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BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

Statement by the NEW ZEALAND Representative
at the meeting on Monday, 22 November 1954

Mr. Chairman, I thank you for the opportunity of commenting on the discussions which have already taken place in this Working Party. I think it important that the Working Party should take into account the views of delegations other than those which are members of it and I wish to make some elaboration on the New Zealand position which has already been stated briefly in the Plenary Session. My remarks will be directed towards quantitative restrictions for balance-of-payments purposes but I would also wish to deal to a certain extent with the application of balance-of-payments articles to the underdeveloped countries.

The New Zealand views are very similar to those which have already been strongly stated by the Australian delegate and which have been supported by certain other delegations on the Working Party, notably France, Sweden, and several of the less developed countries.

After taking full account of the remarks made by some members of the Working Party, particularly the remarks by the representatives of those countries which wished to see a substantial tightening of the provisions relating to balance of payments, the New Zealand view still remains as stated at the Plenary Session, namely, that the existing articles are in general satisfactory both for the present and immediate future and for the situation which will obtain after convertibility. We are in general agreement with the proposition that the scope for action under the balance-of-payments clauses should be adequately restricted but we maintain that the desired purpose can be achieved by closer attention to the administration of the existing articles, rather than by a tightening of the articles which would have the effect of laying down conditions which would be unenforceable, and, in the case of some of the propositions which have been put forward, would be so tight as to make it impossible for countries such as New Zealand to accept them.

I hope it will be agreed that the Agreement must take account of the differing economic conditions in its member countries, and that it would be unfortunate if the rules were drafted in such a way that the ultimate result would be a more limited membership of GATT excluding those countries which could not conform to the new rules.

There has been much reference to the need to make a special effort to understand the problems of the underdeveloped countries. The New Zealand delegation is fully in agreement that this should be done. However, those who are advocating very strict rules for the balance-of-payments clauses should also, we think, make a special effort to understand the problems of countries like New Zealand. Because of their dependence on a few export commodities and because of the pressure of demand for imports which is occasioned by their policies of full employment and economic development, such countries are particularly prone to balance-of-payments difficulties. We have had these difficulties on a number of occasions in our economic history and there are no grounds for believing that in the future the situation will alter significantly. Although substantial changes are taking place in our economy we are still going to be dependent in the foreseeable future, mainly on the sale abroad of our relatively small range of export commodities such as wool, meat and dairy produce, and we cannot predict when our export income is likely to fall off. At the same time our needs for imports are very substantial and amount to some 30 per cent expressed in terms of our national income.

Our situation is in many ways similar to that which has been stated by representatives of countries in the early stages of economic development, and in our view the distinction between such countries and our own which is now being drawn in the discussions on the General Agreement is a highly artificial one. The difference is only one of degree and the question of low standards of living has not in our opinion very much bearing on the question of balance-of-payments difficulties.

We still experience these difficulties from time to time in spite of the fact that our standard of living is relatively high.

Coming now to specific points which have been raised in the course of discussion in the Working Party, the first one is that of prior approval for the institution and maintenance of balance-of-payments restrictions. The system of prior approval is quite unacceptable to the New Zealand Government, which must insist on its right to use its own judgement about an approaching crisis in its balance of payments and in its timing of action to deal with it. The reasons for this view are the same as those which have been put forward very strongly by the Australian delegate and which were also stated by me in the Plenary Meetings, and I need not elaborate further on that aspect.

The second point is that of subsequent approval. We are of the opinion that adequate provision already exists, notably in Article XII:4(a), (b) and (d), and that closer attention to the administration of such provisions will achieve the objectives desired by other members round this table. The Canadian representative

has stated that Article XIII:4(d) is unsatisfactory because it never puts a country in a position of being in breach of the Agreement. We cannot agree with this view. The Article refers specifically to restrictions applied "inconsistently with the provisions of paragraph 2 or 3 of this Article" and this surely means action constituting a breach of the Agreement and warranting the retaliatory action which is specified.

My third point concerns the provision for a time limit for use of balance-of-payments restrictions. As already indicated in the Plenary Session an arbitrary time limit is quite unacceptable to New Zealand. It should be obvious that we cannot predict future variations in our export receipts and we cannot be sure that we could conform to a time limit within one year, two years or any other period of time. However, we take seriously the obligation which is contained in the existing Article to relax restrictions progressively as conditions improve, and our record shows that we have carried out such a relaxation. I would like to emphasize that relaxations are made not only in the interests of countries whose trade is prejudiced by restrictions but in our own interests. We do not wish to remain in balance-of-payments difficulties for longer than we can help because it denies our own industries and our own consumers access to a wide range of products which we wish to buy from abroad. A time limit which we could not observe would be of no help to other contracting parties in this respect, and, as has been stated by the Australian delegate, we think it is quite inappropriate that we should be asked to come along to plead for a waiver.

I now wish to refer to the provisions of Article XIII:3(b) which contain a safeguard for the domestic policies directed towards the achievement and maintenance of full and productive employment, economic development and other similar objectives and which state that no contracting parties shall be required to withdraw or modify restrictions on the ground that a change in such policies would render the restrictions unnecessary. The New Zealand Government attaches the utmost importance to this safeguard and cannot agree that it should be transferred to another Article where it would be applicable only to certain classes of underdeveloped countries.

The Canadian representative has stated that the existence of the provisions of Article XIII:3(b) has frustrated the quality of consultations under Article XII. We do not consider that this has been the case. We are perfectly prepared to consult, as is required by the Agreement, and to put the facts of our position before the CONTRACTING PARTIES and we fail to see how Article XIII:3(b) prevents this from being done.

We are surprised to note that the German delegation in their document L/261/Add.1 has suggested that matters such as full employment are "problems which have resulted from the consequence of the last war", and that reference to such economic policy matters should be deleted except to the extent that they are covered in Article XVIII. The German delegation have also suggested a wording of paragraph 3(a) of Article XII which would lay down as a sole criterion for decisions under that Article that "contracting parties shall be guided by the point of view of the necessity for expanding international trade". Other delegations

beside the German delegation have suggested deleting Article XIII:3(b) and I must therefore draw attention to the fact that Article XIII:3(b) was inserted in GATT after a very extensive debate in 1947, that it does not apply merely to a postwar situation and that for our part we regard it as fundamental and not something which can be overridden by the criterion of expanding international trade.

My delegation would have no objection to the deletion of Article XIII:3(a) as it is recognized that although the effects of the last world war are still reflected to some extent in international trade there is now no occasion to refer to that aspect.

With regard to paragraph 3(b), this provision, Mr. Chairman, does nothing more than recognize that in carrying out the main objectives on which the Agreement is based, contracting parties may experience a high demand for imports resulting in the necessity to take appropriate and logical action to regulate them until such time as equilibrium is restored. It may serve a useful purpose at this stage, Mr. Chairman, if I quote the preamble to the Agreement. It reads as follows:-

"The Governments of

"Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods. Being desirous of contributing to these objectives", etc. Then follows the Agreement.

These principles were recognized by the inclusion of Article XIII:3(b) in the Agreement. Is it now to be suggested, Mr. Chairman, that we are merely to give lip service to those principles? If the answer is "No" then there is, I think, a clear case for retaining Article XIII:3(b).

If some countries have doubts as to the improper use of Article XIII:3(b), I would draw attention to Article XIII:3(c), which contains a specific undertaking about points to which contracting parties must pay due regard in the carrying out of domestic policies, e.g., the need for restoring equilibrium in the balance-of-payments situation on a sound and lasting basis, for ensuring economic employment of resources, and for avoiding unnecessary damage to the commercial or economic interests of any other contracting party.

The existing consultation procedures can easily be applied to ensure that these obligations are in fact carried out. Consultations will be facilitated if the contracting parties have a permanent organization as is now proposed rather than a series of meetings which has been the case up to the present. In the view of our delegation, we should pay more attention to this aspect of the matter so that the objectives can be achieved in this way instead of endeavouring to upset principles of the existing Articles which we regard as basic.

Coming now to the question of relations between the CONTRACTING PARTIES and the International Monetary Fund, I would refer to the view which has already been stated by our delegation, namely, that we favour the fullest co-operation between the CONTRACTING PARTIES and the Fund even though we are not Fund members. We do not, however, consider that the CONTRACTING PARTIES should be bound to accept determinations of the Fund other than determinations on questions of fact as provided for in Article XV. Thus we are strongly opposed to the proposal which has been introduced that the Fund should determine whether a balance-of-payments crisis requires remedial measures of X or Y millions. Such a determination is a matter of judgment and this judgment must in the first place be made by the Government concerned and afterwards it could be examined by the CONTRACTING PARTIES to see whether it is in accordance with the criteria of Article XII. In this examination the CONTRACTING PARTIES will no doubt be assisted by the expert advice of the Fund, but they should not be bound by such advice.

I would like to say a few words here about the balance-of-payments provisions for underdeveloped countries. Although we appreciate the work which has been done by the secretariat in drafting special provisions under Article XVIII for this purpose and although we fully understand the reasons why economic development may lead to balance-of-payments difficulties we do not think a case has been made for putting these provisions in an Article which would be drafted so as to apply solely to one group of countries. The only justification for such a course would be if Article XII were to be made so restrictive as to be unavailable to those countries. If Article XII remains substantially in its present form as is advocated by Australia, New Zealand and a number of other countries it would be a relatively simple matter to cover within it the needs of underdeveloped countries. In this connection, I think, a very appropriate suggestion has been made by the delegation of Indonesia. I hope this will be circulated in writing and that the Working Party will examine it fully. Even if the exact draft submitted by Indonesia is not satisfactory to cover the point, I think that members should take careful note that several other representatives of underdeveloped countries have stated that the present text of Article XII is reasonably satisfactory both generally and for covering the position of underdeveloped countries.

Finally, Mr. Chairman, we were interested to learn from you on Saturday that a composite new draft of the balance-of-payments provisions was to be put forward by representatives of five industrially advanced countries. We have not yet had opportunity to examine this new draft but I hope it will take into consideration the comments which have already been made by delegations such as ours, and that it will not continue to represent such a tightening of the provisions as has been indicated in some of the opening statements. Until a sufficient number of delegations have established a case for a new set of rules we are strongly of the opinion that the present text should be used as the basic working document of this Committee.