

SECOND COMMITTEE: ECONOMIC DEVELOPMENT

SUMMARY RECORD OF THE TENTH MEETING

Held at the Capitol, Havana, Cuba, on Thursday, 18 December 1947 at 4.00 p.m.

Chairman: Mr. ABELLO (Philippines)

ARTICLE 15 - Continuation of Discussion

Mr. NASH (New Zealand) stated preferential arrangements, which had been in effect for fifteen years within the British Commonwealth, had been beneficial to New Zealand, and although she was not in favour of interfering with these arrangements, she would support any plan which would be of benefit to others and not detrimental to herself. She would agree to reduce tariffs on goods if this reduction were on a reciprocal basis. If the Charter were adopted, New Zealand, as a Member of the British Commonwealth would adopt no new preferential tariff margin.

The representative of New Zealand did not think it would be helpful if new preferential arrangements should be brought into being, although the countries in the higher categories had no right to maintain their standard unless those countries in the lower categories were improved. It was of prime importance that no country should think only of improving its own standards. The policy must be to retain high living conditions and at the same time lift those of less fortunate countries. This could be done by some co-operative procedure whereby countries with higher productivity would help in the development of the resources of others, by the shipping in of products and equipment and with the help of technical and scientific skill. It would be impossible, however, if countries tied themselves in with others of equally low standards. A certain area, consisting, say, of five or six countries might be isolated as "preferential", but this suggestion would require thorough examination.

Mr. TRABOULSI (Syria) supported the statements made by the representatives of Lebanon and Chile.

Mr. SHACKLE (United Kingdom) said that the "most-favoured-nation" principle as incorporated in the Geneva Charter, was a cardinal feature, and any exceptions from it should be controlled by the Organization. He did not think geographical contiguity was sufficient justification by itself for countries to enter into preferential arrangements, and the ITO should control
/the setting

the setting up of such arrangements. Otherwise there would be a risk that such regional groups might spread, so that whole continents might be absorbed. There would also be danger of clashes.

The countries parties to the General Agreement on Tariffs and Trade were already under a general obligation not to apply new or increased preferences. Moreover these countries had negotiated at Geneva various eliminations and reductions of preferences which would be put into effect by a number of them on 1 January next. It would therefore be inequitable that at the same time a general dispensation should be given for other countries to enter into preferential arrangements at will or on general grounds of contiguity or "complimentariness". He recognized that larger economic units might sometimes be desirable. Full Customs Unions would be most effective for this purpose, but for practical reasons less far-reaching arrangements might sometimes be necessary. He did not think that it would be possible to fix hard and fast criteria in advance in order to decide whether particular projects for preferential systems would be desirable or not. The "special circumstances" in Article 15 should essentially be taken to mean consideration of whether the project would do more harm than good, or vice versa.

He believed that if, as the representative of Venezuela had suggested, there were to be no prior approval but only subsequent complaint to the Organization regarding preferential arrangements, it would be difficult and embarrassing to go back on a system already working. Prior approval by a two-thirds majority vote would be a just and reasonable solution.

Mr. ZAYED (Egypt) felt economic relations between countries of the same culture, language and race, and in the same geographical area, would have good results. He endorsed the amendments on page 61 (document E/CONF.2/C/9) and that of Venezuela.

Mr. HAWKINS (United States) referring to a statement by the representative of Canada, pointed out that trade benefits gained through preferential arrangements in one block of countries might be at the expense not only of the well-developed countries but of others as well, and the Charter should be devised to prevent this from happening, and yet to leave room for preferential arrangements when expedient.

He supported the basic principles stated by Brazil.

Article 15 appeared to follow a middle course, permitting the use of preferences where they would be more helpful than injurious. The two-thirds majority vote would help to safeguard countries which might be seriously injured. He thought that if once preferential arrangements were adopted, it might be too difficult for a country to "reverse itself" and during the deliberations concerning a proposed preferential arrangement, trade might not be disrupted.

/Mr. BRUDZINZKI

Mr. BRUDZINZKI (Poland) agreed with Chile that it would not be just to introduce obstacles to any new arrangements without restricting the ones already in existence. Obstacles to new preferential arrangements could only be called just and equitable if a date were set when all old preferences would disappear completely. He said that industrial development needed markets of a certain magnitude which could not be found in small independent countries. A Customs Union might produce the best results, but as some countries were not in a position for this move, the making of preferential arrangements should be the first step towards it. The arrangements should be left entirely to the members concerned. He asked if a limiting set of rules for preferential arrangements could not be embodied in the Charter instead of the prior approval clause.

He suggested that such rules could, for instance, include provisions that no increase of customs duties or other charges of any kind in the most-favoured-nation rates should be made and further that no margin of preference of any product in respect of which a preference was permitted under paragraph 15 should exceed the preferential margin for the same, or, similar products already in existence under the preferential agreements permitted by Article 16 of the Charter.

Mr. MULLER (Belgium) said that Belgium had always been opposed to preferential tariffs. Preferential margins were reduced at Geneva and should not be increased. He could, however, understand that countries with one-column tariffs would want to set up a preferential system. He thought preliminary consideration and approval by the ITO would be a wise procedure.

Mr. ALVAREZ (Colombia) believed that the conditions of Article 15 were too strict. He said there were two tendencies - that of strong countries to guarantee their own preferential development, and that of other countries with common languages, etc., to enter into regional pacts. He felt preferential arrangements could be very useful in certain cases, and above all to countries which were neighbours and had parallel circumstances.

He felt that the interests of industrial countries were guaranteed by the intervention of the Organization, which would keep any harmful arrangements from being effected. Colombia believed that a two-thirds majority vote would make the Article absolutely ineffective.

Mr. RICHARD (France) mentioned the long history of preferential arrangements practices by Britain and France. He said his delegation stood mid-way in the discussion. France was in favour of wider markets for trade, and of economic units larger than those within national boundaries. Customs Unions should be the aim, and she was prepared to take the initiative in their formation.

/France believed

France believed preferential arrangements to be necessary. As the aims and methods to achieve both economic development and reconstruction were very similar, differentiation between them would be artificial.

Mr. FRESQUET (Cuba) believed that the Geneva text offered an adequate solution to the whole problem of preferential arrangements.

Mr. SKAUG (Norway) said that apart from countries which were members of a preferential system, and those who wanted a change in the wording of Article 15, there was a third group of small countries which were not members of existing preferential systems, but which supported Article 15 as it now read. Norway had suffered as a result of existing preferential systems and was of the opinion that any new preferential arrangement would have an undesirable effect on the economies of other countries. In some cases, the establishment of preferences might provide the best solution and, therefore, Article 15 had been included in the Charter. But there would be little reality to the obligation of member states to reduce preferences if, at the same time, the door was left open to new preferential arrangements. Such a situation would result in a third group of countries among which Norway would number, having to ask for some kind of protection for themselves.

Mr. GARCIA OLDINI (Chile) considered it obvious that the Conference was divided between countries which enjoyed a large part of the world's economic potential, and others which did not share the same advantages. The procedure outlined in Article 15 was too vague and incomplete to meet the legitimate views of the latter group of countries and under it, the establishment of new preferential arrangements would be practicably impossible.

All that was being asked by the representatives of underdeveloped countries was the opportunity to conclude the same kind of preferential arrangements which had been concluded hitherto. The arrangements would be governed by the provisions of the Charter, with the exception of the need for prior approval by the Organization. Mr. Wilgress had referred to the historical reasons for the existing preferential arrangements; Latin America had always felt itself to be a homogeneous economic whole and the idea of Latin American preferential arrangements was not a new one.

A concession had been made by the underdeveloped countries in suggesting that it might be possible for the Organization to take action, if it were necessary, after the conclusion of preferential arrangements. In connection with the remarks of the Polish representative, Mr. Garcia Oldini said that it was not the intention of the underdeveloped countries to leave the door open to abuses and that he would agree to add further limiting provisions to his amendment.

/The United Kingdom

The United Kingdom representative had been prepared to make an exception in the case of customs unions. If that were so, why then could he not accept preferential arrangements?

Mr. DEMFL (Turkey) supported the remarks which had been made by the representative of Lebanon. If countries wished to support each other in their mutual economic development, two obstacles would stand in their way; the question of prior approval by the Organization, and the necessity for an affirmative vote of a two-thirds majority.

The Turkish amendment for the deletion of the reference to "prior approval" in Article 13, was closely related to Article 15. He reserved his position concerning the latter Article until a decision had been taken on Article 13, but would be in favour of a vote by simple majority if the reference to "prior approval" were to be maintained.

Mr. D'ASCOLI (Venezuela) stressed that the underdeveloped countries were not attempting to destroy the Charter, but were asking that it be made more balanced and just. The argument that preferential arrangements would damage the economies of other countries had been exaggerated. They would promote the greater prosperity of the region in question and were a necessity because there was no immediate possibility of customs unions.

The representatives of Argentina and Uruguay had drawn attention to the harm which had been done by existing preferential systems and yet those systems were consecrated in the Charter and no time limit had been fixed for their abolition.

The Conference had an obligation to be just in its attitude towards a limited system of preferences for certain regions of the world.

Mr. HEIDENSTAM (Sweden) associated himself with the remarks of the representative of Norway. Too much stress had been laid on the point of view of industrially underdeveloped countries, for such countries could have immense agricultural or mineral resources.

A Scandanavian preferential arrangement would be detrimental to the trade of agricultural countries, but if there were to be a world-wide move towards preferential systems, the Scandanavian countries would be forced to take similar steps.

Mr. MOELIA (Netherlands) supported the position which had been upheld by the Belgium representative concerning new preferential arrangements.

Mr. POLITIS (Greece) felt that if preferential arrangements were harmful they should be abolished, but that if they were beneficial they should be encouraged or even extended. The Charter countenanced preferences and they could be instrumental in promoting higher standards of living if established between countries with analagous economies.

/The procedure

The procedure set forth in Article 15 was so vague that authorization for a new preferential arrangement would never be obtained. It should be noted that the Venezuelan proposal did make provision for complaints to the Organization in the event of countries being harmed by new preferential arrangements.

Mr. SEACKLE (United Kingdom) drew attention to the fact that under Article 15 a procedure analogous to that of Article 13 would be gone through with the difference that the final decision would be taken by a two-thirds majority. There was no question of a preliminary decision having to be taken by a two-thirds majority before the procedure was set in motion.

Mr. BRIGNOLI (Argentina) pointed out that the preferential arrangements referred to in Article 16 were recognized as valid without any investigation having been carried out as to whether they were causing damage. For new preferential arrangements, however, prior approval of the Organization was demanded. Although he would not suggest it, a just solution to such a situation would be to submit all existing preferential systems to the Organization for consideration and to abolish those which were not approved.

Mr. BANERJI (India) stated that from the London discussions, the Indian delegation had recognized the necessity for preferential arrangements among countries of underdeveloped economic regions. It also recognized, however, the importance of the remarks of the Canadian, United Kingdom and the United States representatives. The Lebanese representative rightly had suggested that by narrowing the terms of Article 15, it might be possible to reconcile the divergent views. By its inclusion in the Draft Charter, the principle of preferential arrangements had been accepted and it was for the Sub-Committee to find an appropriate form of words.

Mr. HAIDER (Transjordan) pointed out that there was general agreement as to the desirability of customs unions and that it was recognized that the establishment of preferential arrangements was one way by which customs unions could be achieved. There were two ways in which a preferential arrangement could prove injurious; first, when preferences were established by raising tariffs on goods from other parts of the world instead of lowering the barriers on the goods of the country with which the arrangement had been concluded. The economic well-being of a country could also suffer if a country with which it had a substantial trade established a preferential arrangement with a third country with which it also had substantial trade.

He begged the representatives of countries which were opposed to any change in Article 15, not to oppose the justified demand of underdeveloped countries concerning new preferential arrangements, but to state the terms which would have to be laid down to protect their own legitimate interests in that respect.

/Even if the

Even if the existing preferential arrangements were to be eliminated immediately, the case for the establishment of new preference systems elsewhere in the world, could still be justified. Another point to be taken into consideration was the difficulty of defining what constituted a developed or an undeveloped country. For his part, a country was undeveloped if it were impoverished and unable to give its people an adequate standard of living.

Mr. HEWITT (Australia) drew attention to the remarks which had been made by his delegation on this subject in the Third Committee.

The CHAIRMAN announced that Article 15 with its amendments would be referred to the Joint Sub-Committee of Committees II and III which had been set up to consider that Article and Articles 16 (2) and (3) and 42.

COMPOSITION OF THE JOINT SUB-COMMITTEE

The CHAIRMAN said that jointly with the Chairman of the Third Committee he proposed that the Sub-Committee be composed of representatives of the following countries: Argentina, Australia, Belgium, Brazil, Canada, El Salvador, France, India, Sweden, Syria, United Kingdom, United States and Venezuela.

Mr. GARCIA OLDINI (Chile), supported by the representative of Venezuela, emphasized the need for the composition of the Sub-Committee to reflect the tendency of the discussion in the full Committee. Two-thirds of the proposed members of the Sub-Committee represented the minority view in the discussion which had just taken place.

Mr. BRIGNOLI (Argentina) proposed the representative of Chile as an additional member of the Sub-Committee. Mr. BANERJI (India) said that he would be prepared to withdraw the name of India from the list of members, if by so doing he could facilitate the Chairman's task.

The CHAIRMAN said that he would consult with the Chairman of the Third Committee and would report back to the Committee at the following meeting.

The meeting rose at 7.15 p.m.
