

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Chairman: Mr. Carlos BESA (Chile)

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1. Current discussions on trade policy

The Director-General said that members of the Council were no doubt acutely aware of the serious pressures which were bearing upon the international payments situation at the present time, and also of the important part in these pressures which was represented by the balance-of-payments difficulties of the United States. They were also aware of the programme which was initiated by the United States to restore the balance of payments by a series of measures which had been announced over the New Year period and which demonstrated the determination of the United States to bring about an improvement in the balance-of-payments situation. They were measures of a very far-reaching character involving restrictions on foreign investment and proposals for limiting tourist expenditure, and reducing external governmental expenses, such as costs of diplomatic missions. In these circumstances he thought it was quite natural that the United States Administration and the United States Congress had turned their attention to the possibility of

taking measures with respect to trade, which would also contribute to an improvement of the balance-of-payments situation; and this despite an apparently favourable balance on trade account which, it is generally understood, is overstated by the figures in which the trade balance is usually expressed.

These were new circumstances. The United States Administration had been extremely conscious of the very grave implications which restrictive trade measures introduced by the United States would have on the interests of other contracting parties, and indeed upon the whole multilateral trading structure which had been so painfully built over twenty years in the GATT, and which had reached a high point of culmination in the Kennedy Round, from which it was hoped that a new period of liberal trading arrangements would develop which would lead the way to a further process of expansion of international trade and through that, expansion of national economies. For this reason they had anxiously considered this matter and had been good enough on more than one occasion to consult with him about it and to discuss various alternatives and possibilities which were open to the Administration. In assessing the pressures on the United States Administration one had to take into account the pent-up forces of protectionism which had had a somewhat frustrating time during the years of the Kennedy Round and which had, since the end of the negotiations, expressed themselves, independently of the balance-of-payments situation, by pressing for the introduction of restrictive measures which had been energetically resisted by the Administration.

The Director-General said that, in the course of these consultations, he had taken upon himself to urge the United States authorities, before coming to a final conclusion as to the measures to be taken in the trade field, to enter into consultations with the other governments principally concerned, and in particular with governments which might have it within their power to improve the United States position by taking constructive measures, thus removing the necessity for the United States to resort to restrictive measures. Subsequent to this advice, the United States had, over many weeks, entered into consultations with a number of the governments principally concerned in order to discuss the problem and the various solutions which might be brought to bear upon it.

This was very much in line with what he thought was the best course to take, but it was a course which was not without its risks in the sense that the longer this uncertainty hung over the international trading scene the uncertainty itself was bound to have serious effects on trade and traders, and it was quite clear that this was an issue which had to be resolved sooner rather than later. In the course of these consultations some suggestions had been made along the lines which he had envisaged, that was to say measures of a constructive nature, the most important of which was the declared willingness on the part of a number of governments, if such action on their part would enable the United States to avoid taking restrictive measures of their own, to accelerate the application of the concessions which were negotiated in the course of the Kennedy Round. The intention of the United Kingdom, a number of the European Free Trade Association countries, Japan, and some other countries had been communicated officially to the United States Government. The matter was also under active study in the competent organs of the European Economic Community. This was an imaginative and

constructive approach to the problem on behalf of the trading partners of the United States, and he personally was most anxious to see this suggestion explored and implemented as being the most appropriate reaction of the international trading community to a situation in which one of the leading countries was in trouble and which might otherwise be induced to take action which could not fail to be harmful to many other countries heavily dependent on international trade. Such an approach seemed to him somewhat analogous to the policies followed by the United States itself when many contracting parties in the late forties were in serious balance-of-payments difficulties; at that time the United States had negotiated and applied substantial reductions in its tariff on a unilateral basis, since the concessions which had been negotiated in exchange for reductions in the United States tariff were in most countries nullified by the maintenance of very severe import restrictions. This was an action which at that time had been characterized and urged upon the United States Government as being appropriate and good creditor policy. The same considerations might, to some extent, be applicable in the present situation.

The Director-General said he had thought it his duty to draw the attention of the Council to this very grave situation which was of close concern to all contracting parties, not with the idea that there would be any great virtue or merit in an extensive debate on the subject, but so that the Council should be seized of what he regarded as being a crucial moment for international trading relationships. He would leave on record the appeal that all governments should bring every contribution they could make towards a constructive and positive solution, so that it would not be necessary for one of the leading trading nations to adopt restrictive policies, the results of which could not but be most unfortunate.

The Chairman thanked the Director-General for his statement, and enquired whether members of the Council wished to comment.

The representative of the United States said that in the examination of the external accounts, the trade account could not be overlooked as it represented, in an overwhelming manner, the largest part of the out-payments and earnings of foreign exchange. As in every other country's balance of payments, the trade account was the dominant element, and therefore, in seeking ways to remedy the deficit which they had had for an overly long time, it was natural that they should examine what might be done in the way of improving the external trade account.

As the Director-General had mentioned, United States representatives had consulted extensively and intensively with a number of contracting parties to the GATT on their tentative thinking about this matter. These consultations had been undertaken in the recognition that the very magnitude of the trade account did raise implications for other contracting parties and for the international trading community, and that actions by the United States Government should, if at all possible, be taken with an understanding on the part of their trading partners as to what they were about. This consultation process had taken a long time and during the interval the Administration had delayed posing to Congress any specific course of action or making a public commitment.

His government had noted recently with much interest the statements that had come from a number of contracting parties about possible measures that might be taken on their part to expand the volume of international trade, which might have helpful consequences for the United States trading account and balance of payments. He welcomed the initiative of the Director-General in raising this subject and in mentioning the statements, suggestions and proposals that had been made in the last few weeks. He could not at this point state an official position on the statements and proposals made by other contracting parties. The United States would, of course, be interested to know of more suggestions. Any proposal the outcome of which promised, on the one hand, to lead to an expansion of world trade and, on the other hand, to offer the prospect of a substantial improvement in the United States external accounts, would be eminently desirable. While his government was under considerable pressure to come to a conclusion on this subject in the very near future, the kind of outcome he had just sketched would naturally be a most welcome one.

The representative of the United Kingdom said he was glad that the Director-General had addressed the Council on this problem. It was right that the Director-General and the GATT should take notice of important developments in the trade field which affect the foundations of the Agreement. His government had a great deal of sympathy for, and understanding of, the difficulties which the United States had run into on its balance of payments, and accepted the need for appropriate action to be taken to correct the situation. In common with other governments it had felt some concern at the specific measures which the United States Administration had announced or suggested, particularly at those measures which affect the trade field. The President of the Board of Trade on 15 January had emphasized the importance of preserving the large and continuous expansion of world trade, employment and production that had taken place since the war and had spoken of the need to avoid provoking retaliation and starting a downward spiral of trade restrictions.

But the United Kingdom had recognized that words were not enough and that positive solutions were needed. After close consultation with the United States Administration on the nature of the problem, and after discussions, and in agreement with the United Kingdom's EFTA partners, it was decided on 14 March, subject to a number of conditions, to offer to implement the tariff cuts which his government had undertaken to make in the Kennedy Round over a five-year period, fully by 1 January 1969. This decision had not been reached without difficulty for the United Kingdom because, as was well-known, they were experiencing some difficulties on this very subject themselves. At some stage, when there had been a response from the United States Government, the modalities and the timing of this matter would have to be decided and perhaps the GATT and the Director-General could play a part in that.

One passage from the announcement made on 14 March by the President of the Board of Trade had said that the United States Administration had also under consideration the possibility of measures, in the trade field which the United Kingdom would find hard to accept; because of the threat to their trade

and the danger of wider repercussions that might affect the development of world trade as a whole. It was this latter point - the effect on world trade and the fear of the bottomless abyss in which all might be tumbling - which had been the overriding factor in his government's approach to this problem. If, as a result of action in the trade field, such as had been suggested by the United States Administration, there were a serious escalation - and this had to be recognized as a real danger - then it was obvious that the great gains of the Kennedy Round, indeed of the GATT trade negotiations since the war, would be at risk. The United Kingdom greatly hoped therefore that the initiative which it had taken with others in offering to accelerate the Kennedy Round cuts would be found constructive, and that this very considerable offer of international co-operation would enable the Administration of the United States to avoid forms of action in the trade field which might have the grave consequences to which he had referred. He recognized that time was short and that the situation was complex and changing from day to day; but he wished to take the opportunity of the Director-General's intervention to add on the part of the United Kingdom an appeal to the United States to give every opportunity for the international community's response to be translated into constructive action. Considering the real dangers of escalation it would be most unwise for any country to embark on measures which could have serious consequences to the liberal régime of world trade which the United States itself had done so much to help construct since the GATT was founded. While fully realizing the pressures within Congress, he was nevertheless encouraged by what the United States representative had said and hoped that this appeal and this offer of action on the part of some of the major trading partners of the United States would not fall entirely on sterile ground.

The representative of the European Economic Community said that the Community shared the Director-General's concern over the evolution of international trade. The Community was aware that the growing interdependence of national economies implied a common responsibility to maintain the trend built up over the past twenty years toward liberalization of international trade. The contracting parties should pursue their contribution in the field of trade. Their first concern should be to ensure that the results of the Kennedy Round be made effective. As regards the contribution of the Community, the Director-General had opportunely recalled the recent position taken by the Council in Brussels on the possibility of an acceleration, and even of a certain asymmetrical acceleration of the Kennedy Round results. The studies for an action of this kind, and of the conditions it would require, were being actively pursued in Brussels.

The representative of Japan viewed with sympathy and understanding the United States balance-of-payments problem, and also shared the Director-General's concerns over the very grave consequences certain measures could have on the results of twenty years' effort toward liberalization of trade. Since the United States had declared early in the year that it would have to take measures to redress its balance of payments, the Japanese Government had made it known to the United States and other interested countries that, in their opinion, restrictive measures should be avoided because they would provoke a chain reaction of retaliatory measures which would destroy world trade. Closer international co-operation was more than ever needed to overcome the present difficulties. His government welcomed the possibility that certain States would accelerate the implementation of their Kennedy Round reductions, and viewed favourably the studies undertaken by the Community to this end. While Japan also had balance-of-payments difficulties, his government nevertheless stated that it was in principle ready to accelerate its Kennedy Round reductions, subject to certain conditions.

The representative of Canada said that his delegation welcomed the important statement made by the Director-General on an issue that had the greatest implications for the whole system of trade and payments to which the CONTRACTING PARTIES had made some contribution over twenty years. The trade restricting action being considered by the major trading country could mean no less than the liquidation of the Kennedy Round. It was felt in his country that this would effectively destroy the leadership of that country in commercial policy. However, the United States had shown restraint when facing a real difficulty of very great magnitude. He was aware of the difficulties which were faced in the Community, the other great power in this context, in dealing with a complex issue at this juncture in the development of their arrangements. Nonetheless, by the Treaty of Rome a new great power had been created in the trade field and it was inherent in that fact that the Community should act now with the same sense of responsibility as had the United States in the early days of the GATT when it had sharply reduced its tariffs without receiving any immediate commercial benefit. His delegation regarded as of the highest importance that this issue be dealt with by trade liberalizing measures and not by restrictive action of any sort on the part of any trading country.

The Canadian Government therefore welcomed the initiative taken by the United Kingdom authorities, by the Government of Japan and by the governments of the EFTA countries. The Canadian ministers directly responsible had considered this issue, and their trading partners should assume that if there were a general move to deal with this issue by trade liberalizing measures, Canada would make its contribution. He added that he was under instructions to make perfectly clear that by trade liberalizing measures it was meant that they could not contemplate a measure of deceleration by any country in the application of the Kennedy Round results. A measure of deceleration by one of Canada's major trading partners would make the political position of his government very difficult, and would preclude for political rather than commercial reasons the possibility of making a contribution in this area.

The representative of India said his government was following developments with some anxiety. Referring to the recent announcement of the United States Senate's tentative adoption of import quotas on foreign textiles, he appealed to all the industrially advanced countries not to export their difficulties to the less-developed countries, who could not bear such a burden. Taking note of the advance implementation idea, he submitted that the less-developed countries were responsible for motivating the idea in this form, and hoped that efforts still to be made by all the industrially advanced countries in this direction towards the less-developed countries would not be abandoned, but intensified.

The representative of Switzerland said that the Director-General's statement corresponded to the views of his government. It was important now to find a solution and to save twenty years' effort toward liberalization. Only common action by the United States and its principal trading partners could solve the problem. Any restrictive measure would lead to retaliation and play into protectionists' hands. The Kennedy Round results should be preserved and his government had declared its willingness to participate in any common effort in the right direction. It was disappointing that consultations between the United States and its partners had not yet yielded positive results. As time was pressing he suggested that the mediation of the Director-General would carry the necessary authority to materialize the general goodwill to save the Kennedy Round results. He reiterated his government's support for any constructive measures that could be applied.

The representative of Sweden agreed with the Director-General and other speakers that the Kennedy Round results should be preserved, that the efforts towards liberalization should be continued. There was, in Europe, a general feeling of the need to contribute to a constructive solution. Sweden, like the other EFTA countries, would do its share, provided other industrialized countries would do the same, and provided the United States would not apply restrictive measures. He hoped that this discussion in the GATT forum would help the United States Administration to convince Congress of the facts of the case, and that only a short time would still be needed for the European countries to work out an agreement.

The representative of Austria said that his government was prepared to contribute to a constructive solution such as the acceleration of the Kennedy Round results, provided other industrial countries did the same and the United States abstained from taking restrictive measures.

The representative of Portugal said his government shared the Director-General's concern. For this reason, it had supported, together with other EFTA countries, the United Kingdom's initiative. He hoped the positive attitude of the EEC, Japan and Canada would lead to a constructive solution of the United States balance-of-payments position, while saving the achievements that had been gained towards freer trade.

The Chairman noted that members of the Council had welcomed the initiative taken by the Director-General in bringing these matters before the Council and that members had adopted an encouraging positive attitude towards the issues involved.

2. Border tax adjustments (C/W/124)

The representative of the United States said the fact that his Government had been increasingly concerned with the adjustments made at the frontier by some contracting parties in respect of certain kinds of indirect taxes was well-known. Tax systems had changed considerably since the GATT provisions on border tax adjustments had been drafted and a more sophisticated view of the effects of these would be taken today. Border tax adjustments had been expanded and developed in response to changes in tax systems at a time when tariffs and other barriers to trade were being progressively reduced. Border tax adjustments had, therefore, come to have relatively greater importance. There were in prospect changes in tax systems in several countries which would raise further the adjustments made at frontiers. Therefore his Government proposed the establishment of a Working Party to examine this major commercial problem in detail and without any specific limitations. Terms of reference for a Working Party had been circulated in C/W/124; these reflected discussions with other contracting parties.

The Working Party should clarify the existing GATT rules and their interpretation as to the taxes for which adjustments could properly be made. This could involve consideration of the "taxe occulte", the process of averaging used by countries with cascade turnover tax systems and the question as to whether c.i.f. or f.o.b. prices should be used in the tax base. The clarification and interpretation of the application of the relevant GATT provisions was a necessary and precautionary task. His Government had already experienced some difficulties with certain contracting parties over the interpretation of the present rules. His delegation felt that the Working Party might agree on more specific and more fully agreed interpretation of these rules.

His delegation also felt that the Working Party should reconsider the effects of border tax adjustments on international trade. The GATT assumed, or had been read to assume, that border tax adjustments made consistently with the Agreement were trade neutral. There was, however, an impressive body of academic and business opinion that this assumption was not well founded. This opinion held that indirect taxes might not be wholly shifted through price increases to consumers; it might not always be valid therefore to require that importers should pay these taxes in full and to allow the rebate to exporters of the taxes, on the assumption that the effects of these border adjustments would be trade neutral. Likewise, it was held by many that direct taxes, which were not compensable under the GATT because it had been assumed that they are never shifted into selling prices, were reflected at least in part in these prices. In equity there was a strong case for allowing compensation at the frontier for direct taxes such as income tax and corporation income tax.

Consideration should also be given in the Working Party to the effects on international trade of changes in national tax systems. If, for example, a country which had been under-compensating at the frontier introduced a new system which compensated accurately for taxes paid by domestic products, this would create a new incentive for that country's exports and a new disincentive to imports. This could happen when a country moved from a cascade turnover tax system to a value-added system or when changes were made in the averages used in the calculation of border tax adjustments made by a country with a cascade tax system. This amounted to a devaluation on trade account but was consistent with GATT rules as they are at present interpreted. His delegation did not believe this to have been the intent of the drafters of the GATT and wanted this situation to be examined.

If the present rules conferred special advantages on some contracting parties, as his delegation believed, this became especially burdensome to other countries in balance-of-payments deficit if these advantages accrued to countries in surplus. The provisions of Article XII, paragraph 5, made it clear that in conditions of general disequilibrium the GATT contemplated action by surplus countries as well as by deficit countries. It was recognized that one aspect of the search for equilibrium could be action by surplus countries to increase imports (or reduce exports) as well as action by deficit countries to reduce imports (or strengthen exports). This had been largely ignored, except by the United States during the post-war period of the "dollar gap". At the present time, when the world was in the throes of acute balance-of-payments and associated monetary crises, many surplus countries had made changes in border tax adjustments which would further strengthen their trade position. This was said without animosity - the measures taken were in accordance with the GATT rules as at present interpreted, in response to national legislation, and in accord in some cases with the movement towards economic integration. More or less fortuitously, however, the changes had been to some extent inconsistent with a system of fixed exchange rates and a balance-of-payments adjustment process which was of common concern to the trading and financial world. The spokesman for the United States in the Working Party might wish to revert to the relationship between balance-of-payments problems and border tax adjustments, and might offer some suggestions or proposals which link border adjustments to fundamental balance-of-payments issues. Any such suggestions or proposals would not be addressed to immediate problems but to the general question of how to make the balance-of-payments adjustment process work better than it now did.

His delegation saw several different possibilities as to the outcome of the work of the Working Party. It might lead to a revision of the relevant articles of the General Agreement and/or the amplification or modification of the generally accepted interpretation of these articles. Depending on the course of the discussions in the Working Party, new obligations or understandings might be agreed to on the relationship between commercial policies and the process of

reaching a general balance-of-payments equilibrium including, perhaps, some elaboration of the language and spirit of Article XII. His delegation did not approach the matter under discussion with foregone conclusions in mind, but felt that the Working Party should examine all aspects of this sometimes technical but important issue. He concluded by expressing the hope that the Working Party would be convened in the near future.

The representative of Canada supported the establishment of a Working Party. Because of the reduction of tariffs, national tax systems, and changes in them, were of growing importance for international trade and might have an impact on the balance of advantages resulting from past GATT negotiations. The silence of the GATT on certain questions, and its ambiguities, created uncertainty and it was desirable that the CONTRACTING PARTIES address themselves to these matters. It was to be noted that the Canadian representative in the Working Party would not feel himself inhibited from dealing with questions relating to balance of payments in so far as these were relevant.

The representative of the European Communities said that a number of points which had been raised called for comment, such as the merits and demerits of different fiscal systems, the legality or illegality of certain measures, possible amendments to the General Agreement, the relation to balance-of-payments situations, etc., but he would refrain from presenting his comments at this stage, lest the Council should engage in the kind of discussion which should take place in the Working Party. He would prefer to limit himself to expressing his appreciation for the clarity with which others, and more particularly the United States representative, had presented their views of the problems. Furthermore, he was convinced that, if and when specific proposals were presented, the Working Party would certainly arrive at the right conclusions as to the most appropriate procedure to deal with them.

The representative of the United Kingdom said that his delegation would be prepared to participate in a Working Party to examine the meaning, application and implications of the GATT rules governing border tax adjustments. The questions before the Working Party should be approached without preconceptions as to what the facts were or as to what the conclusions should be. The possibility of a modification in the GATT rules could not be excluded, but it was not possible to say whether this would prove to be either necessary or desirable. The implications for the GATT as a whole or any change in a specific provision would have to be examined very carefully at the appropriate time. It was open to anyone to raise balance-of-payments questions but they were, "au fond", a different problem and Article XII raised much wider issues; he reserved the position of his delegation on this until the Working Party met.

The representative of Japan said that his delegation had followed with interest the practices of some contracting parties with relation to border tax adjustments. A big step forward would be taken if agreement could be reached on the issues that had been raised.

The representative of India said that his delegation was interested in the subject and would like to be on the Working Party, where it would watch over the interests of India and of the less-developed countries, with reference to what had been obtained in Article XXXVII:1(c) of the GATT. Should the Working Party's deliberations not give sufficient attention to this aspect of the subject, his delegation reserved the right to request a fresh investigation on the subject.

The representative of New Zealand supported the establishment of a Working Party and its terms of reference and expressed the view that, in the meantime, the contracting parties should avoid making changes in their border taxes.

Several other representatives also expressed their support for the establishment of a Working Party.

The Chairman suggested that, in view of complicated and technical nature of the task and in the interests of efficiency, it was of some importance that the Working Party be not too large.

The Director-General remarked that, while delegations would need the advice of tax experts, discussion in the Working Party should take place between senior officials concerned with commercial policy. He suggested that, to avoid duplication, reference should be made to the extensive work done in the OECD; he therefore requested authorization for the secretariat to approach the OECD to obtain working papers and documents arising from the detailed work already undertaken in that organization.

This was agreed.

It was agreed to establish a Working Party with the following terms of reference and membership:

Terms of reference

"Acting under paragraph 1 of Article XXV and with a view to furthering the objectives of the General Agreement, and taking into account the discussions in the Council:

1. To examine:
 - (a) the provisions of the General Agreement relevant to border tax adjustments;
 - (b) the practices of contracting parties in relation to such adjustments;
 - (c) the possible effects of such adjustments on international trade;

2. In the light of this examination, to consider any proposals and suggestions that may be put forward; and
3. To report its findings and conclusions on these matters to the Council or to the CONTRACTING PARTIES."

Membership

Argentina	Denmark	Sweden
Australia	EEC and Member States	Switzerland
Brazil	India	United Kingdom
Canada	Japan	United States
Chile	Spain	Yugoslavia

It was agreed that the appointment of a chairman would be announced later and that the Working Party would meet in the second half of April 1968.

3. Trade Expansion and Economic Co-operation Agreement between India, the United Arab Republic and Yugoslavia (L/2960 and Add.1)

The representative of Yugoslavia introduced to the Council the tripartite agreement which the three countries had notified to the Director-General on 23 February 1968 and which had been circulated to the contracting parties on 4 March. The conclusion of this agreement, he recalled, was preceded by a long history of efforts to promote trade co-operation among developing countries. GATT first became seized of the enterprise in May 1963 when the ministerial meeting had agreed to set up a working group to study the grant by less-developed countries of preferences on selected products to all other less-developed countries. Discussion in depth had taken place during the first UNCTAD conference in 1964 and had led to a recommendation adopted without dissent. In the ground rules for the Kennedy Round developing countries had been asked to make their contribution by seeking ways and means of expanding their mutual trade, in line with the provisions of Article XXXVII:4 which envisaged appropriate action by the less-developed contracting parties to expand trade with one another. The report of the Committee on Trade and Development, adopted on 5 April 1966 (L/2614), supported the establishment of preferences among less-developed countries, appropriately administered and subject to necessary safeguards, as offering an important contribution to the expansion of trade among these countries and to the attainment of the objectives of GATT. The high-level meeting of the CONTRACTING PARTIES in November 1967 had reviewed the work accomplished over the past two decades and had noted with satisfaction the initiative taken by the developing countries to explore, in the light of their obligations, the possibilities of an exchange of tariff and trade concessions directed towards the expansion of their mutual trade. Concrete measures had been envisaged by the Trade Negotiations Committee of Developing Countries, which had begun examination of practical action for promotion of trade among developing countries and had adopted a working plan for negotiations. The current UNCTAD meeting in New Delhi had created a separate working group on this subject. The developing countries were indeed gratified that developed countries there welcomed the intention of the developing countries to conclude arrangements among themselves aimed at promoting economic growth and expanding their mutual trade.

It was against the background of these developments that the representatives of the three countries had agreed in December 1966 to take practical steps to establish special tariff concessions, and the agreement now before the CONTRACTING PARTIES was the result. It represented an intensive effort to complete negotiations begun much earlier in GATT in the Kennedy Round and was motivated by a desire to bring about more efficient utilization of available resources through expansion of mutually beneficial trade. The primary purpose of the Agreement was to open up new trade possibilities and not to affect existing trade. The drafters had been very much aware of their responsibility to the community at large, as well as of their own economic interest, in giving the Agreement a trade-creating and not a trade-diverting nature and also in making certain, through the provisions of its Article IX, that it should plainly serve as a point of departure, open to accession by any developing country member of the Group of "77". The parties to the Agreement hoped, in fact, that these first results might be integrated into a larger definitive arrangement among developing countries which might emerge as a result of work now in progress in GATT and UNCTAD, as specifically envisaged in Article X of their Agreement.

The scheme had thus evolved in pursuance of obligations under Part IV of the General Agreement and was closely connected with the work of the Trade Negotiations Committee of Developing Countries. Although the Agreement was experimental, so that the extent of its effects on trade expansion could not now be predicted, the three Governments firmly believed that its implementation would not adversely affect the trade of any contracting party. They had nevertheless expressed their readiness to enter into consultation with any contracting party experiencing practical difficulties. The three delegations hoped that the methods and solutions of the Agreement would command the interest and support of the CONTRACTING PARTIES as a modest pioneering effort in trade expansion. They would furnish any other information required regarding their Agreement and stood ready to discuss ways and means of widening and, if possible, deepening its scope. It had been intimated that a working party might be needed to study the Agreement and the three countries were not opposed to that course of action.

The representative of Spain (later supported by the representatives of Greece, Israel and Cuba) drew attention to an apparent discrepancy between the statement in paragraph 4 of the submission by the three Governments (L/2980), where it was said that the scheme was "open for accession to other developing countries", and the wording of Article IX of the Agreement, where the Group of "77" was mentioned as comprising the group of countries to which accession was open. He felt that the first reference was, in fact, the appropriate one and that no country participating in the work of the Trade Negotiations Committee, as Spain had done from the start, could be excluded or deprived by this provision of its rights under the GATT. Only the CONTRACTING PARTIES could determine which countries were developing countries for GATT purposes and such a determination should be made without prejudice by a provision such as that contained in the tripartite Agreement. The representative of Greece, in

supporting this view, recalled a General Assembly Resolution in which it had been specifically stated that membership in an UNCTAD group would not determine the position of any country with regard to its status as a developing country.

The representative of Canada expressed appreciation to the three signatory governments for the information they had made available and hoped they would continue to keep the CONTRACTING PARTIES informed of developments. He also appreciated their offer to join in a working party, the establishment of which he favoured. This Agreement might be regarded as a response to urgings by other countries in the Kennedy Round and elsewhere that the developing countries take self-help measures, and he understood their feeling that no waiver was required. Nonetheless Canada felt that a strong case could be made that the Tripartite Agreement was inconsistent with Article I of GATT and that nothing in Part IV was intended to override that fundamental Article. The Agreement was to come into effect in a few days, on 1 April; it was clear that the working party's examination would not be completed by that date, so a question arose whether a waiver was required for the interval until the working party completed its examination. The view of the three countries that this might be prejudicial to the outcome of the working party's efforts was understandable, but the contrary view could also be maintained. Purely as a matter of principle, Canada would like to write into the record the view that the fact of implementation of the Agreement should not prejudice in any way the rights of other contracting parties under GATT, in particular their rights under Article XXIII. Canada also felt that any extension of the preferential system to other developing countries would require careful advance examination in GATT. He added that Canada did not itself anticipate any immediate serious problems from implementation of the Agreement.

The representatives of the United Kingdom, Sweden and Japan, whilst welcoming the initiative which this new development represented, associated themselves with the views expressed by Canada concerning the need for study of various issues in a working party with broad terms of reference and the need to keep open the question of consistency of the Agreement with GATT. The representative of Australia expressed a similar view, but felt that even a preliminary examination might lead to the conclusion that a waiver was required; he emphasized that this view did not imply opposition to the basic objectives of the Agreement and acknowledged that this type of initiative had often been urged on the developing countries.

The representatives of the United Arab Republic expressed appreciation for the sympathetic spirit in which the Agreement had been received by other contracting parties, but regretted that they had not awaited study of the text before presenting certain reservations, as he felt sure that the emphasis on trade expansion in the Agreement would suffice to avoid any harm to existing trade. The three countries would nonetheless be willing to discuss all these questions in the working party. He did feel, however, that it was premature to talk of a waiver which was certainly not needed at this stage and which would be without precedent in GATT. In his view full latitude should be left to a working party to examine the Agreement.

The representative of the United States stated that his Government appreciated fully the significance of the Agreement and felt that at this stage the task should be merely to set up a working party with suitable terms of reference without going into questions of substance. The terms of reference should permit the broadest kind of examination in the working party. He thought it would go without saying that this procedural decision in no way prejudiced the GATT rights either of the three countries which had entered into the Agreement or of others.

The representative of the EEC agreed that the initiative was an important one, and that a working party with broad terms of reference was called for. On the substance of the problems involved, it was hardly possible to pursue the details in Council, but the EEC looked forward to doing so in the working party. The representative of Austria also expressed interest in this new initiative involving a neighbour country. He was especially interested to hear of the emphasis on trade creation, but other important issues were also involved. He hoped that the study by the proposed working party would bring progress in the development of trade policies of contracting parties in accordance with the rules of GATT.

The representative of India emphasized that the Agreement had been concluded on an experimental basis to see what could be done about increasing trade by mutual effort among developing countries. The signatories hoped that it would be successful as a demonstration project and that many others would wish to join. The signatories agreed to the appointment of a working party with broad terms of reference which would address itself to the practical aspects of the Agreement and to their likely results, rather than become entangled in legal issues. He was convinced that such an approach would, with goodwill, constant consultation and discussion, find a solution satisfactory to all parties to the General Agreement.

The representative of Uruguay said his Government had studied the Agreement carefully and was impressed by the practical, effective way in which it approached the problem of trade expansion. Without giving an opinion on the complex legal issues involved, he found it an intelligent means of implementing Part IV of GATT. He understood the feelings of these delegations which had noted a problem in Article IX of the Agreement and agreed that the terms of reference of the working party should be wide.

The representative of Pakistan stated that in the absence of instructions he was obliged to record a reservation on the part of his Government.

The representative of Yugoslavia suggested that the working party should be instructed to examine the Agreement "in the light of all relevant provisions of the General Agreement and having regard to the objectives of the CONTRACTING PARTIES with respect to trade expansion among developing countries".

The Council agreed to appoint a working party with the following terms of reference and membership:

Terms of reference

Taking into account the discussion in the Council: to examine the Trade Expansion and Economic Co-operation Agreement between India, The United Arab Republic and Yugoslavia, signed on 23 December 1967 and set out in L/2980 and Add.1, in the light of all relevant provisions of the General Agreement and having regard to the objectives of the CONTRACTING PARTIES with respect to trade expansion among developing countries; and to report to the Council.

Membership

Argentina	Japan
Australia	Spain
Brazil	Sweden
Canada	Turkey
Cuba	United Arab Republic
European Economic Community and member States	United Kingdom
Greece	United States
India	Uruguay
Israel	Yugoslavia

The Chairman said that the appointment of the chairman of the working party would be announced later.

4. Balance-of-payments import restrictions

(a) Report on consultation with Iceland (BOP/R/19)

The Acting Chairman of the Committee on Balance-of-Payments Import Restrictions reported that the Committee had carried out a consultation with Iceland on 17 January 1968, in conformity with the provisions of Article XII. The report was before the Council for appropriate action.

The Council agreed to recommend to the CONTRACTING PARTIES that the report be adopted at their next regular session.

(b) Programme for consultations in 1968 (C/76)

The Chairman drew the attention of the Council to the secretariat note, circulated in C/76, which set out the proposed programme for consultations on balance-of-payments restrictions in 1968.

The Council agreed to provide for three meetings of the Committee in 1968, the first to be held in April, to carry out consultations with the countries listed in C/76, the dates to be arranged by the secretariat in consultation with the International Monetary Fund and the countries concerned.

(c) Restrictions imposed by Peru

The Chairman informed the Council that Peru had submitted a notification concerning import restrictions which it had been obliged to impose, on a temporary basis, for balance-of-payments reasons, and that Peru was invoking the provisions of Article XVIII:B. As Peru had expressed willingness to carry out the consultation required under paragraph 12(a) of Article XVIII he assumed the Council would wish to have the necessary arrangements put in hand.

The Council agreed to ask the Committee on Balance-of-Payments Import Restrictions to carry out a consultation with Peru at the earliest possible date and asked the Director-General to extend to the International Monetary Fund the normal invitation so that the CONTRACTING PARTIES might consult with the Fund on the matter.

5. Financial and administrative questions

(a) Assessment of additional contributions (L/2952)

The Council approved the Director-General's proposals in document L/2952 concerning the contributions for 1967 and 1968 and the advance to the Working Capital Fund to be assessed on Ireland.

(b) Final 1967 budget position (L/2992)

The Chairman drew attention to the Director-General's report on the final position of the 1967 budget, in document L/2992. Referring to the list of contributions in arrears, as set out in Annex A, he informed the Council that, since the end of the year, Argentina, Burundi, Congo (Brazzaville), Greece and Uganda had paid up all arrears, while Cambodia, Ghana and Indonesia had remitted part of the amounts outstanding.

The representative of the United States stated that his Government fully concurred with the proposal in paragraph 7, but that it was his Government's hope that in future representation and hospitality expenditure could be kept within the appropriations authorized for this purpose.

The Council approved the proposal in paragraph 7 authorizing the Director-General to increase certain appropriations by way of transfers between budgetary items.

The representative of the United Kingdom referred to the Director-General's intention (paragraph 9) to put proposals to the Budget Committee for the disposal of the unappropriated surplus in 1967. He asked that when these proposals were formulated, delegations be given sufficient time to consult their governments.

(c) Tariff study (L/2993)

The Chairman said that in document L/2993 the Director-General had provided an estimate of expenses which would be incurred in connexion with the work to be undertaken for the Committee on Trade in Industrial Products and had proposed that the additional expenditure be financed from savings within the appropriate sections of the budget or by transfer from other sections or, to the extent that this might not be possible, by transferring the necessary funds from "Unforeseen Expenditure".

The representative of the United States noted that the estimated cost of this study might be financed out of savings, but if the cost should exceed \$30,000, he wished the matter to be brought before the Council for consideration. The representative of France endorsed this view.

This was agreed and the Director-General's proposals were approved.

Mr. LEWIS, Assistant Director-General, reported on the work being carried out by the secretariat in connexion with the tariff study.¹ The secretariat hoped to obtain from certain national governments computer tapes containing tariff data and statistics and it had been ascertained that the bulk of the information required would be available in the near future. Unless the secretariat could make use of the computer work already done by governments, the compilation of data would be a task beyond its present resources and the cost would be much greater than the present estimate. The study would focus first on the examination of the tariffs of the main developed countries; it was hoped, subsequently, to make additional studies on the tariffs of other countries. The secretariat would be submitting a detailed report to the Committee on Trade in Industrial Products when it met in June 1968.

6. Terms of appointment of Director-General (C/77)

The Chairman said that a communication had been received from the Chairman of the CONTRACTING PARTIES concerning the terms of appointment of Mr. Olivier Long as Director-General. The proposed terms of contract, reproduced in document C/77, had been sent to Heads of Delegations and as no objection had been received it was assumed that contracting parties were in full agreement.

The Council endorsed the terms of contract.

¹The report was later circulated in document COM.IND/

