

THIRD COMMITTEE: COMMERCIAL POLICY

SUMMARY RECORD OF THE TWENTY-FOURTH MEETING (IIIb)

Held at the Capitol, Havana, Cuba  
Saturday, 3 January 1948 at 4.00 p.m.

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

(Reference E/CONF.2/C.3/7)

1. ARTICLE 24: EXCHANGE ARRANGEMENTS

(First Reading)

Paragraph 2

(Item 80) Mr. DEDMAN (Australia) had made no amendment to the substantive content of Article 21, as he was in complete agreement with the purposes of the Article. Paragraph 2, however, did not achieve these purposes affectively.

[ It was administratively unsound to separate responsibility for a decision from the responsibility for action arising from it. Good working relations between the IMF and the ITO would be impaired if the ITO had to adopt a decision against its judgement.

The proper procedure was for any decision to be preceded by close personal consultation between the officers of the two Organizations, a consultation which would recognize the special fields of competence of each. Moreover, the respect by Members for the provisions of the Charter would be weakened if the ITO were to impose on Members a determination of the IMF with which it disagreed.]

The present draft of the Article would also make it difficult, if not impossible, to implement the important provisions of Article 21, paragraphs 2 (a), 3 (a) and 3 (b). It should be made clear whether these provisions would be taken into account in determining the conditions of a country's reserves, or only after such a determination was made, and whether or not the ITO could take the decision under those provisions.

The Australian amendment imposed on the ITO an obligation to use to the full the special competence of the IMF and to avoid duplication of staff, /while at the

while at the same time it provided a sound working basis for the two Organizations and placed responsibility where it justly belonged.

Mr. SAHLIN (Sweden) said the Charter should stress the importance of close co-operation and consultation between the ITO and the IMF, but the provisions making the determinations of the Fund binding on the ITO were too far-reaching. He supported the Australian proposal.

Mr. LLORENTE (Philippines) said that the logic of the New Zealand amendment was more apparent than real. Members of the ITO who were not members of the IMF could not ignore the IMF. The final determination in exchange matters involving financial assistance should continue to be the prerogative of the IMF. Two of the functions of the IMF were to provide short-term credits to countries in temporary balance of payments difficulties and to provide mechanisms of adjustment to improve the long-term balance of payments situation. Hence the IMF must make the determination as to whether or not, in exchange matters, a Member of the ITO fulfilled its obligations under the Articles of Agreement of the IMF or under the terms of a special exchange agreement between that Member and the ITO. Also, the determination of exchange rates in the transition period was function not conveniently transferable to any other organization.

The ITO should consult with the IMF in exchange matters, but not extend its own functions to technical considerations. The Philippine delegation supported Article 24 as it stood.

Mr. THOMPSON-McCAUSLAND (United Kingdom) said that the great voting strength of the United States in the IMF often led countries to argue that the ITO should, therefore, not hand over one of its most important functions to the IMF. But in fact no voting preponderance could outweigh the Fund's interests in its own Articles of Agreement.

Fears that the power of the IMF might negate the provisions of Article 21 paragraph 3 (b) were unwarranted. The Fund might refuse to allow a country to impose quantitative restrictions on the ground that its domestic policies were inappropriate; it might also refuse financial assistance; but in that case the country would be unable to maintain the parity of its currency and Article IV Section 5 (f) of the Articles of Agreement laid down that the Fund could not object to a change in parity because of the domestic policies of a country.

An institution set up in the international field must be master in its own house; and individual members must be free to act if critical situations arose in their foreign exchange positions. These principles were observed in the Geneva text, and should be embodied in any amendment.

/Mr. FERRERO

Mr. FERRERO (Peru) supported the New Zealand amendment.

Mr. GUERRA (Cuba) said that if the provisions of Article 24 were considered with Article 21, there was no basis for the fears that the ITO would be subservient to the Fund. The provisions of paragraphs 2 (a) (ii) and 3 (a) of Article 21 made it clear that the final decision as to whether restrictions would be instituted or maintained rested with the ITO, notwithstanding determinations made by the IMF.

The provisions of the Charter referring to exchange and balance of payments matters would supplement or modify the Articles of Agreement of the Fund and would represent new commitments by Fund members who signed the ITO Charter.

The sub-committee should break Article 24 into two, making a separate Article of those provisions dealing with exchange arrangements.

Mr. FARINA (Uruguay) asked whether the ITO would subordinate itself to the Fund in all cases or only in monetary matters, and suggested that the observer for the Fund be heard.

Mr. AZER (Egypt) felt that paragraph 2 represented a well balanced compromise which provided a working basis for co-operation between the ITO and the Fund. An intelligent division of responsibility between financial and economic decisions would not preclude freedom of action and would avoid duplication of the functions of two international agencies. The sovereignty of the ITO would not be invaded by the Fund's giving its competent opinion on financial matters, for final determination would rest with the ITO.

Mr. PERRY (Canada) supported the present form of Article 24. Since the majority of the states at the Conference were members of the Fund, it was sensible and economical to consider the Fund as a sister to and not as a rival of the ITO. It was important that the Fund and the ITO should possess a collection of authentic data on foreign exchange, monetary reserves and balance of payments.

The term "and other facts" in line 8 of paragraph 2 could be defined as all supporting information necessary to a proper understanding of the foreign exchange position of a country. Under paragraph 2 of Article 24, the Fund would be called upon to give judgement on matters requiring analysis by monetary specialists, but the ITO would make the decisions. The Fund would apply standard tests to decide if the conditions of paragraph 2 (a) of Article 21 were fulfilled; it was not, however, the administrative decisions of the ITO nor the standard tests which dominated the situation, but the criteria laid down in paragraph 2 (a) of Article 21.

/Since the ITO

Since the ITO would be affected by decisions of the Fund, there was need for integration between the two organizations. That the two should exist with a minimum of intercourse would produce an unfavourable environment for international trade.

Mr. LIMA-CAMPOS (Brazil) agreed with the statements of the New Zealand and Australian representatives. The position of many countries would be weakened if matters relating to the ITO Charter were to be decided by the Fund because of the differences in the voting procedure of the two organizations. Moreover, since the ITO was primarily concerned with production and employment problems, which should predominate over monetary questions, the decision should rest with the ITO, if there were differences between the two organizations.

Mr. WOLD (Norway) agreed with the United Kingdom representative that there would be no great divergence of opinion between the two Organizations, but supported the Australian amendment because the ITO should have full and free responsibility for the vital decisions under Article 21. As Article 24 was at present drafted the ITO must accept the determination of the Fund in a formal and binding manner. The argument that not all prospective members of the ITO were members of the Fund carried great weight.

Mr. STUCKI (Switzerland) supported the New Zealand and Australian amendments. He doubted the wisdom of including in the Charter a provision whereby the ITO would be compelled to accept the findings and advice of another organization using a system of weighted voting.

Mr. BLUSZTAJN (Poland) approved the New Zealand and Australian amendments. The ITO must have the right of final decision on questions of trade policy, although co-operation between the ITO and the Fund was essential. The proposal that there should be a division of labour between the ITO and the Fund was unrealistic as questions of financial policy and of trade policy were too closely connected. Quantitative restrictions and exchange controls were complementary. He was concerned as to whether the provisions in the Charter of the ITO concerning the exchange policy of Members were consistent with the Articles of the Fund. It should be stated that nothing in Chapter IV should be construed as interfering with the obligations of members of the ITO to the Fund. It was important that those members of ITO who were not members of the Fund should not as a result enjoy a privileged position.

Mr. AUGENHALER (Czechoslovakia) felt that the danger was that the Fund and the ITO might disagree as to whether countries were in difficulties concerning balance of payments or not. But the problem was not insoluble.

/If the Fund

If the Fund recognized that a country was in balance of payment difficulties, the ITO should agree at once. If, on the other hand, the Fund found that a country had no such difficulties then the ITO could consider the "special factors" referred to in paragraph 2 (a) (ii) of Article 21.

Mr. BRONZ (The United States of America) said that there was a special relationship between the ITO and the Fund. Members of the Fund agreed to abandon the use of certain monetary practices which in the past had had disagreeable results. Quantitative restrictions and exchange controls were complementary but the former had not been dealt with in the Fund Agreement because it would have extended the scope of the institution too much. It would be seriously damaging to the Fund if a country obtained permission from the ITO to impose quantitative restrictions after the Fund had refused to allow the institution of exchange controls.

The last sentence of paragraph 2 of Article 24 did not cover all of paragraph 2 (a) of Article 21. Neither the words "imminent threat" nor the phrase "except to the extent necessary" appeared in Article 24. The difficulties of the transitional period were covered by Article XIV Section 5 of the Articles of Agreement of the Fund as well as by paragraph 3 (a) of Article 21 in the Draft Charter.

He felt paragraph 2 of Article 24 was essential to preserve for the Fund one of its principal functions and to protect the decisions of the Fund in its own special field. The United States approved the text of the Geneva Draft of Article 24.

Mr. MULLER (Chile) was satisfied with the Geneva draft. If the New Zealand and Australian amendments were accepted, a provision must be added laying down that the ITO could not require a member to take any action contrary to its obligations to the IMF. The arguments justifying the amendments were based on the fact that in Article 24 the final decision was left to the IMF, but the Geneva draft did not lead to this interpretation. The IMF was required to give judgement on the relevant factors, but the final decision was left to the ITO.

Mr. DUNAWAY (Liberia) stated that Liberia had never used restrictive measures in any way and saw no need to do so in the future. Her currency was convertible. Imports and exports were handled by regular commercial establishments, and this method represented foreign trade at its simplest and best.

Mr. NASH (New Zealand) said that the New Zealand amendment was not an attack on the IMF. There was no objection to compelling members of the ITO to sign an agreement on exchange matters, nor to the ITO obtaining all

/information

information necessary to enable it to determine matters within its Charter. There should be the fullest co-operation between the ITO and IMF or other organizations, but no outside body should determine the actions of the ITO. Under the present text the ITO was required to make the final decision only after accepting the determination of the IMF.

The CHAIRMAN said that the IMF observers had not yet stated the position of the Fund, but they would participate in the discussions of the Sub-Committee and give their opinions if the members so desired.

The proposals of Australia and New Zealand were referred to the Sub-Committee set up to discuss Articles 21, 23 and 24.

Paragraph 4

Mr. BRONZ (United States of America) requested that the interpretative note to paragraph 4 be considered by the Sub-Committee.

Paragraph 6

Mr. STUCKI (Switzerland) asked that members of the Preparatory Committee and the representative of the International Monetary Fund explain the exact meaning of paragraph 6, which was of great concern to non-members of the Fund.

Proposed New Paragraph 10 (Item 82)

Mr. LUNA OLMEDO (Mexico) explained that Mexico had not found an exchange control system expedient but its gradually disappearing monetary reserve would need protection; some retaliatory measure, transitional in nature, should be provided as protection against those applying controls which affected Mexico's balance of payments.

Mr. NORIEGA-MORALES (Guatemala) supported the Mexican proposal. Guatemala had no disequilibrium and had not applied exchange controls, but in order to defend its economy, it might have to resort to legislation introducing restrictive measures, should its reserves be unduly depleted.

Mr. THOMPSON-McCAUSLAND (United Kingdom) noted that the term "exchange control" had not yet been precisely defined. He hoped that in Sub-Committee there would be opportunity for a more complete explanation of the Mexican proposal, and particularly of the last sentence.

General

Mr. BRIGNOLI (Argentina) stated that the proposal to delete Article 24 (Item 83) was a corollary to the Argentine amendments to Articles 22 and 23. Relationship with other organizations was established in Chapter VII; it should be set forth clearly that the ITO was not subordinate to the IMF.

Until a solution was found to foreign exchange shortage and inconvertibility, Argentina could not limit its freedom of action by concluding  
/special exchange

special exchange agreements; at the present time she did not desire to become a member of the Fund either directly or indirectly. Argentina would not restrict imports unnecessarily; indeed, she wished to maintain a level which would facilitate the amortization of the foreign credits she had granted. The provisions of the present Article 24 need not be established for some time.

Mr. van TICHELEN (Belgium) stated that his delegation retained its reservation to Article 24. The intervention of the IMF if a country was threatened with balance of payments difficulties was legitimate and valuable, but the machinery set in motion under Articles 21-24 by the recognition that a critical situation existed, enabled a member to have recourse to quantitative restrictions with dangerous facility.

Chapter II, which encouraged economic development policies not resulting in harm to third countries, was contradicted by Articles 21-24 which gave priority to national policy, even though harmful to others. The technique of the prevention of economic crises should have been more thoroughly studied; the balance of payments was the crux of such crises; but the use of quantitative restrictions accelerated the crisis. Belgium had willingly relinquished its sovereignty by choosing the method of intervention by the ITO and the Fund, in order to exclude the operation of uncontrollable forces which led to economic crisis and chaos.

Mr. DJEBBARA (Syria) suggested that the representative of Belgium, in criticizing one of the few weapons in the Charter helpful to many countries, might have offered an alternative solution for their economic ills.

Mr. van TICHELEN (Belgium) was willing to assist in seeking a compromise to safeguard a certain degree of national sovereignty, but countries should be willing to lay it aside in special cases. Crises could not always be averted, but measures accelerating them should be deleted from the Charter.

Mr. AUGENTHALER (Czechoslovakia) moved the adjournment.

The CHAIRMAN stated that discussion of Article 24 would be continued at the next meeting to be held Monday, 5 January, at 3.00 p.m.

The meeting rose at 7.20 p.m.

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