint the CONTRACTING PARTIES with their ideas and objectives and, as soon as it became practicable, to lay before the CONTRACTING PARTIES their definite proposals. On the other hand, Australia and other non-European countries which were desirous of increasing their trade with Europe, welcomed the opportunity to put before the European countries views on aspects of particular interest. Through this exchange of information and views from an early stage it was believed that the work on the proposals would proceed more smoothly.

The Australian Delegation visualised a need for GATT to be closely in touch with the evolution of the programme throughout the long period of its implementation. The whole programme, as understood, rested on the basis of a stage-by-stage development which was expected to require 12 or 15 years or more. Under present economic conditions 15 years was a long time - quite long enough for objectives to be modified or even changed and for plans to be substantially adapted. He commented on this point in the light of the provisions of Article XXIV of the GATT. The basis of these GATT provisions was the end result - the complete or "substantially" complete customs union or free-trade area. But during the intermediate stages, any programme towards a customs union or free trade area must almost inevitably carry the appearance of a preferential system. So that clearly the firmness of the whole programme, the certainty that it would be pushed forward to its final goal, and would not be halted along the road, was of very much more than theoretical interest. The Australian Delegation was of course in no position to agree or disagree with the period proposed for the whole programme; it did, however, see this real problem in transitional arrangements which were planned to apply over a period of time which was long enough to bring at least some of the characteristics of permanent arrangements.

A major question in the case of any customs union was the means adopted to ensure that the creation of the union did not raise, but rather decreased, the barriers to the trade of non-union countries with the members of the union. Here the GATT provisions stated that tariffs and other trade regulation measures shall not on the whole be higher or more restrictive than was the case beforehand in respect of the several constituent countries. This term "on the whole" was about as broad a term as could be had and he did not seek to give it definition. He pointed out that a commonsense view of the result to be sought in practice would be the maintenance of a level of imports no lower than before, except for changes of such kind as may arise from increased efficiency in production within a customs union compared with production outside it, or such changes as would have arisen independently of measures taken by the participating Governments under the programme. In other words, a customs union should not lead to additional obstacles to imports from outside countries. This principle, moreover, could not be applied merely in terms of total trade. It needed to be applied in terms of sectors of trade, major categories of goods, and major products or groups of products.

From the point of view of the outside trading countries, the fact that the position in terms of tariffs, etc., in each of the constituent countries of a free-trade area was known and certain, lent some preference to the concept of a free-trade area compared with the concept of a customs union. It was not difficult to show that in a hypothetical case a tariff of say 10 per cent in one country, and a tariff of 40 per cent in another, might yield a better trading position for an outside country, if there was a free trade area, than would some averaged level of tariff applying to both countries in the case of a customs union. A big factor in the case of a customs union was the method by which the ultimate common tariff against the outside world was arrived at. His delegation would doubt very much whether the application of any general arithmetical formula would give results, at least in certain major groups of products, that would be satisfactory to countries outside a customs union. Some form of consultation with substantially interested suppliers outside the proposed union might be the best way of achieving a solution on critical items. This kind of consultation would be quite distinct from any tariff negotiation activities.

Clearly, then, the level of the tariff to be maintained by a customs union against imports from outside countries could be considered apart from whatever other trade regulation measures might be employed. Import restrictions, domestic and export subsidies, state trading and state monopolies, mixing regulations and the whole gamut of non-tariff obstacles to trade were now more important than tariffs - and seemed likely to become potentially even more important - for much of the trade within the proposed European Customs Union or free trade area, on the one hand, and between the constituent countries and outside countries on the other hand.

These considerations were particularly meaningful in connection with Australia's attitude to the present proposals for closer economic association in Western Europe. His delegation attached a great deal of importance to the extent to which non-tariff barriers to trade continued to be employed and the effects of their use especially in relation to agriculture. There should be a clear-cut obligation upon the participating countries to ensure that non-tariff measures of trade regulation were not used to create or maintain undue restrictions on trade coming from the outside world. For example, import restrictions of state-trading devices should not be employed to give additional markets among member countries of the new group for the products of uneconomic industries in other countries of the group.

As with tariffs, such non-tariff measures should be scaled down so as to increase and not diminish the level of trade with outside countries under the new situation. Under the proposed programme for the development of the European customs union non-participating countries would presumably be asked to accept a proposal, which whatever its possible long-term benefits in terms of world trade, was certain to impose at any rate some real short-term disabilities upon them compared with the status quo. A scaling down of trade barriers to be maintained by the union against the outside world would offer some tangible and visible offset to the direct disadvantages which a customs union or free-trade area must otherwise almost certainly present to them.

Mr. Jockel then referred to the immediate problems of liaison and consultation and said his delegation sought a practical and effective means of enabling the CONTRACTING PARTIES to be kept informed of significant developments and to have the opportunity of conveying their views in reasonable confidence that those considered views would be given careful attention. This did not amount to asking for an impracticable degree of detail in this process, but his delegation was satisfied that mutually convenient arrangements were possible, perhaps through the agency of the Executive Secretary, and suggested that the Chairman, the Executive Secretary and the representative of Belgium might be asked to consider the best way of making these arrangements and to put suggestions before a later Plenary. The Australian delegation was confident that the GATT could fulfil a very useful role in the whole development of this enterprise.

He then turned to the other aspect of this item - namely the developments in OEEC trade liberalization on which the secretariat had produced a very competent report. To some extent the situation on quantitative restrictions within the OEEC group seemed bound to be connected with developments in the common market proposal, i.e. the policies of the constituent countries in the customs union or free-trade area in regard to import restrictions on trade from outside countries. His delegation attached importance, therefore, to the GATT being kept fully informed of developments in OEEC liberalization. The Executive Secretary's report showed the importance of State trading in the trade of some of the OEEC countries, and this aspect was of particular interest and importance in relation to the agricultural sector of trade of OEEC countries. It was of particular importance to countries exporting mainly agricultural products that altogether one-third of the agricultural imports of OEEC countries remained under control, either by State trading, or by quantitative restriction. The efforts of OEEC towards reduction of restrictions on agricultural imports had been noted. Progress in this direction would be welcomed, particularly if related to the wider extension of liberalization to non-OEEC countries, by those countries which felt that the GATT had not yet achieved a balance in its effectiveness for agricultural trade, compared with its effectiveness for trade in industrial products.

Mr. PORTOCARRERO (Nicaragua) said that Central American countries were observing the move towards a customs union in Europe with interest, and hoped that they would receive guidance for their own project.

Mr. GUNDELACH (Denmark) welcomed the initiative taken by OEEC countries towards the formation of a customs union and free-trade area which was closely inter-related with future plans for tariff reduction. Denmark had always argued that substantial reduction in tariff levels could be achieved by closer economic integration within Europe, but this should be regarded as supplementary to action within the GATT rather than as an alternative. The Danish Government considered that a further general reduction in tariff rates, particularly of high rates, and the removal of disparities between tariffs was one of the main objectives of the Agreement. Whereas all contracting parties were theoretically under the same obligations with regard to quantitative restrictions this was unfortunately not so in the field of tariffs. Although progress in the tariff field had been confined to the bilateral approach, the four GATT tariff conferences had yielded valuable results, especially in preventing a further increase in the level of tariffs. There had also been a constructive effort to reduce quotas, and it had been recognized at the present session that consultations under Article XII would be useful, a view supported by his Government which was in favour of the elimination of all quantitative restrictions. The substitution of high tariffs or other obstacles for quotas, however, should be prevented, as these hampered imports as much or more than quota restrictions. The fact that low tariff countries were not permitted to compete in markets sheltered by high duties on as favourable terms as the high tariff countries enjoyed in their markets limited the former country's ability to eliminate quantitative restrictions.

In the Danish view bilateral tariff negotiations were not likely to yield further significant results. A plan had been elaborated which would have led to an improvement in the position, but some of the main trading nations had not been prepared to accept it as the basis for the 1956 conference which had, therefore, been conducted on bilateral rules. In the Danish view its most satisfactory result had been to make clear that the bilateral techniques used hitherto had to be replaced and that further efforts should be made to set up machinery for tariff reduction along the lines of the GATT plan. He considered that this question should be kept under review and should appear on the agenda for the Twelfth Session.

Mr. VALLADAO (Brazil) said that his delegation acknowledged the importance of the problem before the CONTRACTING PARTIES and the very significant aspects presented by it. The project gave rise to concern to all contracting parties which did not belong to the area to be integrated, as it would result in a considerable distortion of trade between that area and other countries. This concern became greater if the composition of trade were examined and he referred in particular to the apprehensions of underdeveloped countries which resulted from the fact that their list of exports was made up of only a few products. His delegation, however, understood the reasons that had motivated this project for integration and accepted the proposal in principle.

He recalled that during the Review Session his delegation had supported the proposal by the Chilean delegation to have some provisions inserted in the GATT dealing with the integration of certain economic zones. His delegation was not therefore opposed to measures for economic integration, but this particular proposal was of such magnitude that his Government would have to analyse it and study it carefully, taking into consideration all relevant aspects: when the matter came before the CONTRACTING PARTIES again his delegation would be in a better position to give its final impressions.

Mr. de BESCHE (Sweden) said that the proposal made the previous year by the Danish delegation for continuing the study of a plan for multilateral tariff reductions had been reiterated at the end of the 1956 tariff conference. At that time his delegation had supported this proposal and was now pleased to note that there was a desire to have this item on the agenda of the next Session when it could be taken up again in the light of the results of the present discussions in Brussels and Paris. The Executive Secretary's note on OEEC trade liberalization gave evidence that, concurrent with their attempts to liberalize trade and payments among themselves, the European countries had tried and achieved great progress in extending their liberalization to trade with non-OEEC countries. Agricultural problems were admittedly the most intractable both inside and outside the OEEC, and if some countries felt especially hurt in their relations with certain OEEC countries on account of these agricultural problems, this was not necessarily the entire responsibility of these countries.

During the discussion on the free-trade area, certain apprehensions had been voiced as to its effects on certain national economies. However, the basic idea of the European movement was to strengthen the economies and trade of European countries and to raise standards of living. Against that background it was hard to believe that a free-trade area might generally have any but a beneficial influence on the economies of the non-European countries. The European efforts towards integration were in no way incompatible with the objectives of the General Agreement and could not hamper the activities of the CONTRACTING PARTIES. If satisfactory results were obtained they would on the contrary induce contracting parties to make further efforts in the same direction. As for consultations between the CONTRACTING PARTIES and the OEEC it was still far too early to decide upon any specific procedure. The Chairman had expressed the view that the CONTRACTING PARTIES might consider the problem of the free-trade area with a view to making the necessary arrangements to respond to any requests for consultations during the inter-sessional period. He fully agreed with this and thought that contact could easily be established with the Committee which could then agree on a suitable procedure. With reference to the proposed customs union it was perhaps appropriate to recall that the Scandinavian countries were also studying the possibilities of establishing a common market. These plans were still in a very preliminary stage, since at present they consisted only of a study of the technical aspects of such a scheme. These plans would be brought to the CONTRACTING PARTIES if and when they had been developed further and taken the form of a definite proposal.

Mr. FORTHOMME (Belgium) said he had been pleased to hear the constructive and encouraging views expressed during the debate. The fears that had been expressed concerning the possible deleterious effects of the customs union on world trade seemed to him really the fears contracting parties must have for restrictive commercial policies whether applied by individual countries or groups of countries. The six participants in the customs union, being among the major trading nations of the world, would not be inclined to undermine international trade which was of vital importance to them. These countries had taken the lead in the OEEC plan for the elimination of quantitative restrictions and, although the elimination of these restrictions had been based on reciprocity, they had shown their constructive policies by extending unilaterally many liberalization measures to non-OEEC countries. As the difficulties connected with trade in primary commodities were essentially a question of quantities offered versus quantities consumed, the expansion of production which was expected to result from the creation of the customs union, would, by increasing the consumption of such commodities, help to solve the problems of commodity trade. With regard to the agricultural problems, their solution depended on the possibility of creating alternative occupations for the farming populations. By strengthening the European economies the customs union would facilitate this transfer to other activities and thus exercise favourable effects on international trade. In this connexion however, it had to be borne in mind that some products of European agriculture had very little bearing on international trade. As to the intention of the drafters of Article XXIV, they did have important customs unions in mind. If the dimensions of one particular union might make it appear formidable, this did not alter the fact that participants in any projected union would nevertheless attach essential importance to their undertaking. Distinctions according to size were therefore not valid. Finally there was a difference between consultations on technical problems presently being pursued in OEEC, and the negotiations taking place in Brussels. These negotiations were discussions between the countries concerned and it would be difficult to admit third parties. The situation was the same as during the tariff negotiations where, in spite of their multilateral character, bilateral talks remained private until they were concluded. With this single reservation the CONTRACTING PARTIES could expect full collaboration of the six European countries.

Mr. SANDERS (United Kingdom) associated himself with the remarks of the representative of Belgium in expressing his appreciation of the tone and level of the discussion. Though the studies in Paris were still at a preliminary stage, several contracting parties had shown a great understanding of the issues at stake and he referred in particular to the balanced analysis by the representative of Cuba; at the same time, the discussions had shown the interest the contracting parties had in these studies and in possible developments from the point of view of the provisions of the General Agreement and also in possible effects on their trading interests. This interest was proper and justified. He thought that some time would elapse before the studies, if they proceed, would reach a point where anything in the nature of decisions could be taken and a plan or programme could be submitted to the CONTRACTING PARTIES; in the meantime, however, it was necessary that all reasonable and practical steps should be taken to keep the CONTRACTING PARTIES informed on progress and developments.

Mr. CAHAN (Organization for European Economic Cooperation) expressed his thanks to the CONTRACTING PARTIES for their invitation to attend the meetings and said that, with their permission, he would report the substance of the discussion to the members of the special Working Party considering this question.

The CHAIRMAN, in summing up the discussion, said there had been a most interesting debate on the questions dealt with under these items. He expressed the appreciation of the contracting parties for the statements by the Deputy Secretary-General of the OEEC and by Mr. Forthomme, who had spoken on behalf of the six countries engaged in negotiations for the establishment of a common market in Western Europe.

The Chairman summarized the views put forward during the discussion and the suggestions that had been made concerning the future action of the CONTRACTING PARTIES in these fields. But at the request of the Australian representative, it was agreed that the conclusions to be recorded should be submitted to a subsequent meeting for approval.

The meeting adjourned at 4.45 p.m.