

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.9/219

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CONTRACTING PARTIES  
Ninth Session

Review Working Party I on  
Quantitative Restrictions

## ARTICLE XII:5 IN W.9/208

### Draft Passage for Insertion in Report of Working Party I

1. The Working Party had before it three proposed amendments put forward by three different contracting parties which, although differing in detail, were all designed to make provision for joint action in order to restore equilibrium in the system of world trade and payments in the event that system became seriously unbalanced, and to avoid the imposition of unnecessarily severe restrictions on international trade. One of these proposals aimed particularly at enabling the CONTRACTING PARTIES to take joint action to prevent a disequilibrium in world trade and payments from occurring through measures to counteract inflationary or deflationary pressures. The Working Party agreed with the conclusions of Working Party IV in document W.9/197 on a proposal of a similar nature which had been discussed there.
2. The two other proposals were mainly designed to meet a situation where some large and commercially important country might develop a persistent surplus in its balance of payments with the rest of the world thus placing a strain on the international reserves of other countries and bringing about a general scarcity of the currency of the particular country concerned.
3. There was general agreement in the Working Party that such a situation might arise from a variety of different circumstances and that the prime responsibility for the state of unbalance might rest either with the surplus or the deficit countries.
4. It was noted that provisions are already contained in the General Agreement and also in the Articles of Agreement of the International Monetary Fund to enable consultation to take place on the measures that might appropriately be adopted to meet such situations.

5. In particular it was noted that Article XII:5 of the GATT lays an obligation on the CONTRACTING PARTIES to initiate discussions to consider whether measures other than the application of trade restrictions might be taken either by those contracting parties whose balances of payments are under pressure or by those whose balances of payments are tending to be exceptionally favourable, or by any appropriate inter-governmental organization to remove the underlying causes of the disequilibrium.

6. If the CONTRACTING PARTIES were to find that strict application of the non-discrimination provisions of Article XIII would cause an unnecessary contraction in world trade there are already provisions in the GATT and the International Monetary Fund Agreement which could be invoked to waive temporarily the obligation imposed upon contracting parties under that Article to apply import restrictions in a non-discriminatory manner.

7. First, the Fund may, if it finds a general scarcity of a currency under Article VII, Section I, approve discriminatory measures under Article VIII, Sections 2 and 3; Certain important members of the Fund and GATT have stated that if they supported a finding under Fund Article VII, Section I, they would also support appropriate action under Article VIII.

8. Secondly, Fund Article VII, Section 3, provides that if it becomes evident that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund shall formally declare that currency scarce and such a declaration authorises certain discriminatory limitations on the freedom of exchange operations in that currency. Although this provision has not operated in the past because the Fund's ability to supply a currency has never been threatened, it is to be expected that when the resources of the Fund are being used to support the convertibility of currencies, any serious scarcity of a major currency would quickly be reflected in the holdings of the Fund. These provisions in the Fund Agreement bear directly on the question of trade discrimination; for under Article XIV of the GATT as at present drafted a contracting party would be able to apply discriminatory quantitative restrictions having equivalent effect to exchange restrictions authorized by the Fund under Article VIII, Section 3, as well as under Article VII, Section 3(b).

9. Moreover, there are other relevant provisions in the GATT. For example, if any contracting party considered that the pressure on its international reserves was resulting from the situation in some individual country, it could raise the question under Article XXIII with a view either to consultations directly with such other contracting parties as it might consider to be particularly concerned, or to reference to the CONTRACTING PARTIES, in order to obtain recommendations from them or, if need be, release from specific obligations in accordance with the terms of that Article.

10. In the consideration of this matter in the Working Party a number of contracting parties stressed the desirability of providing for continuous co-operation and consultation between the GATT and the International Monetary Fund with a view to keeping the world economic situation under constant review and to enabling action to be concerted in good time to prevent any serious disequilibrium in world trade and payments from developing. It is recommended that further consideration be given to setting up appropriate machinery for such regular consultation as soon as the new Organization is established.