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PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT

COMMITTEE II

Eighth Meeting
Held on Thursday, 7 November 1946
at 10.30 a.m.

Chairman: Dr. COOMBS

1. Discussion of Questions Related to Quantitative Restrictions (Balance of Payments Provisions) and Exchange Control.

Mr. HAWKINS (United States) said that the problem which had to be dealt with was that of ensuring that countries with balance-of-payments difficulties could impose quantitative restrictions without at the same time providing too much latitude. The United States draft of Article 20 was presented only as a basis for discussion; it was recognized that changes might be required.

The basic provision of Article 20 was that countries with balance-of-payments difficulties could use quantitative restrictions. Until the end of 1949, or the middle of 1950, each member country would be permitted to decide for itself whether quantitative restrictions were necessary to deal with balance-of payments difficulties. It would be required to consult, through the ITO, with other members, the commerce of which was affected by the restrictions.

Quantitative restrictions could be continued after the transitional period to arrest a long continuing or large balance-of-payments deficit or, if the country had low monetary reserves, to forestall a large balance-of-payments deficit. The United States would be prepared to consider a modification of this point. Action

taken after the three-year period would be subject, however, to review of the ITO; the ITO would consult with the International Monetary Fund with respect to the balance-of-payments or monetary reserves of the country concerned.

Sub-paragraph (c) of paragraph 3 of the Article provided a complaint procedure. The ITO would rule on complaints; if it ruled that the use of quantitative restrictions by a member was not justified, the complaining member could withhold trade benefits from the member using such restrictions.

He feared that the drafting of paragraph 4 did not adequately carry out the intention. It was intended to provide that, where practicable, restrictions should be applied uniformly to all important products. But this was to be done as far as practicable; it was not a rigid rule. The important thing was that the member applying restrictions should have regard to the effects of such restrictions on other members. A member applying restrictions would at least permit importation of minimum commercial quantities of a product, of which another member was a principal supplier, or a product important to the economy of another member.

The administration of such quantitative restrictions as were permitted was covered by Articles 21 and 22. Subject to certain exceptions, the Draft Charter provided that restrictions should be administered in a non-discriminatory way; the exceptions, set forth in Article 22, related in the main to problems of scarce or inconvertible currencies. He recognized the difficulties of applying restrictions in a non-discriminatory way during the immediate post-war period. He was willing to consider amendments or changes to those provisions relating to non-discrimination during the transition period.

The basic provision of Section D on exchange control was that no exchange controls would be applied in connection with imports from other member countries. Paragraph 2 of Article 23 provided an exception for certain exchange controls imposed in accordance with certain provisions of the International Monetary Fund Agreement. But the Charter placed certain qualifications on provisions of the Fund Agreement having to do with the transition period. It substituted provisions for non-discrimination for provisions in the Fund Agreement covering the transition period.

Mr. HELMORE (United Kingdom) felt that the matters under discussion were of extreme importance to the whole effort of the Preparatory Committee. Rapid introduction of quantitative restrictions due to balance-of-payments difficulties contributed greatly to the economic distress of the 1930's. The United Kingdom could understand both sides of the problem, since it was itself imposing restrictions for balance-of-payments reasons, and was at the same time suffering from restrictions applied by other countries.

Provisions to be agreed upon for the ITO Charter should make possible a close working relationship between the ITO and the International Monetary Fund. Each organization would have responsibilities; but they would be closely related. Paragraph 5 of the Annex to the United Kingdom's paper on quantitative restrictions to safeguard the balance of payments (E/PC/T/C.II/W.22) assumed that the two organizations would have common membership.

From the point of view of expanding trade, there should be the least possible resort to quantitative restrictions on balance-of-payments grounds; but, where there was real need for such restrictions, it should be possible to apply them.

Flexibility was important. If a country could not remove restrictions completely, there should be some provision for reduction of their intensity, where that was possible.

The Charter should set forth certain guiding principles. Members should be allowed to decide, in the light of those principles, whether it was necessary to apply restrictions for balance-of-payments purposes. If the commerce of another country was injured, that country could make representations to the ITO, which would consider such representations in consultation with the Fund. The Fund should be responsible for determining facts about the balance-of-payments situation of a member, and drawing deductions from those facts. The ITO should have the responsibility for determining whether restrictions were injurious to another member.

He called attention to the words (in paragraph 5 of the Annex of the United Kingdom document) "in a manner which unnecessarily damages its commercial interests." He emphasized the word "unnecessarily". He also placed emphasis on the words "or modified" in the last sentence of the same paragraph. The intensity of restrictions might be more damaging than the fact that restrictions existed.

It was important that the objectives of the Charter should not be frustrated by exchange restrictions or competitive exchange depreciation. The position in that connection was largely governed by the Fund Agreement. Common membership in the ITO and the Fund would be most desirable, but might not be possible.

It was important that members of the ITO should observe rules of the Fund relating to trade problems.

Mr. NATHAN (France) said that, attaching (as he did) great importance to the achievement of the objectives of the Charter, he found a possible obstacle to that achievement in the fear which many countries had with respect to maintaining balance-of-payments equilibrium. He had been pleased by the United States Delegate's understanding of the complexities of the problem, and his wise approach to it. The drafts presented by the United States and the

United Kingdom could serve as excellent bases for discussion. France was not yet ready to agree to all of the provisions of either. But it should be possible, starting from the drafts that had been submitted, to work out suitable provisions.

Mr. PHILLIPS (Australia) welcomed the general approach of the Delegates of the United States and the United Kingdom to the problem under discussion.

Australia had had balance-of-payments difficulties, Foreign trade was very important to Australia's economy. Her exports of primary products were affected by fluctuations in the world market. Her imports included a high proportion of capital goods. A portion of available foreign exchange had to be used to service debts.

Provisions of the Charter should not unduly restrict the power of members to protect their balance-of-payments and monetary reserve positions. There was need for international action, however, since the restrictions imposed by one country might affect another. Australia had been affected by restrictions imposed by other countries; and there were times when the other countries had not fully appreciated Australia's difficulties.

Since the Fund restricted the resort to exchange controls, there should not be undue limitations on the use of quantitative restrictions.

There was need for objective criteria with respect to the use of quantitative restrictions. If the action of a member complied with those criteria, such action should not be challenged by other members. Admittedly the definition of such criteria would be difficult; but it migth not be impossible. An effort should be made. If it proved impossible at the present time, the Charter should provide for later determination of these criteria.

A country should be permitted to impose controls for balance-of-payments difficulties, even if the criteria were not met; but in such a case there could be investigation by the ITO and the Fund.

He wondered whether the expression "in a manner" appearing in the first sentence of paragraph 5 of the Annex to the United Kingdom draft referred to the type of administration of a quantitative restriction to the manner in which it was applied or to the fact that it had been imposed.

He felt that there should be provision for the extension of the transition period in cases of individual members which continued to face difficulties. It should be possible to use discriminatory quantitative restrictions during the transition period.

He supported the United Kingdom suggestion that there should be provision for investigation by the ITO and the Fund of causes and remedies of balance-of-payments disequilibrium leading to widespread use of quantitative restrictions.

There would be countries having almost permanent balance-of-payments difficulties because of programmes of rehabilitation or of industrialization. Perhaps the Charter should provide that the ITO could permit such countries to use quantitative restrictions for a period of three years, with extension of the period where necessary. That would amount to an extension of the United States' provision permitting the use of quantitative restrictions to forestall balance-of-payments difficulties.

Australia agreed in general with the principle of non-discrimination in the application of restrictions. But the exceptions outlined by the Delegates of the United States and the United Kingdom were reasonable. Another exception might be included which would permit discrimination against countries

failing to maintain employment, since indiscriminate restrictions would involve the spread of balance-of-payments difficulties to third countries.

The questions under discussion were very closely related to the problems of maintaining full employment and a high level of demand.

He agreed generally with the United States' draft provisions on exchange control, and was glad that the United States was willing to rooonsider the question of discriminatory restrictions in the transition period.

Rights granted in the Fund Agreement should not be curtailed.

Australia did not feel that there should be a provision for common membership in the Fund and the ITO. Members of the ITO must be subject to certain provisions of the Fund, but not to all of them.

Should there not be provisions with respect to changes of exchange rates ? Improper use of the right to alter exchange rates was less likely than improper use of quantitative restrictions. Reluctance to alter exchange rates during the inter-war period caused much damage.

Mr. LUTHRINGER (International Monetary Fund) made a statement.

He said that even before the days of the Bretton Woods Conference a common feeling had prevailed among those who were charting the course of the Fund and the Bank that the twin brothers (as the late Lord Keynes had named them) would need a third brother to assist in the common task of serving humanity in its endeavour for economic security and for an ever rising standard of life.

The representatives of the countries taking part in the Bretton Woods Conference had included in the final Act a resolution No. VII, which recognized that the complete attainment of the objectives of the Agreement could not be realized through the Fund

and the Bank alone. It recommended accordingly the countries of the world to reach agreement as soon as possible on ways and means whereby to "reduce obstacles to international trade, and in other ways promote mutually advantageous international economic relations .... and facilitate by co-operative effort the harmonization of national policies of member states designed to promote and maintain a high level of employment and progressively rising standards of life."

An International Trade Organization, as envisaged by the Charter before the Conference, would help to fulfil that function, and would not only be of great assistance to the member nations, but would also facilitate considerably the work of the Fund.

The objectives of the two institutions were the same; only their labour was divided. It was understandable, therefore, that so many provisions were found in the proposals of the Charter, which referred to the Articles of Agreement of the IMF and were complementary to them, particularly in sections C and D of Chapter IV of the proposed Charter. The aims of those sections, namely, the eventual elimination of quantitative trade and exchange restrictions, was also one of the aims of the IMF. The IMF had noted accordingly with interest the methods by which the Conference was proposing that the member countries with the help of the ITO should endeavour to do away with some of the destructive features of quantitative trade restrictions. That clearly was an arduous task: and without a parallel policy in the field of international financial relations that purpose would be doomed from the outset.

When the Articles of Agreement of the IMF were drafted, it was realized that the Fund would start its operations soon after hostilities had ended, at a time, namely, when member nations would be endeavouring to reconstruct their economies, and would be

contending with economic problems of unprecedented magnitude. It was felt that under such conditions the member countries during a transition period should have considerable freedom in protecting their monetary systems while trying to fit their national economies into the overall pattern of the world economy. It was because of these considerations that Article XIV of the Articles of Agreement was adopted. Article XIV was thoroughly discussed at Bretton Woods; and many member nations felt that they would need that much freedom of action before assuming the obligation not to impose restrictions of the making of payments and transfers for current international transactions. Yet even that Article did not mean complete freedom for the member countries to impose exchange restrictions or maintain them for a longer period than conditions warranted. Exchange restrictions imposed by members under Article XIV were to be under constant scrutiny by the Fund. The Agreement required Members to withdraw restrictions as soon as their balance of payments position was stabilized; and the Fund itself could make representations to a member that conditions were favourable for the withdrawal of restrictions.

Where the fund found that a Member persisted in maintaining restrictions inconsistent with the purposes of the Fund, it could declare the member ineligible to use the Fund's resources.

Those provisions of the Articles of Agreement would enable the Fund to play an active role in avoiding undue prolongation of the transition period. At the same time the Articles of Agreement were sufficiently flexible to take account of the particular circumstances of countries which might be facing unusually difficult reconstruction problems.

Proposals by the present Conference, which might have the effect of restricting the right of members of the Fund under the carefully safeguarded provisions of Article XIV of the Fund Agreement, should in the opinion of the IMF be approached with considerable caution, and with full recognition of the complexity of the problems of the reconstruction period.

On the other hand, it would seem advisable to provide generally equivalent safeguards with respect to quantitative trade restrictions that might be imposed during the transition period for balance-of-payments reasons. Unless there was a reasonable correspondence between the transition features of the Fund's Articles of Agreement and the proposed Charter of the ITO, sofaras action was based on balance-of-payments considerations, there might be an unfortunate impediment to the contribution which the Fund could make, even during the transition period, to the expansion and balanced growth of international trade.

It was perhaps of even greater importance that, once the transition period was past, action authorized under the Charter for balance-of-payments reasons should be in harmony with the policy and operations of the Fund.

Since the subject matter of the present Conference concerned so largely restrictions on trade, it was perhaps easy for observers like the IMF to get the impression that possibly a disproportionate emphasis was being placed on the use of trade restrictions as a means of preventing disequilibrium or restoring equilibrium in the balance-of-payments. Undue reliance on the use of trade restrictions for such purposes, particularly when associated with provisions which permitted counter measures of the same character by injured countries, did of course carry a very real

risk of an attempt to restore equilibrium on the basis of a contracting volume of world trade, which might result in harm to all and benefit to none. There were other measures of adjustment which were less dangerous from that standpoint. One of the purposes of the Fund, as stated in Article I of the Fund's Agreement, was to give confidence to members by making the Fund's resources available to them, and so providing them with opportunity to correct balance-of-payments maladjustments without resorting to measures destructive of national and international prosperity.

Another method of adjustment in appropriate circumstances and under proper safeguards was the adjustment of the value of a country's currency.

It was the hope of the Fund that, once the transition period was past, most balance-of-payments difficulties could be met without resort to restrictive devices. Countries would of course be expected to make reasonable use of their gold and foreign exchange reserves to tide over tempoary difficulties: but those reserves would be supplemented by the members' quotas in the Fund, which in the aggregate totalled $ 7,600 millions. If the balance-of-payments deficits were due to temporary causes, the use of reserves and quotas in the Fund might be all that was required. If the deficits were due to more fundamental causes, corrective action would be needed. But it was the purpose of the Fund to avoid corrective action of a sort that would be destructive of world prosperity. Deflationary measures which threw men out of work, or measures which restricted world trade, were steps that should be taken only as a last resort.

He did not suggest that it was incorrect or unnecessary to provide for the use of trade restrictions for balance-of-payments purposes. But he felt that, in view of the specific contribution which the Fund was intended to provide for the solution of those

problems, the mechanism which the Conference was designing should ensure that, before resorting to quantitative restrictions, members had adequately explored the other safeguards and measures available to them for meeting balance-of-payments difficulties.

It was the view of the Fund that it would be both undesirable and impracticable to attempt to define by formulas or specific criteria the precise kind of balance-of-payments disequilibria or monetary reserve conditions which would justify quantitative restrictions on imports. Those were complex matters. Each case should be considered in the light of its particular circumstances. It had been found to be impracticable to define fundamental disequilibrium in the Articles of Agreement. There was not even in the Articles a definition of balance on current account, although there was a listing of specific items which without limitation were to be considered payments on current account. It was the view of the Fund that the establishment of precise criteria was so complex as to be impracticable, and that vague general criteria left to the interpretation of individual members would invite confusion and inapproriate use.

The alternative would appear to be that the ITO should request the Fund to decide as to whether the balance-of-payments and reserve position of a country were such as to warrant the restriction of imports, and similarly to consult with the Fund as to the progressive relaxation and removal of those restrictions, as balance-of-payments and reserve difficulties were eased. It would seem desirable in the post-transition period that consultation should precede the adoption of such restrictions as would be required in the case of exchange control measures authorized by the Fund under Article VIII of the Fund Agreement. If that was not regarded as feasible, there should at least be automatic and full consultation immediately

after restrictions were imposed, and the restrictions should be regarded as tentative until after ITO approval.

Unless there was close liaison along those lines, they might well be confronted with a situation in which two international agencies would be operating in, or permitting member action in, the monetary and balance-of-payments sphere under conflicting criteria and policies.

Dr. SPEEKENBRINK (Netherlands) said that there was need for a flexible formula for the transition period which would take into account the difficulties of war-ravished countries.

The Netherlands agreed with the spirit of Article 20, but he wanted to clarify his country's position on two points. He pointed out that balance-of-payments equilibrium was attainable on different levels. Thus it might be possible to attain equilibrium at the price of unemployment at home. The Netherlands Delegation wanted to interpret balance-of-payments equilibrium in such a way that a satisfactory level of employment could be maintained.

His second point related to the words "current account" as used in Article 20 of the Charter. Article 19 of the Fund Agreement defining current transactions included payments of moderate amount for amortization of loans or for depreciation of direct investments. The Netherlands Government had been obliged to take up considerable foreign exchange credits for rehabilitation purposes. The majority of those credits were at short or medium term, and a considerable part of them would have to be redeemed during the transitional period. Hence the Netherlands was compelled to consider the redemption of those loans as current obligations, thus giving a wider interpretation to the equilibrium on the current account; the last clause of Article 19 of the Fund Agreement seemed to open that possibility.

Mr. LOKANATHAN (India) emphasized that balance-of-payments difficulties were closely related to internal economic and social problems. The balance-of-payments did not give any indication of what the basic problems were. Industrialized and less developed countries had very different balance-of-payments problems.

Use of quantitative restrictions did not provide a satisfactory solution to balance-of-payments problems. It might postpone solutions of problems. It might aggravate them.

The United States Charter did not give adequate attention to the use of such resources as were available to certain countries. Some countries had to plan ahead so as to make most effective use of their exchange resources, reserving them for the import of certain types of goods.

He attached great importance to the question of the transition period. The length of the period would be different for different countries, and a greater degree of elasticity should be provided for.

India would have to give attention to her own position as the question of quantitative controls of a disconnected type were considered.

He asked if an arrangement whereby India gave preferential treament to British goods in order to utilize quickly her sterling balances would be permitted under provisions of the Draft Charter.

Mr. KERCKOVE d'HALLEBART (Belgium) pointed out that Articles 20 to 24 of the Charter raised a problem for countries which were members of the Fund. In the transition period there might be some difficulties with respect to responsibilities assigned to the Fund and the ITO. Full explanations were necessary. He wanted an explanation of the relation of Article 23 of the Charter to Article XIV of the Fund Agreement. He agreed with the Netherlands Delegate that the balance of payments was not a clear enough criterion; the conslusions of

Committee I should be taken into account in provisions of the Charter covering the use of quantitative restrictions in connection with balance of payments difficulties.

Mr. LOPES RODRIGUES (Brazil) thought that countries should be permitted to impose quantitative restrictions for balance-of-payments reasons,

1. When there was a balance-of-payments deficit,
2. When such a deficit was likely to develop, or
3. When monetary reserves were low.

With respect to the first two cases mentioned, restrictions should not be permitted if the country had high exchange reserves, or if the International Bank or the Fund could provide means to cover the deficit. With respect to the third case mentioned, restrictions should not be permitted, if the Bank or Fund could compensate for the lack of reserves.

Exceptional exchange reserves accumulated during the war should not be included in the computation of exchange reserves, since such exceptional reserves would be used for imports necessary for the maintenance of the real capital of the country.

He suggested that less-developed countries should be permitted to reserve part of their exchange receipts on current account for purposes of industrial developement, and to impose such restrictions on imports as would allow selection of imports in accordance with the requirements of their development programmes. If the Brazilian proposals were accepted, there would be no need for special provisions for a transition period. Brazil agreed with the remaining provisions of Article 19.

Mr. DEUTSCH (Canada) thought that there must be appropriate remedies for balance-of-payments difficulties. The criteria for the use of those remedies should include both the question of the

movement in the balance-of-payments and the state of the country's monetary reserves. The American draft did not give sufficient consideration to the latter. The United Kingdom draft on the other hand did give the state of monetary reserves proper emphasis, and was preferable to the American draft in that respect.

He doubted whether objective criteria, as had been suggested by Australia, could be agreed upon at that stage.

Some discrimination in the use of quantitative restrictions on balance-of-payments grounds during the transition period was inevitable. There should be no major departure, in this respect, from what had been agreed upon at Bretton Woods. He was glad that the United States was willing to reconsider the provision requiring non-discrimination with respect to products. There should not be a rigid requirement against non-discrimination on products.

The American draft had no provisions regarding exchange depreciation. That matter could not be left open. If members of the ITO, which were not members of the Fundn had complete freedom in that respect, Fund members would be at a disadvantage. Common membership in the Fund and the ITO would be the simplest solution. If that was not practicable, the Charter should include appropriate provisions concerning exchange control and exchange depreciation.

Mr. AUGENTHALER (Czechoslovakia) said that Czechoslovakia generally favoured the United Kingdom proposals. It should be understood that monetary reserves meant reserves in convertible currencies. With some countries unemployment was the only alternative to trading with countries having inconvertible currencies. No country was the master of its commercial policy, since all were influenced by their geographical and economic environment and by the policies of the countries with which they traded. A country

trading with countries having conetary difficulties, or countries maintaining controls, would find it impossible to remove entirely its own controls.

Solutions to the problems under discussion might be more feasible at the plenary Conference. By then each country would be able to see which other countries were ready to remove their restrictions. Rules had to be flexible enough to allow each country to meet its own particular problems.

Mr. TUNG (China) said that except for the provisions on the transition period, China was in general agreement with Article 20. It was not realistic to set a fixed date by which countries were expected to have reached equilibrium. Why should not the transition be considered at an end, when balance-of-payments equilibrium was achieved, or when the monetary reserve was adequate?

China intended to propose a new Article entitled "Restrictions to Facilitate Industrial Development."

Mr. JOHNSEN (New Zealand) felt that it was the individual member which should determine whether or not it was in balance-of-payments difficulties. Rules should be flexible enough to allow each member to safeguard its legitimate interests.

There would be constant pressure on New Zealand's supplies of foreign exchange. Safeguards were needed. A country should be allowed to utilize to the maximum effect such funds as were available to it. Whatever criteria were laid down should not be too restrictive.

Mr. MELANDER (Norway) reserved his statement.

The CHAIRMAN summarized the discussion.

It had been generally agreed that quantitative restrictions should be permitted to overcome balance-of-payments difficulties. It was generally agreed that the country concerned should, in the

first instance, decide whether or not balance-of-payments difficulties necessitated restrictions.

A number of countries had pointed out that rehabilitation or development programmes might cause a continuous tendency toward balance-of-payments difficulty, and that selection of imports might be necessary to prevent such a difficulty.

There seemed to be general agreement that members should have the right to make complaints, if others imposed restrictions unwisely or in an injurious manner.

The Australian Delegate thought that there should be no right of complaint, if the restrictions complied with certain objective criteria. Attention had been drawn to the difficulty of defining such criteria.

It had been generally agreed that there should be a transition period, though there was difference of opinion as to its length.

There appeared to be agreement with the general principle of non-discrimination in the administration of restrictions, though different views were expressed concerning the exceptions to the general rule. There seemed to be agreement with the exceptions relating to scarce and inconvertible currencies.

It had been suggested that discrimination might be permitted, subject to ITO approval, where restrictions were imposed because of balance-of-payments difficulties derived from a failure of effective demand in other countries.

There seemed to be agreement that the ITO and the International Monetary Fund should work together closely, but a number of problems required study. There was the question of possible common membership in the two Organizations. If that was not feasible, there was the problem of inserting certain additional provisions in the Charter.

It was agreed to refer Articles 19, 20, 21, 22, 23 and 24 to a drafting committee consisting of representatives of the United States, the United Kingdom, France, Brazil, Australia and India. The representative of the International Monetary Fund would be invited to participate in the work of this Committee.

The CHAIRMAN said that the drafting committee would have before it the draft provisions submitted by the United States and the United Kingdom, as well as statements submitted by various other countries. The Sub-Committee would prepare a report which would be submitted to Committee II.

The meeting rose at 12.55 p.m.
