

THIRD COMMITTEE: COMMERCIAL POLICY

SUMMARY RECORD OF THE EIGHTEENTH MEETING (IIIb)

Held at the Capitol, Havana, Cuba,
Tuesday, 23 December 1947 at 10:30 a.m.

Chairman: Mr. L. D. WILGINS (Canada)

1. ARTICLE 20 - General Elimination of Quantitative Restrictions
(First Reading).

CONTINUATION OF DISCUSSION OF PROPOSED AMENDMENTS AND GENEVA DRAFT NOTES
(Document E/CONF.2/C.3/14).

Mr. KALMA (Finland) drew attention to the exceptional conditions of Finland at the present time due to the loss during the war of ten percent of her total area. Half a million of her people had been compelled to leave their homes and their properties and move inside the new frontier. Credits from United States, Argentine and Brazil had been of great help in rehabilitation, but these had to be repaid by means of exports and services rendered, and for the time being Finland would be compelled to maintain controls and to use quantitative restrictions for the maintenance of equilibrium in her balance of payments.

But her attitude with regard to elimination of trade barriers was not determined by the prevailing circumstances. Industrial development had proceeded at a rapid rate between 1920 and 1940 under the stimulus of only moderate tariffs; moreover, the specialities which she produced for export needed large world markets and for those reasons his country was in favour of eliminating as far as possible the barriers to free trade. The danger of fluctuations must be recognized, but the guiding principle of industrialization must be that new industries should increase in efficiency until they were able to compete on an equal basis with overseas industries.

It was vital for underdeveloped countries to mobilize the resources of self-help, in which case the need for quantitative restrictions would be greatly limited. Those Articles with which Committee III b was concerned should be adopted mainly in their present form, with only minor amendments such as those of the delegate of Sweden with whom he was in agreement.

Mr. OLDINI (Chile) stated that at Geneva the use of quantitative restrictions for economic development without prior approval had been

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rejected - possibly because such a proposal granted too little. Yet quantitative restrictions might be used to protect a country's balance of payments - a provision which seemed to suggest that the economic life of a country and its possibilities for development were less important than the balance of payments.

Quantitative restrictions were necessary for a variety of reasons. Subsidies were a luxury of the rich and the raising of tariffs burdened the consumer; moreover, the aim of tariff reductions laid down in Article 17 would be in conflict with their more extensive use for economic development. The provisions of Article 13, which laid down a procedure for obtaining prior approval, were very complicated and required a country to subordinate itself to the opinion of the ITO, which might jeopardize its future advancement.

If the Chilean amendment was considered to be too sweeping, he was willing to discuss it in the Sub-Committee. A well-drafted article should meet the wishes of the undeveloped countries while closing the door to abuses.

Mr. ROBLES (Guatemala) referred to the principles laid down in Article 1 of the Charter. Those principles would have to be carried out in varying ways according to the varying economic situations of Member countries. His country needed to impose quantitative restrictions in certain cases in order to develop industries and raise standards of living. Countries like the United Kingdom and the United States had only had to impose tariffs when they were developing, as the world was then in a less complicated state, and they were not threatened by imperialism. Such forms of protection were now insufficient. Developing countries must maintain a balance between costs, wages, prices of real estate and prices of consumption goods. Since Article 21 could only be invoked to forestall or correct a balance of payments crisis, an under-developed country would be as backward as ever and as subject to cyclical fluctuations after the restrictions were lifted. Nor did Articles 13, 20, 22, 40 and 41 adequately cover the situation.

Quantitative restrictions soundly applied were one of the instruments of government most necessary to promote to a certain degree and at a certain time the development of backward countries. Without these restrictions, the raw materials of a country could be purchased at low prices by foreign countries and then returned to the country of origin as high-priced manufactured goods.

The use of restrictions would be safeguarded by the goodwill, good faith and honesty of countries which knew how to fulfil their undertakings; it must also be remembered that industrialized countries were the best

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customers of other industrialized countries.

Mr. OLMEDO (Mexico) said that Mexico had no exchange controls and had never resorted to quantitative restrictions except in one case of emergency, namely to safeguard its balance of payments. Quantitative restrictions should be limited to extreme cases and should be non-discriminatory; but countries should be permitted to use their resources in the way they thought fit and in order to satisfy legitimate aspirations. Countries with a low standard of living should be permitted to forbid the import of luxuries. The existing exceptions required further elaboration since they did not provide equitable treatment for mainly agricultural economies. The amendment to Article 13 submitted by Mexico might remove the necessity for an exception in Article 20.

Mr. DEDMAN (Australia) stated that his delegation was opposed to the inclusion in the Charter of permission to use quantitative restrictions for protective purposes without prior approval for the following reasons: (1) Quantitative restrictions applied against the exports of a country which depended on a few major exports could have devastating results on the economy of that country. Under-developed countries were usually dependent on one or a few exports. (2) Past and recent experience had proved that quantitative restrictions were more likely to be used by economically developed countries for the purpose of protecting their domestic agriculture than by those with nascent industries; such restrictions would therefore be detrimental to the latter. (3) The maintenance of prior approval under Article 13 was an essential protection for under-developed and primary-producing countries. (4) If a country could prove its case under paragraph 4 (b) of that Article, the ITO was compelled to permit the imposition of the proposed restriction. Further, the natural sympathies of Members of the Organization were unlikely to place serious barriers on the use of quantitative restrictions except in cases in which their effects would be seriously detrimental or when other adequate alternative measures were available.

The under-developed countries should hesitate before abandoning the opportunity to protect themselves against the unwise use of quantitative restrictions directed at their major exports. He recalled that during depression of the 20's and 30's every industrialized European country had imposed quantitative restrictions against primary products with disastrous effects on the economy of certain other countries. Australia had not enough confidence in the future to be prepared to place in the hands of importing countries the unqualified right to impose quantitative restrictions against major exports. Occasions might arise when the imposition of quantitative restrictions was not merely the most effective but the least restrictive

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method of protecting a new industry and, if such facts could be established, the Organization had no option but to grant approval.

Mr. WILCOX (United States of America) declared that the issue was whether quantitative restrictions for protective purposes could be used freely by all countries or only used in the absence of other adequate measures. The United States had reluctantly come to the conclusion that quantitative restrictions should be permitted for purely protective purposes in exceptional cases provided there were appropriate safeguards. It could not, however, agree to those amendments under which it would be possible for any country to impose quantitative restrictions on the imports of any other country.

Rapid industrialization could only be achieved through the employment of capital, technology and know-how, and investors would not readily believe in the possibilities of success of a developing industry if markets were everywhere closed by extensive quantitative restrictions. If quantitative restrictions were to be employed as weapons in a widespread economic conflict, all the advantages in that conflict would lie with the big and strong countries, not with the smaller and undeveloped countries; it could not be supposed that the strong countries would voluntarily forgo the use of quantitative restrictions if the small countries enjoyed complete freedom of action. Moreover, such phrases as "an early stage of industrial development" raised many difficulties, since it could be contended with truth that many States in the United States were undeveloped.

The United States was ready to surrender its freedom to impose quantitative restrictions for protective purposes, and would do everything in its power to see that quantitative restrictions were never employed harmfully to other countries. But if all restraint on quantitative restrictions should be removed by the adoption of some of the amendments proposed to Article 20, the United States would find it difficult to resist demands for retaliation.

Numerous situations could be imagined in which other countries, especially the small and undeveloped ones, would suffer the greatest damage to their economies if the United States were ever to indulge in such retaliatory action.

If the trading pattern now written into the Charter were adopted, there would be no official limit of any sort on the total quantity of goods that other countries could sell in the United States; but if all restraints on quantitative restrictions were abolished and if the United States followed the example of others, then the effects would be both serious and far-reaching. It was difficult to see what purpose an International Trade Organization could serve under these circumstances.

Mr. ROYER (France) stated that any excessive hindrance to free trade, /regardless of

regardless of its nature, should be eliminated. At Geneva France had submitted proposals condemning prohibitive tariffs but was met by resistance from the under-developed countries, who would have been the beneficiaries. Quantitative restrictions must be used cautiously, precisely because they were such an effective weapon.

Certainly the Charter abandoned quantitative restrictions as a normal means of protection, but it did not absolutely condemn such measures; exceptions were provided in Articles 13 and 14 as well as in 20 and 21. That position was acceptable to the French delegation. But the Argentine, Chilean and Ceylonese amendments seemed to propose a strict Charter for the heavily industrialized countries and a much looser one for the so-called under-developed countries - an arrangement which his government would find hard to accept.

Referring to the comment of the delegate of Switzerland that quantitative restrictions were outlawed in the Charter while exchange control was less severely dealt with, the delegate of France called attention to Article 24, paragraph 4.91. The representatives of the United States and Australia had pointed out the dangers of the free use of quantitative restrictions. There might be specific cases in which they were necessary but the provisions of Article 13 took account of that fact; and paragraph 4 (b) of that Article stated that the Organization shall allow justifiable quantitative restrictions when they did not cause excessive damage to others. The spirit in which these matters were dealt with in practice was illustrated by the fact that France had not at Geneva required Chile, Syria or Lebanon to remove the quantitative restrictions they were imposing at the present time.

The Charter would not produce an upheaval of economies but would attain the desired end in a gradual manner. There were exceptions provided for the transition period in Article 14 and the delegation of France reserved it right to make proposals concerning these. There could be no Charter without international economic commitments. The world must either accept certain minimum commitments or bear the consequences of uncontrolled national sovereignty. The advantages and disadvantages must be weighed: all states must be willing to relinquish their sovereignty to some extent. France was prepared to do that and to accept the powers of the Organization, which were moderate indeed and were not those of a super-state.

Mr. STUCKI (Switzerland) said that the United States' delegate had claimed that it was in Switzerland's interest to outlaw quantitative restrictions because of her small size and dependence on exports. But Switzerland exported only 13 per cent of its total exports to the United States, where there were no exchange difficulties. However, the countries receiving 87 per cent of her exports were in a different situation. A country
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such as his could not accept the arbitrary closing of doors to its exports and the consequent evil of unemployment, which was allowed under the provisions of Article 21.

Mr. DUNAWAY (Liberia) stated that he supported the general purpose of Article 20, but paragraph 2 (c), which permitted a long list of exceptions without prior approval, was not acceptable. Ninety-five per cent of his country's exports consisted of natural rubber which could be banned by those restrictions. Moreover, each new application of such restrictions would encourage reprisals and so result eventually in the strangulation of trade. He was therefore opposed to all amendments allowing quantitative restrictions for protection of new industries.

The CHAIRMAN announced that the general discussion of Article 20 would be resumed at the next meeting of Committee III b.

The meeting rose at 1.00 p.m.
