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GENERAL AGREEMENT ON TARIFFS AND TRADE

CONTRACTING PARTIES
Twenty-Fifth Session

SUMMARY RECORD OF THE TENTH MEETING

Held at the Palais des Nations, Geneva, on Thursday, 28 November 1968, at 11.30 a.m.

Chairman: Mr. S. Chr. SOMMERFELT (Norway)

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1. French economic measures

Mr. CHAPELLE (France)[1] said that a few months ago he had had the honour to inform the CONTRACTING PARTIES of the situation of the French economy following the crisis of May and June, and of the recovery effort undertaken at that time to remedy the effects of the crisis. He had tried to show that this recovery effort, based on fundamentally sound conditions in France's economic structure, and comprising both long-term measures and temporary emergency provisions, particularly with respect to external trade, had every chance of succeeding.

At that time, although the French Government was incurring a very substantial increase in its budgetary expenditure and in the production costs of industry, it deliberately chose to take the path of expansion, price stability, employment, and external trade development. This difficult but resolute policy had already borne fruit, as confirmed just recently by favourable results in most economic sectors, and in particular with respect to gross domestic product which was recovering fast, price and employment levels, and external trade. Thanks to France's own efforts and to the sympathy with which it was surrounded at that time, his country could therefore reasonably look forward to recapturing its growth rate within a short time.

This prospect seemed to be materializing, so much so that as regards in particular the emergency measures introduced for external trade, the French Government had scrupulously applied its programme for reducing or eliminating those measures as scheduled. In the course of this recovery, they had been hard hit by the monetary crisis. In itself, this crisis had not come as a surprise: indeed they had always been fully aware of the inadequacies of the international monetary system. But the monetary factors, most of which were beyond their control, had found sustenance in certain provisions of their recovery plan and made this crisis the more acute.

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[1]The text of this statement was circulated in document L/3153.

The French Government had faced up to this situation by maintaining the parity of the franc and by deciding on vigorous action to restore a sound situation. In this way the consequences that would have been dangerous both for France and for its partners had been avoided, as had weak and expedient solutions, and the means of pursuing their economic recovery had been safeguarded. This action, details of which the French Government had now spelt out, could be summed up under three headings: defence of the national currency, restoration of equilibrium, continuing expansion.

Having regard to the risks of speculation, an immediate step was urgently needed to defend the national currency: the reintroduction of strict exchange controls. With a view to restoring equilibrium, even before the crisis came to an end measures had already been taken to tighten credit, including an increase in bank rate. To this had been added a particularly stringent effort to compress budgetary expenditure. The budget deficit was being reduced by one half by means of cuts under all headings, including defence, and by additional revenue. There was to be a close watch on prices, together with a wage restraint. At the same time, charges on undertakings which had already been greatly increased since May and were expected to increase further in the coming months, could be eased by the abolition of the wages tax; this abolition was more than offset by an increase in the tax on value added which affected consumption. This was expected to act as an incentive on export expansion which was necessary for improving the balance of payments. Last but not least, while ensuring the return to equilibrium, the French Government intended to safeguard economic expansion which was a prerequisite for recovery. The tax measures he had just mentioned should contribute to this in general, and in particular through expansion of exports which fortunately accounted for a substantial part of the turnover of their undertakings.

Such was the programme of austerity and self-restraint that France had now adopted in order to overcome the effects of the crisis and to ensure economic recovery. In its efforts, it was assured of substantial assistance from friendly nations, whose spirit of co-operation and solidarity it appreciated. The French Government, for its part, had been careful in these measures to safeguard trade liberalization and to this end to respect the commitments which it had undertaken, in particular in the context of the General Agreement. The measures just taken, in particular the internal tax measures designed to lighten the charges on undertakings, were not in any way discriminatory and did not comprise any new restrictions. Despite the difficulties which it was at present experiencing, France thus intended to maintain its policy of competition, expansion of trade, and international co-operation.

Mr. WARREN (Canada) thanked the representative of France for this early indication to the CONTRACTING PARTIES of the measures that it had been necessary for his Government to introduce. He was sure that all were sensible of the magnitude of the task which had been undertaken by the Government of France in introducing these measures in the interest of the healthy development of its economy, and with high regard to the desirability of maintaining international channels of trade. It was his understanding that should some questions of interest to contracting parties with respect to the possible trade aspects of the new measures arise, these could be taken up in the existing Working Party on French Trade Measures.

The CHAIRMAN confirmed that Mr. Chapelle's statement would be submitted to the Working Party on French Trade Measures, which could then decide to what extent it should come within its deliberations.

Mr. SWAMINATHAN (India) congratulated the French Government on its courageous decision not to devalue the franc, thus contribute to the stability of international exchanges which made up an important part of the task of keeping the channels of international trade open. He thanked both France and the United Kingdom for safeguarding the interests of the developing countries in the last few months when they had had to take special measures. He reminded the contracting parties that the very large expansion in international trade in the last few years had been principally in trade between the industrialized countries, and that the share of the developing countries in this growing international trade had been much less than it used to be. Therefore if there were balance-of-payments problems, requiring that various countries take measures to discourage imports in order to save their balance-of-payments situation, it followed that these measures should be applied to imports from the industrialized countries which had contributed largely to the drain in the balance of payments. These were short-term difficulties. He added that the temporary difficulties of economically very strong countries should not be an occasion for decelerating and applying a brake on the meagre progress which had been achieved in making it possible for developing countries to sell more of their goods and earn more foreign exchange. He appealed to all countries which needed to take special measures in this crisis, or, at any other stage, to continue in their efforts of helping the developing countries in selling more of their goods, earning more foreign exchange and being able to finance their further development.

Mr. EBONGO (Cameroon) also thanked the representative of France for his statement and reassurances with regard to the developing countries. He supported Mr. Swaminathan's statement.

Mr. HARAN (Israel) said that he would address his remarks to the statements made by the representatives of the United Kingdom, the Federal Republic of Germany and France. Everyone knew that an international monetary crisis had been in the making and that its effects were still continuing. The usual means of remedying such a crisis would have been monetary means, but the countries concerned had chosen rather to use trade measures or fiscal measures directly affecting trade. He pointed out that the Chairman's summing up of the debate on "Expansion of Trade" had made no reference to them, because the crisis had not yet broken. However, it should be recognized that GATT could not disregard these statements and that the CONTRACTING PARTIES could not pass them over in silence during their annual session, and abdicate their function in this vital area. Details of the measures had not yet been furnished and it was therefore not possible to discuss the issues. However, in drawing up the final conclusions of the session it would be appropriate and essential that reference be made to these measures and that the conclusions specifically indicate that GATT was taking the necessary steps to deal with them, to discuss them and to pass judgment upon them.

The second question was how GATT should deal with them. As far as measures taken by the United Kingdom were concerned a Working Party had already been set up; as for the French measures it had been proposed that they be examined in the Working Party on French Trade Measures; and as for the measures taken by the Federal Republic of Germany it had been intimated that they would most appropriately be dealt with in the Working Party on Border Tax Adjustments. But a debate covering more than the technical aspects would be appropriate. He therefore proposed that the matter be placed on the agenda of an early Council meeting and that these measures and their effects on world trade be discussed on that occasion.

The third point he wished to make was the general question of the adequacy of the rules of GATT in relation to these measures. GATT was a living instrument - this had been proved only recently when the CONTRACTING PARTIES had approved Part IV and taken the necessary steps to adjust it to the needs of developing countries. The measures now under discussion were not those envisaged by the General Agreement for dealing with such problems. In Article XII, for instance, there was no reference to such measures. This was no criticism of the measures and no value judgment was involved in this comment. It might well be that the measures taken were the most appropriate and the least harmful to trade. Yet they were not the measures envisaged in the GATT.

As far as balance-of-payments problems in general were concerned, Mr. Haran pointed out that the General Agreement contained provisions concerning deficits. Today it was being recognized that balance-of-payments problems concerning surpluses were just as important, that they had a large effect on international trade and that they might be just as harmful or dangerous. At this stage he could not put forward any solutions; he would rather propose that the Director-General be asked to study these two aspects of the appropriateness of the various provisions of the General Agreement to today's trade problems and that he consult informally with the delegations directly concerned. On some appropriate occasion, perhaps at the next Council meeting or at some later date, the Director-General could furnish the results of his studies and consultations in the form of a paper which might give "food for thought" and might help the CONTRACTING PARTIES to continue to deal with this matter within the framework of GATT.

Mr. ROTH (United States) also congratulated the French Government on behalf of his Government for the strong and forthright steps they had taken to meet the recent monetary crisis, and for so quickly bringing these matters to the attention of the GATT, so that the trade aspects of their programme could be examined. One of the most significant and interesting of these was a change, in effect, of the border tax; it was the opposite of the recently proposed German action, and related the border tax issue to the adjustment process, and as a temporary measure of this order it was an interesting possibility and should be considered by the GATT. Remarking on the very thoughtful comments by the representative of Israel he said that his delegation too believed that some of the fundamental issues brought about by changed circumstances in world monetary and trade areas should be considered in the GATT in terms of the types of problems they dealt with, and in terms of the solutions they looked towards. He too hoped that these matters would be considered on the broadest scale.

The CHAIRMAN said that the Director-General would take note of the suggestions put forward by Mr. Haran and Mr. Roth.

2. Accession of Colombia

Mr. VALENCIA JARAMILLO (Colombia) said that the aspect of international trade that most worried his country was the problem of underdevelopment. His Government had welcomed the introduction of Part IV on Trade and Development to the General Agreement and was participating in the GATT negotiations between developing countries. He was now instructed to inform the CONTRACTING PARTIES of Colombia's wish to accede to the General Agreement and to participate fully in the work it undertook to increase international trade. Perhaps the most appropriate step for Colombia to take would be to accede provisionally to the GATT while gradually adjusting its internal policies in preparation for full accession. With this purpose in mind his Government would submit a formal application to the CONTRACTING PARTIES.

Many representatives welcomed this advance notice of an application for accession from the Government of Colombia; namely the representatives of Chile, Argentina, Brazil, India, Portugal, European Economic Community, United States, Canada, Spain, United Kingdom, Finland (on behalf of the five Nordic countries) and Japan.

The CHAIRMAN said that this approach by the Government of Colombia was undoubtedly welcomed by all contracting parties. He suggested that when the Director-General received the formal letter of application from the Government of Colombia, he should refer it to the Council of Representatives which would deal with the application on behalf of the CONTRACTING PARTIES.