

THIRD COMMITTEE: COMMERCIAL POLICY
SUB-COMMITTEE 'E' OF THE THIRD COMMITTEE

SECTION C - SUBSIDIES

NOTES OF THE THIRD MEETING

Held at Havana on Tuesday, 13 January 1948 at 10.30 a.m.

Chairman: Mr. E. McCARTHY (Australia)

(Reference: E/CONF.2/C.3/8)

Article 27 - Proposed New Paragraph

The Netherlands representative explained his delegation's proposal (item 9) for a new paragraph to be added to Article 27. The scheme they had in mind was already implicitly permitted under Section C, but it seemed that it might only come within the terms of Article 25 when world prices fell below stabilized domestic prices. If notification and consultation under Article 25 were not undertaken until then, the fact of review by the Organization in such circumstances would be a stimulus to speculation. The intention of the amendment was to bring such schemes under Article 25 now - even when they were not in effect price support schemes - so that full particulars would be made available at once to the Organization and to other Members. The amendment was, as it were, complementary to paragraph 1, and it might be possible to combine the two paragraphs in one.

In discussion it was suggested that the amendment might have the effect of bringing purely domestic measures within the scope of ITO, and perhaps even (under sub-paragraph (a)) of prohibiting them. It was pointed out, however, that it merely brought the schemes in question under Article 25, which itself only applied to measures affecting international trade. It was also suggested that specific mention of such schemes might be interpreted as justifying their existence irrespective of particular circumstances; on the other hand, it was argued that the amendment would not prejudice the position of complaining Members under Article 25, and
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they would also be safeguarded by the right of consultation under Article 89.

There was general agreement on the desirability of including the substance of the Netherlands amendment in Section C. It was agreed to refer it in due course to a Working Party to consider its drafting and position in the Section. Delegations could later reconsider their positions in the light of other decisions affecting the Section as a whole.

Article 27 - Paragraph 1

The representative of Brazil explained his delegation's proposal to add the following words at the end of paragraph 1 (a):

".....provided that, since the inception of the system, the average excess of the domestic over the export price has not been less than the average excess of the export over the domestic price."

He feared that Article 27, in its present form would not prevent disguised subsidies from being paid. The amendment was designed to prevent this by limiting the extent to which a stabilization scheme could operate to subsidize exports.

It was argued against the amendment that:

(a) paragraphs 1 (a) and (b) of Article 27 provided adequate safeguards against stabilization schemes being used for disguised subsidization. Under paragraph 1 (b) such schemes would be subject to determinations, both initially and in course of operation, as to possible prejudice of Members' interests; also under paragraph 1 (a) they could only be introduced when world prices were higher than the proposed domestic prices. Some delegates thought that the present paragraph 2 of Article 27 would provide an added safeguard against misuse of stabilization schemes under paragraph 1;

(b) there would be considerable practical difficulties, e.g. in assessing "average excess" and establishing base periods; account would need to be taken of quantities as well as of prices;

(c) in practice, the amendment might result in stabilization schemes being brought to a sudden end when world prices were low. This possibility would discourage increased production at the present time. In discussion, it was suggested that the word "less" had been mistakenly used for "greater" in the amendment. It was also suggested that the Brazilian representative's fears of disguised subsidization might partly arise from the use of the term "stimulate exports unduly" in paragraph 1 (b). The Brazilian representative stated that he still had some misgivings as to whether there was sufficient safeguards

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against disguised subsidies but, pending further examination of the points made, would not press his amendment.

Article 26

Attention was drawn to a typographical error in paragraph 3 of Article 26 of the Geneva text, where "effects" should read "facts".
