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PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE
ON TRADE AND EMPLOYMENT

COMMITTEE II

Report of the Sub-Committee on Quantitative
Restrictions and Exchange Control

PART I

The Sub-Committee included Delegates for Australia, Brazil, France, India, the United Kingdom and the United States of America. It met seven times under the chairmanship of Dr. H. C. Coombs (Australia), Mr. Meade (United Kingdom), and later Mr. Gunter (United States) functioned as Rapporteurs.

PART II

Article 19

General Elimination of Quantitative Restrictions

1. There was wide agreement with the proposal for a general rule against the use of import and export restrictions and prohibitions, the rule being subject to exceptions for the use of restrictions in specified circumstances and under specified conditions.
2. The work of the Sub-Committee was based on the assumption that the problem of ensuring adequate support for industrial development, which was the subject of study by the Joint Committee of Committees I and II, would be adequately covered in other Articles.
3. There was wide agreement for the view that during a post-war transitional period it should be permissible to use such restrictions for the equitable distribution of products in short supply, for the maintenance of war-time price control by countries undergoing shortages as a result of the war, for the orderly liquidation of temporary surpluses of Government-owned stocks and of industries which were set up owing to the exigencies of war, but which it would be uneconomic to maintain in normal times. These last two exceptions would be subject to consultation with other interested Members; and all these exceptions would be limited to a specified post-war transitional period, which might, however, be subject to some extension in particular cases.

4. There was wide agreement for an exception to the general rule against export restrictions or prohibitions so as to enable a country to take temporary action to relieve critical shortages of foodstuffs or other essential products.

5. There was also wide agreement for an exceptional use of restriction to apply standards of classification and grading of commodities in international commerce, subject to safeguards against their misuse for the purpose of giving disguised protection.

6. Consideration was given to the suggestion that there should be an exception permitting import restrictions on agricultural or fisheries products (i) to accompany measures restricting the domestic production or sale of like products and (ii) to remove a temporary domestic surplus by means which involved selling that surplus at prices below the current market price to certain groups of domestic producers. There was wide agreement for the view that a clause on these lines was desirable; but one Delegation proposed that the exception should not be confined to agricultural and fisheries products in order to give similar protection to agricultural or underdeveloped countries. There was wide agreement for the view that any supplies of the product which were en route at the time at which public notice was given of the restrictions should not be excluded, though they might be counted against any quotas in the import country. It was generally agreed that this point should be covered in this Article unless it were already adequately met in Article 15.

It was suggested that restrictions imposed under this exception should not be imposed on seasonal commodities at a time when similar domestic products were not available; and it was generally agreed that this suggestion might usefully be further considered at the next meeting of the Preparatory Committee. There was wide agreement for the view that

restrictions on imports imposed to match a restriction on domestic production should not be such as to reduce the proportion of imports to domestic production below the level which might otherwise have been expected to rule, it being necessary to judge the situation not only in the light of the position at a previous period but also in the light of any changes in conditions which might have occurred since that date. The view was, however, expressed that such a rule might weigh unduly on the domestic producers, since the exporters in other countries might be able more readily to find alternative markets.

7. The suggestion was put forward by two Delegations that the exception in the case of agricultural products should be widened by permitting restrictions on imports without restrictions on home production so as to maintain domestic prices at a level sufficient to cover domestic costs of production or so as to enable a domestic surplus to be cleared. After discussion there was general agreement that such proposals would extend the scope of the exception to an undesirable degree.

8. Some Delegations put forward the suggestion that the wording of the exception in the case of agricultural products should be changed so that the words "for instance" would be inserted after the words "to remove a temporary surplus of the like domestic product". Other Delegations felt that this suggestion would permit an undesirable expansion of the exception and therefore opposed the suggestion.

9. There was general agreement for the use of restrictions or prohibitions on private trade in order to protect the position of State trading enterprises operated under other Articles and for the use of import or export quotas imposed under inter-governmental commodity agreements concluded under this Charter.

10. The suggestion was also made that it should be permissible to use import restrictions, under proper safeguards, as an anti-dumping measure in those cases of intermittent dumping in which import duties did not provide a suitable instrument of control. After consideration it was generally agreed that as far as the establishment of new industries are concerned, the position should be sufficiently covered by proposals of the Joint Committee of Committees I and II. In respect of the threat of intermittent dumping to established industries there was wide agreement with the view that the position was probably already adequately covered under Article 29; but one Delegation remained uncertain whether this was in fact the case.

11. It was suggested that export restrictions should be permitted for the preservation of scarce natural resources even if there were no restriction on domestic consumption, as would be required under Article 32 (j). While it was recognized that there might be cases in which such action would be unobjectionable, the view was widely expressed that such an exception, unless subject to sufficient safeguards, might unduly restrict access to raw materials. It was generally agreed that the point might usefully be further examined at the next meeting of the Preparatory Committee.

12. It was suggested by one Delegation that restrictions on exports should be permissible for the safeguard of living standards, for the facilitation of industrial development and for the stabilization of domestic prices so as to achieve a balanced development of the national economy, and that import restrictions should be permissible for the enforcement of governmental measures to regulate domestic production, distribution and consumption so as to maintain a dynamic equilibrium between the diverse economic activities of a nation in the process of industrialization. After discussion of these suggestions, there was

wide agreement in the Sub-Committee that these proposals were already adequately covered in the proposals of the Joint Committee of Committees I and II on industrial development and by the proposals made by the Sub-Committee in regard to the use of import restrictions under Article 20 to safeguard the balance of payments. These latter proposals are in line with a request received from the Joint Committee that provision "should be made to cover the position of a Member who, as a result of its plans for industrial development or reconstruction, anticipates that its accruing international monetary resources will be inadequate to finance the needed imports of capital goods unless it imposes regulations in respect of certain classes of consumer goods."

13. Some Delegations announced that they might propose an addition to Article 19:2 to include another exception in the following terms: "Import restrictions for the purpose of economic development as a protective measure provided that they are less restrictive in their effect than other forms of protection and provided that they are in conformity with the criteria laid down for the purpose by the Organization." Other Delegations considered that this point was sufficiently met in the Draft Charter relating to Industrial Development. Some of these indicated they might wish to reconsider their attitude to that Chapter, if such an addition were made.

Article 20

Restrictions to safeguard the Balance of Payments

1. There was general agreement for the view that it should be permissible for a country to restrict imports when such restriction was necessary to safeguard its external financial position, particularly in view of the fact that in many cases there will be domestic employment, reconstruction, development or social policies which result in increases in the demand for imports. It was recognized that in many cases policies of internal reconstruction and development might be an essential factor in restoring equilibrium to a country's balance of payments on a sound and lasting basis.
2. Consideration was given to the best method of ensuring that such a safeguard should be available for the protection of a country's external financial position without giving freedom for the unnecessary use of import restrictions. There was wide agreement with the view that countries should undertake to observe certain principles in the use of such import restrictions, and that, since the fundamental objective was to safeguard a country's external financial position, these principles should be based upon movements in the country's monetary reserves. Import restriction, it was suggested, should only be newly imposed or intensified in so far as was necessary to stop or to forestall the imminent threat of a serious decline in monetary reserves or, in the case of a Member with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

3. There are, however, many factors to which due regard must be paid in interpreting any such rules. There may be special non-recurrent movements of funds affecting a country's reserves; a country may have special credits outside its monetary reserves which it might be expected to use to a proper extent and at a proper rate to meet a strain on its external position; a country which has high reserves may, nevertheless, have high future commitments or probable drains upon its resources to meet in the near future. All such factors would have to be taken into account in interpreting movements in a country's reserves.
4. It was generally agreed that there should be an undertaking to remove or to relax restrictions on the same general principles, as a country's external financial position improved.
5. It was also generally agreed that, in order to avoid unnecessary damage to the commercial interest of other Members, import restrictions imposed to safeguard a Member's external financial position should not be carried to the point of total exclusion of any particular class of goods.
6. Consideration was given to the relations which should exist between Members and the Organization in order to ensure that Members should, on the one hand, not be able to abuse the application of import restrictions on these grounds, but should, on the other hand, have some certainty that they could apply them when necessary. For these purposes, it was generally agreed that there would have to be arrangements for consultation between the Members and the Organization for complaint to the Organization, and ultimately for the Organization to recommend the withdrawal or modification of restrictions if these were being improperly applied.

7. In this whole process of consultation, review and recommendation, the Organization, it was recognized, would have to keep in the closest contact with the International Monetary Fund. The Fund is the specialized agency which deals with the financial aspects of balance of payments problems; and the use of import restrictions to safeguard the external financial position of Members could only be properly considered by the Organization if, at every stage, it invited the Fund to participate in its consultations.

8. It was widely agreed that a first stage in this process should be consultation as to the nature of a country's balance of payments difficulties, the various corrective measures which may be available, and the possible effects of such measures on the economies of other Members. It was thought that a Member which was considering the imposition of restrictions for the first time should as a general rule undertake such consultations before imposing the restrictions and, in cases in which previous consultation was impracticable, should undertake such consultations as soon as possible after imposing the restrictions. The Organization should, it was generally thought, be able to initiate consultations with any Member which was already imposing restrictions on these grounds, and should, in any case, always initiate such consultations with any Member which found it necessary substantially to intensify its restrictions. It was thought that the Organization should, within two years of its institution, review all restrictions existing at its institution and subsequently maintained on the grounds of safeguarding Members' external financial positions.

9. Many Members which may find it necessary to impose restrictions to safeguard their external financial position may wish to obtain some security that the restrictions which they are applying or intend to apply will not be challenged or that if their external position should become sufficiently difficult they would be able to impose restrictions which would not be challenged. For this reason, it was generally agreed, a Member should have the right to obtain the previous approval of the Organization for restrictions which it was already applying or intending to apply, so that it could not be challenged by another Member when it applied them. It was generally considered that such previous approval should relate to the general extent, degree and duration of the restrictions and should not prevent another Member thereafter from bringing a complaint to the Organization that the restrictions were being applied in a manner which unnecessarily damaged its commercial interests.

10. Similarly, a Member might seek the previous approval of the Organization not in relation to any actual restriction which it was already applying or intending to apply but in relation to the contingent future conditions which, if they occurred, would justify it in applying restrictions. For example, it might be agreed between the Member and the Organization that the Member could not in any circumstances during an agreed period ahead be reasonably expected to allow its monetary reserves to fall below an agreed figure.

11. It was widely agreed that it should be open to any Member to bring a complaint to the Organization that another Member was applying restrictions when they were unnecessary to safeguard its external financial position or that it was

doing so in a way which unnecessarily damaged the commercial interests of the complaining Member. In this case the Organization, if it were satisfied that the complaining Member had made out a prima facie case that its commercial interests were adversely affected, should consider the complaint. It should have power after consultation with the International Monetary Fund to recommend the withdrawal or modification of the restrictions; and if the Member in question failed to withdraw or modify them appropriately such other Members of the Organization would be released from such obligations towards the Member in question as the Organization might specify. The Organization should, however, not be able to recommend the withdrawal or general relaxation of restrictions in so far as it had given previous approval for them; nor should it be able to do so on the grounds that the Members' external financial difficulty could be avoided by a change in the Members' domestic employment, reconstruction, development or social policies.

12. It was generally agreed that a Member imposing restrictions on balance of payments grounds should be permitted to select imports for restriction in such a way as to promote its domestic employment, reconstruction, development or social policies.

13. It was generally agreed that if there were a persistent and widespread application of restrictions on these grounds, there should be a procedure whereby the Organization in consultation with the International Monetary Fund should initiate discussions

with the Members to consider whether other measures might not be taken by the countries with favourable or those with unfavourable balances of payments or by the Economic and Social Council or any appropriate intergovernmental specialized agencies to remove the underlying disequilibrium.

14. It was generally agreed that the principles and procedures for restricting imports under private trade to safeguard a Member's external financial position should be applied mutatis mutandis to the restriction (to a greater extent than would otherwise be permissible) of imports by a State trading organization. It should, however, be provided that the disclosure of information which would hamper the commercial operations of such a State trading organization would not be required.

15. There was general agreement for the view that in the early years after the war the Organization, in the functions proposed for it under this article and under article 22, should pay due regard to the difficulties of post-war adjustment with which the Members would be confronted in varying degrees.

16. The Sub-Committee had referred to it a request of the Joint Committee of Committees I and II "that in article 20 provision should be made to cover the position of a Member who, as a result of its plans for industrial development or reconstruction, anticipates that its accruing international monetary resources will be inadequate to finance the needed imports of capital goods unless it imposes regulations in respect of certain classes of consumer goods". This

point is met in the draft text of Article 20 which is appended to this report. Under paragraph 2 (a) a country could apply quantitative import restrictions to anticipate the imminent threat of a serious decline in its monetary reserves. Moreover, it is there suggested that in interpreting this principle due regard should be had to any commitments or other circumstances which may be affecting a country's needs for reserves. It follows that a country which was threatened with a serious decline in its reserves and which had heavy external payments to meet in the near future could protect its external financial position by import restrictions.

17. In paragraph 1 of the draft Article 20 it is recognized that "Members may need import restrictions as a means of safeguarding their external financial position..... particularly in view of their increased demand for the imports needed to carry out their domestic development policies"; and in paragraph 3 (e) of the draft Article 20 it is laid down that "the Organization ... shall not recommend the withdrawal or general relaxation of restrictions on the grounds that the existing or prospective balance of payments difficulties of the member in question could be avoided by a change in the Member's domestic developmentpolicies". Thus it is clear that a Member could not be required to modify its domestic development plans on the grounds that they imposed a strain on its balance of payments and thus made control of imports necessary.

18. In paragraph 4 of draft Article 20 it is expressly laid down that "a Member may select imports for restriction in such a way as to promote its domestic development policies", so that a Member could if necessary restrict the import of consumer goods without restricting the import of capital goods.

19. The Draft article would, however, prevent a member from applying restrictions if its foreign exchange resources were sufficient for it to finance all types of imports. In other words, the member would be permitted under article 20 to restrict only to the extent necessary to safeguard its monetary reserves. Up to this point it would have to admit imports of one class or another. Members would also be under an obligation not to apply any restrictions of a selective character in a manner which unnecessarily damaged the commercial interests of other members.

20. Many of the problems which have been examined by the Sub-Committee in connection with this article and with articles 22 and 23 are necessarily of very direct concern to the International Monetary Fund and, to a less extent, to the International Bank for Reconstruction and Development. Trade restrictions applied to safeguard external financial resources will inevitably be of common interest to the International Trade Organization and to the International Monetary Fund. In particular, since it is generally agreed that trade restrictions should be avoided whenever possible, the question arises of the possibility of alternative means under the procedures of the Fund and the Bank for meeting a disequilibrium in balances of payments.

21. In considering these problems the Sub-Committee has been much helped by the benefit of the views of the observers from the Fund and the Bank. It is generally felt that it would be of great assistance to the work of the Preparatory Committee if the Fund and the Bank could be invited to study the Draft Articles 20, 22 and 23 appended to this report so as to be in a position to put their considered views on these issues before the next meeting of the Preparatory Committee.

22. One delegation suggested to the Committee that there should be amendments providing for (1) broadening the criteria under which restrictions could be imposed for balance-of-payments reasons, (2) eliminating the provision for complaints by members against such restriction maintained by other Members, and (3) the use of quantitative restrictions as a means for creating favourable conditions for the industrial development of an economically undeveloped country. It was generally agreed that these proposals to some extent had been met in this Chapter and in the Chapter on Industrial Development. It was generally agreed that further changes would expand the use of quantitative restrictions too far.

Article 21Non-discriminatory Administration of Quantitative Restrictions

1. There was wide agreement with the proposal that there should be a general rule for non-discrimination in the use of quantitative restrictions, the necessary exceptions to this general rule being listed in the subsequent Article.
2. In applying the principle of non-discrimination to import restrictions it was generally agreed that the following represented a desirable set of principles which should also apply to tariff quotas:

- (a) Wherever possible a global quota should be fixed in advance for the importation of the product in question;
- (b) Where (a) is not practicable, restrictions might be applied by import licenses without a global quota;
- (c) Whether issued within a global quota or without a global quota import licenses or permits should, in general, not tie the import to a particular source of supply;
- (d) Where (c) is not practicable, the restrictions might take the form of a quota allocated among the various sources of supply. In this case the general principle should be to allocate the quotas on commercial principles such as price, quality and customary sources of supply. These commercial principles might be applied in principle in either of two ways:

- (i) Agreement might be sought between the exporters which had a substantial interest in supplying the product.
- (ii) Where (i) is not reasonably practicable, reference should be made to shares in a previous representative period, due account being taken of special factors which may have affected the trade in the product.

The Member should make the initial decisions about the shares of the quotas under (ii) but should be prepared to enter into consultations about adjustments;

(e) No conditions should be imposed such as to prevent any Member country from making full use of its share in any quota.

3. It was generally agreed that Members should undertake to supply adequate information about the administration of their import restrictions. In cases in which import licenses were used, information should be supplied at the request of any Member having a substantial interest in the trade about the administration of the licenses and about the licenses granted, but there should be no obligation to reveal the names of importing or supplying firms. Where quotas were fixed, public notice should be given in advance of the size of the quota; and where the quota is allocated among supplying countries all Members having an interest in supplying the product should be given prompt notice of the shares of the various countries in the quotas.

Article 22

Exceptions from rule of non-discrimination

1. It was generally agreed that there must be the following exceptions from the general rule of non-discrimination in the application of quantitative restrictions:

(a) Members should not be precluded from the imposition of restrictions which have the equivalent effect of the exchange restrictions which a country could impose under Article VII Section 3(b) of the Articles of Agreement of the International Monetary Fund (scarce currencies clause).

(b) A group of territories which have a common quota in the International Monetary Fund should be able to impose restrictions against imports from other countries in order to protect their common monetary reserves.

(c) Members should be able to assist, by measures not involving a substantial departure from the general rule of non-discrimination, a country whose economy has been disrupted by war; but this freedom should have a closing date, 31 December 1951.

(d) Some element of discrimination in import and export restrictions may be needed in order to carry out inter-governmental commodity agreements under the commodity policy provisions of the Charter or in order to apply the restrictions which have been suggested for the post-war transitional period to ensure an equitable distribution among consuming countries of products in short supply (See paragraphs 3 and 9 of the report on Article 19).

2. A more difficult problem arises in the treatment of inconvertible currencies. It is generally agreed that the objective is to establish multi-lateral trading over as wide an area as possible and that for this purpose it is desirable that currencies should become convertible as soon as is safely possible. But so long as some currencies remain inconvertible there is difficulty in reconciling the full application of the principle

of non-discrimination with the courses of action which are imposed upon Members by their external financial situations. This difficulty is of course fully recognized, as far as exchange restrictions are concerned, in the provisions of Article XIV of the Articles of Agreement of the International Monetary Fund. The problem here is to make appropriate provision for this difficulty in the trade field.

3. The nature of the difficulty may be conveniently expressed by considering the position of Member A which has a favourable balance of payments with Member B which has an inconvertible currency. This favourable balance can be settled only by:

- (a) Accumulation by A of inconvertible balances of B's currency or by a loan to B in A's currency, or
- (b) an increase in A's imports from B; or
- (c) a reduction of A's exports to B.

4. If A is unable or unwilling to make the appropriate loan under (a) and if the costs of B are too high to enable A to accept B's exports without infringing the rule of non-discrimination, the only possibility is a reduction in A's exports to B. It has been argued that A can always avoid this difficulty by selling the exports which would otherwise have gone to B to countries with convertible currencies and there was general agreement that where the majority of countries had convertible currencies, this would normally be the case. It has been argued, on the other hand, that countries which normally conduct a large proportion of their trade with countries whose currencies are inconvertible, might be obliged to restrict their trade substantially because of the limited import capacity of countries with convertible currencies, and that consequently the additional purchase of imports from country B, even on a discriminatory basis, might be less restrictive of world trade than the full application of non-discrimination. It was furthermore agreed that any provisions made with this general problem should also cover the problem of balances of inconvertible currencies accumulated before the entry into force of the Charter.

5. It was agreed that in any case Members should be entitled to attach conditions to their exports such as would be necessary to ensure that an exporting country would receive for its exports its own currency or the currency of any member of the International Monetary Fund specified by the exporting country and thus avoid the danger of being, in effect, compelled to accumulate balances of inconvertible currency.

6. It was generally agreed that there must be some provision also to deal with the corresponding import problems, but it was felt that there were serious dangers in a wide exception from the rule of non-discrimination even during the post-war transitional period. If such a period were at all prolonged, it would permit the establishment of bilateral patterns of trade and discriminatory practices generally which would effectively prevent the development of multilateral trade which is a central objective of the Charter. It was argued that such arrangements would tend to become self-perpetuating and that their possibility would, in effect, delay the achievement of sound and lasting equilibrium in the balances of payments of the countries with inconvertible currencies and would thus postpone for an indefinite period their ability to make their currencies convertible. On the other hand, it was argued that if countries with inconvertible currencies had to face the full rigour of international competition, they would be forced to restrict their imports from all sources to a degree which would seriously impair their prospects of recovery, and it was further argued that the existence of some provision to enable countries with convertible currencies to apply discriminatory restrictions in special circumstances would encourage countries with inconvertible currencies to take the risk of accepting convertibility at an earlier stage than they would have otherwise been prepared to do.

7. It was generally agreed that a solution of the difficulty could be found by permitting discriminatory import restrictions under two conditions, both of which would have to be fulfilled.

(a) that the discrimination should increase the Member's total imports above the maximum level which would be possible in the absence of the discrimination. The intensity of the import restrictions which a Member is permitted to impose under Article 20 is determined by the pressure upon its monetary reserves. This fixes the amount of imports which it can afford from countries with convertible currencies. The purpose of this condition is to ensure that a Member will purchase as much as it can afford from these sources, and that it would not be permitted to discriminate unless this would enable it to secure additional imports from countries with inconvertible currencies. It would thus be impossible for a Member to decrease its total imports from countries with convertible currencies by discriminatory restrictions.

(b) that the discrimination should either correspond to exchange restrictions permissible under the Articles of Agreement of the International Monetary Fund or should carry with it the approval of the Organization in agreement with the International Monetary Fund, which is the inter-governmental specialized agency which is competent in this field. The Member would not be entitled to impose discriminatory import regulations which did not have equivalent effect to exchange restrictions permitted to the Member under the Articles of Agreement of the International Monetary Fund, or under the terms of a special exchange agreement between the Member and the Organization (see paragraph 5 of the report on Article 23) if the Member were not imposing exchange restrictions it would be able to impose discriminatory import restrictions in special circumstances only with the prior approval of the Organization in agreement with the Fund.

8. In view of the advantages which may be expected to accrue to the trade of all countries from the other provisions of the Charter, it was generally considered appropriate that the discriminatory element in any trade restrictions applied under this provision (or exchange restrictions having equivalent effect)

should, from the outset, be liable to be withdrawn or modified if the Organization, after consultation with the International Monetary Fund, find that they were being applied inconsistently with the exception provided under this Article or in a manner which discriminated unnecessarily against the trade of another Member. It should, however, always be possible for a Member to seek the Organization's prior approval for its action and in this case it would not be open to challenge to the extent to which such approval was given; where the Member was not imposing exchange restrictions, this prior approval would be obligatory.

9. It was suggested to the Sub-Committee that if there were an abrupt or serious decline in effective demand by one or more Members, the imposition of non-discriminatory import restrictions under Article 20 by other Members might in some cases be more injurious to world trade than discriminatory restrictions, and that provision should be made in this Article for permitting such discriminations if the Organization considered that this general situation existed and warranted their application. After consideration, it was agreed that the Organization would have adequate powers under the revised Article 30, taking into account paragraph(F) of Chapter III on Employment Provision, to meet this contingency.

10. A main objective of the Organization is to achieve the earliest possible elimination of all discriminations which restrict the expansion of world trade. The difficulties which the Article is designed to meet may be hoped to narrow very considerably as an increasing number of Members accept the obligations of Article VIII, Sections 2, 3 and 4 of the Articles of Agreement of the International Monetary Fund. It is therefore generally agreed that the provisions sub-paragraphs 1(d) (iii) and (iv) of this article should be reviewed when three-quarters of the Members of the Organization have made their currencies convertible, or in any event, not later than the end of 1951.

Article 23

Exchange Arrangements

1. The problem of foreign exchange arrangements in relation to the Organization is a question of great importance, since commercial obligations can be fundamentally affected by such matters as exchange control, exchange depreciation, multiple exchange rates, etc. The International Monetary Fund is the specialized agency which has been instituted to deal with these matters, and it is desirable as far as possible to avoid overlapping functions between it and the Organization. Where trade matters and exchange matters inevitably overlap it is desirable that there should be the maximum consultation and co-operation between the Fund and Organization.
2. It was agreed that the problem would be much simplified if all Members of the Organization were also Members of the International Monetary Fund. The Committee came to no decision on the question of requiring common membership, however, as some of the delegations felt it may well be necessary to allow freely for independent Membership of the Organization and the Fund.
3. Consideration was therefore given to the question whether special provision should not be made for a country which wished to become a Member of the Organization without becoming a Member of the Fund. It was generally recognized that some such provision might prove to be necessary, but it was thought that examination of this issue could usefully wait until the probable Membership of the Organization and of the Fund became clearer.
4. It was widely agreed that if the general principle were adopted that Members of the Organization should also be Members of the Fund, opportunity must nevertheless be left for a Member of the Organization to exercise the right which it would have under the Articles of Agreement

of the International Monetary Fund to withdraw at short notice from the Fund - a right which would be compromised if a Member of the Organization were required to be a Member of the Fund, and were not free to withdraw from the Organization at short notice.

5. It was generally considered appropriate that any Member of the Organization which was not also a Member of the Fund should not have full freedom in exchange matters, since by exchange arrangements it might frustrate its trade obligations. There was a wide measure of agreement for the suggestion that such a Member should enter into a special agreement with the Organization in exchange matters which would provide that the purposes common to the Organization and the Fund would not be frustrated as a result of action in exchange matters by the Member in question. In such cases the Organization would accept the opinion of the Fund whether action by the Member in question in exchange matters was permissible under the terms of the special exchange agreement; and the Member would undertake to provide the Organization with the information necessary for reaching such a decision.

APPENDIX

The following are the texts of the Articles which the
Sub-Committee puts forward for Consideration

Article 19

General Elimination of Quantitative Restrictions

1. Except as otherwise provided elsewhere in this Charter, no prohibition or restriction, other than duties, taxes or other charges, whether made effective through quotas, import licenses or other measures, shall be imposed or maintained by any Member country, on the importation of any product of any other Member country, or on the exportation or sale for export, of any product destined for any other Member country.
2. The provisions of paragraph 1 of this Article shall not extend to the following:-
 - (a) Prohibitions or restrictions on imports or exports imposed or maintained during the early post-war transitional period, which are essential to
 - (i) the equitable distribution among the several consuming countries of products in short supply, whether such products are owned by private interests or by the Government of any Member country, or
 - (ii) the maintenance of war-time price control by a country undergoing shortages subsequent to the war, or
 - (iii) the orderly liquidation of temporary surpluses of stocks owned or controlled by the Government or any Member country or of industries developed in any Member country owing to the exigencies of the war which it would be uneconomic to maintain in normal conditions:

Provided, that restrictions under (iii) of this sub-paragraph may be imposed by any Member only after consultation with other interested Members with a view to appropriate international action. Import and export prohibitions and restrictions imposed or maintained under this sub-paragraph shall be removed as soon as the conditions giving rise to them have ceased and, in any event, not later than 1 July 1949: Provided, that this period may, with the concurrence of the Organization, be extended in respect of any product for further periods not to exceed six months each.

(b) Export prohibitions or restrictions temporarily imposed to relieve critical shortages of food-stuffs or other essential products in the exporting country.

(c) Import and export prohibitions or restrictions necessary to the application of standards for the classification and grading of commodities in international commerce. If, in the opinion of the Organization, the standards adopted by a Member under this sub-paragraph are likely to have an unduly restrictive effect on trade, the Organization may request the Member to revise the standards, Provided that it shall not request the revision of standards internationally agreed under paragraph 6 of Article 16.

(d) Export or import quotas imposed under inter-governmental commodity agreements concluded in accordance with the provisions of Chapter VI.

(e) Import restrictions on any agricultural or fisheries product, imported in any form, necessary to the enforcement of governmental measures which operate

- (i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or
- (ii) to remove a temporary surplus of the like domestic product by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level.

Any Member imposing restrictions on the importation of any product pursuant to this sub-paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified period and of any change in such quantity or value, provided that any supplies of the product in question which were en route at the time at which public notice was given shall not be excluded but may be counted, so far as practicable, against the quantity permitted to be imported in the period in question. Moreover, any restrictions imposed under (i) of this sub-paragraph shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of the restrictions. In determining this proportion the Member shall pay due regard to the proportion prevailing during a previous representative period and to any special factors which may have affected or may be affecting the trade in the product concerned. The Member shall consult with any other Members interested in the trade in question, who wish to initiate such consultations.

- (f) Import and export prohibitions or restrictions imposed on private trade for the purpose of establishing a new or maintaining an existing monopoly of trade for a State trading-enterprise operated under Articles 26, 27 and 28.

Notes on Article 19

1. One Delegation desires that the words "agricultural or fisheries" should be removed after the words "Import restrictions on any" at the beginning of 2 (e).
2. The words in square brackets in 2 (e) should be retained only if the matter is not fully covered in Article 15.

Article 20

Restrictions To Safeguard the Balance of Payments

1. Members may need import restrictions as a means of safeguarding their external financial position and as a step towards the restoration of equilibrium on a sound and lasting basis, particularly in view of their increased demand for the imports needed to carry out their domestic employment, reconstruction, development or social policies. Accordingly, notwithstanding the provisions of article 19, Members may restrict the quantity or value of merchandise permitted to be imported insofar as this is necessary to safeguard their balance of payments and monetary reserves. The use of import restrictions under this paragraph shall conform to the conditions and requirements set out in paragraphs 2, 3 and 4 of this Article.

2. Members undertake to observe the following principles in the use of such restrictions:-

(a) To refrain from imposing new or intensifying existing restrictions except to the extent necessary (having due regard to any special factors which may be affecting the level of the Member's reserves, to any commitments or other circumstances which may be affecting its need for reserves, or to any special credits or other resources which may be available to protect its reserves)

(i) to stop or to forestall the imminent threat of a serious decline in the level of monetary reserves, or

(ii) in the case of a Member with very low monetary reserves to achieve a reasonable rate of increase in its reserves.

(b) To eliminate the restrictions when conditions would no longer justify the imposition of new restrictions under subparagraph 2 (a) of this Article and to relax them progressively as such conditions are approached.

(c) Not to carry the imposition of new import restrictions or the intensification of existing restrictions under paragraph 2 (a) of this Article to the point at which it involves the complete exclusion of imports of any class of goods.

3. (a) Any Member which, while not imposing restrictions under paragraphs 1 and 2 of this Article, is considering the need for the imposition of restrictions, before imposing such restrictions (or, in conditions in which previous consultation is impracticable, as soon as possible after imposing such restrictions) shall consult with the Organization as to the nature of its balance of payments difficulties, the various corrective measures which may be available, and the possible effects of such measures on the economics of other Members. The Organization shall invite the International Monetary Fund to participate in the consultations. No Member shall be required during such discussions to indicate in advance the choice or timing of any particular measures which it may ultimately determine to adopt.

(b) The Organization may at any time invite any Member which is imposing import restrictions under paragraphs 1 and 2 of this Article to consult with it about the form and extent of the restrictions, and shall invite a Member substantially

intensifying such restrictions to consult accordingly within thirty days. Members agree to participate in such discussions when so invited. In the conduct of such discussions the Organization shall consult the International Monetary Fund and any other appropriate international specialized agencies, in particular in regard to the alternative methods available to the Member in question of meeting its balance of payments difficulties. The Organization under this sub-paragraph shall, within two years of its institution, review all restrictions existing at its institution and subsequently maintained under paragraphs 1 and 2 of this Article.

(c) Any Member applying or intending to apply restrictions on imports under paragraphs 1 and 2 of this Article may, if it so desires, consult with the Organization with a view to obtaining the previous approval of the Organization for restrictions which it intends to maintain or to impose or for the maintenance or imposition in the future of restrictions under specified conditions. The Organization shall invite the International Monetary Fund to participate in the consultations. As a result of such consultations, the Organization may approve in advance the maintenance, imposition or intensification of import restrictions by the Member in question insofar as the general extent, degree and duration of the restrictions are concerned; and to the extent to which such approval has been given, the action of the Member imposing restrictions shall not be open to challenge under paragraph 3 (d) of this Article insofar as it relates to conformity with paragraphs 1 and 2 of this article.

(d) any Member which considers that any other Member is applying import restrictions under paragraphs 1 and 2 of this Article in a manner inconsistent with the provisions of paragraphs 1 and 2 of this Article or of articles 21 or 22, or in a manner which unnecessarily damages its commercial interest, may bring the matter for discussion to the Organization; and the Member imposing the restrictions undertakes to discuss the reasons for its action. The Organization shall, if it is satisfied that there is prima facie case that the complaining Member's interests are adversely affected, consider the complaint. It may then, after consultation with the International Monetary Fund on any matter falling within the competence of the International Monetary Fund, recommend the withdrawal or modification of restrictions which it determines are being applied in a manner inconsistent with the provisions of paragraphs 1 and 2 of this Article or articles 21 or 22, or in a manner which unnecessarily damages the commercial interests of another Member. If restrictions are not withdrawn or modified in accordance with the recommendation of the Organization within sixty days, such other Members shall be released from such obligations incurred under this Charter towards the Member applying the restrictions, as the Organization may specify.

(e) The Organization in reaching its decision under sub-paragraph 3 (d) of this Article shall not recommend the withdrawal or general relaxation of restrictions on the grounds that the existing or prospective balance of payments difficulties of the Member in question could

be avoided by a change in that Member's domestic employment, reconstruction, development or social policies. Members agree, however, that in carrying out such domestic policies they will pay due regard to the need to restore sound and lasting equilibrium in their balances of payments.

4. In giving effect to the restrictions on imports imposed under this Article, a Member may select imports for restriction in such a way as to promote its domestic employment, reconstruction, development or social policies; but the Member shall avoid all unnecessary damage to the commercial interest of other Member and will accept an invitation to consult with any other Member which considers its interests to be so damaged.

5. If there is persistent and widespread application of quantitative import restrictions under this Article, indicating the existence of a general disequilibrium which is restricting international trade, the Organization shall seek consultation with the International Monetary Fund. The Organization may then in collaboration throughout with the International Monetary Fund, initiate discussions to consider whether other measures might not be taken, either by those countries whose balances of payments are under pressure or by those countries whose balances of payments are tending to be exceptionally favourable, or by any appropriate [inter-governmental agency or agencies] to remove the underlying causes of the disequilibrium. Members agree that they will take part in such discussions.

6. Throughout this section the phrase "quantitative import restrictions" includes the restriction of imports by State trading Organizations to an extent greater than that which would be permissible under Article 27 of this Charter, [provided that no Member shall be required to disclose information which would hamper the commercial operations of such a State trading Organization].

7. Members recognize that in the early years of this Charter all Members will be confronted, in varying degrees, by problems of economic adjustment resulting from the war. During this period the Organization shall, when required to take decisions under this Article or under Article 22, take full account of the difficulties of post-war adjustment which face the Members concerned.

Notes on Article 20

1. The words in square brackets in paragraph 5 are intended to cover the Economic and Social Council of the United Nations as well as the inter-governmental specialized agencies.
2. The words in square brackets in paragraph 6 should only be retained if the matter is not adequately covered in the Articles dealing with State trading organizations.

Article 21

Non-Discriminatory Administration of Quantitative Restrictions 7

1. Subject to the provisions of Article 22, no prohibition or restriction shall be applied by any Member pursuant to this Section on the importation of any product of any other Member country, or on the exportation of any product destined for any other Member country unless the importation of the like product of all third countries, or the exportation of the like product to all third countries, is similarly prohibited or restricted.
2. In pursuance of the principle set forth in paragraph 1, Members undertake in applying import restrictions to observe the provisions contained in the following sub-paragraphs:-
 - (a) Wherever practicable, global quotas (whether allocated among supplying countries or not) should be fixed, and notice given of their amount in accordance with sub-paragraph 3(b) of this Article.
 - (b) Where global quotas are not practicable, import restrictions may be applied by means of import licences without a global quota.
 - (c) Import licences or permits which may be issued in connection with import restrictions (whether or not within the limits of global quotas) shall not, save for purposes of operating quotas allocated in accordance with sub-paragraph 2(d), require or provide that the licence or permit be utilized for the importation of the product concerned from a particular country or source.
 - (d) In cases where these methods of licensing are found impracticable or unsuitable, the Member concerned may apply the restrictions in the form of a quota allocated among supplying countries. In that event, the shares of the various Member supplying countries should in principle be determined in accordance

with commercial considerations, such as e.g. price, quality and customary sources of supply. For the purpose of appraising such commercial considerations, the Member applying the restrictions may seek agreement with respect to the allocation of shares in the quota with all other Members having a substantial interest in supplying the product concerned. In cases where this method is not reasonably practical, the Member concerned should allot to Member countries having a substantial interest in supplying the product, shares based upon the proportions of the total quantity or value of the product supplied by such Member countries during a previous representative period, due account being taken of any special factors which may have affected or be affecting the trade in the product.

(e) No conditions or formalities shall be imposed which would prevent any Member country from utilizing fully the share of any such total quantity or value which has been allotted to it.

3. (a) In cases where import licences are issued in connection with import restrictions, the Member applying the restriction shall provide, upon the request of any Member having an interest in the trade in the product concerned, all relevant information as to the administration of the restriction and as to the import licences granted over a past recent period and on the distribution of such licences among supplying countries; provided, however, that there shall be no obligation to supply information as to the names of importing or supplying firms.

(b) In the case of import restrictions involving the fixing of quotas (whether or not allocated among supplying countries), the Member applying the restrictions shall give public notice

of the total quantity or value of the product or products which will be permitted to be imported during a specified future period, and of any change in such quantity or value.

(c) In the case of quotas allocated among supplying countries, the Member applying the restriction shall promptly inform all other Members having an interest in supplying the product concerned, of the shares in the quota, by quantity or value, currently allocated to the various supplying countries.

4. With regard to restrictions imposed in accordance with sub-paragraph 2 (d) of this Article or under sub-paragraph 2 (e) of Article 19, the selection of a representative period for any product and the appraisal of any special factors affecting the trade in the product shall be made initially by the Member imposing the restriction: Provided, that such Member shall upon the request of any other Member having a substantial interest in supplying that product, or upon the request of the Organization consult promptly with the other Member or with the Organization regarding the need for an adjustment of the base period selected or for the re-appraisal of the special factors involved.

5. The provisions of this Article shall apply to any tariff quota established or maintained by any Member.

Draft Article 22

Exceptions from the rule of non-discrimination.

1. The provisions of this Section shall not preclude:
 - (a) restrictions with equivalent effect to exchange restrictions authorized under Article VII, Section 3 (b) of the Articles of Agreement of the International Monetary Fund;
 - (b) prohibitions or restrictions in accordance with sub-paragraphs 2 (a) (1) or 2 (d) of Article 19;
 - (c) conditions attaching to exports which are necessary to ensure that an exporting country receives for its exports its own currency or the currency of any member of the International Monetary Fund specified by the exporting country;
 - (d) restrictions in accordance with Article 20 which either:
 - (i) are applied otherwise consistently with Article 21 against imports from other countries by a group of territories with common quota in the International Monetary Fund, or
 - (ii) assist in the period until 31 December 1951, by measures not involving substantial departure from the provisions of Article 21, a country whose economy has been disrupted by war, or,
 - both(iii) provide a Member with additional imports above the maximum total of imports which it could afford in the light of the conditions in paragraph 2 of Article 20 if its restrictions were consistent with Article 21,
 - and (iv) have equivalent effect to exchange restrictions which are permitted to that Member under the Articles of Agreement of the International Monetary Fund or under the terms of any special exchange agreement which may have been made between the Member and the Organization under Article 23:
- Provided that a Member which is not imposing restrictions on payments

and transfers for current international transactions may apply import restrictions under Section (iii) of this sub-paragraph in special circumstances and only with the prior approval of the Organization in agreement with the International Monetary Fund.

2. If the Organization finds, after consultation with the International Monetary Fund on matters within the competence of the Fund, that import restrictions or exchange restrictions on payments and transfers in connection with imports are being applied by a member in a discriminatory manner inconsistent with the exceptions provided under this Article or in a manner which discriminates unnecessarily against the trade of another Member, the Member shall within sixty days remove the discriminations or modify them as specified by the Organization:

Provided, that a Member may, if it so desires, consult with the Organization to obtain its previous approval for discriminations, under the procedure set forth in Article 20, paragraph 3 (c), and to the extent that such approval is given, the discriminations shall not be open to challenge under this paragraph.

3. When three-quarters of the Members of the Organization have accepted the obligations of Article VIII of the Articles of Agreement of the International Monetary Fund, but in any event before 31 December 1951, the Organization shall review the provisions of this Article, in consultation with the International Monetary Fund, with a view to the earliest possible elimination of discriminations under sub-paragraphs 1 (d) (iii) and (iv) of this Article which restrict the expansion of world trade.

Draft Article 23

(To replace Articles 23 and 24 of the United States
Draft Charter)

Exchange Arrangements

1. The Organization shall seek co-operation with the Fund to the end that the Fund and the Organization may pursue a co-ordinated policy with regard to exchange questions within the competence of the Fund and questions of quantitative restrictions or other trade measures within the competence of the Organization.
2. Members agree that they will not seek by exchange action to frustrate the purposes of this Charter, and that they will not seek by trade action to frustrate the purposes of the Articles of Agreement of the International Monetary Fund.
3. In order to avoid the imposition of trade restrictions and discriminations through exchange techniques, and in order to avoid the danger of conflicting jurisdiction between the Organization and the International Monetary Fund in exchange matters, Members of the Organization shall also undertake membership of the International Monetary Fund; Provided, that any country which is willing to join the Organization but is unwilling to join the International Monetary Fund may become a Member of the Organization if it enters into a special exchange agreement with the Organization which would become part of its obligations under this Charter, and provided further that a Member of the Organization which ceases to be a Member of the International Monetary Fund shall forthwith enter into a special exchange agreement with the Organization, which shall then become part of its obligations under this Charter.
4. A special exchange agreement between a Member and the Organization under paragraph 3 of this Article must provide to the satisfaction of the Organization, in collaboration throughout with the International Monetary Fund, that the purposes common to the Organization and the Fund will not be frustrated as a result of action in exchange matters by the Member in question.

5. A Member which has made a special exchange agreement under paragraph 3 of this Article undertakes to furnish the Organization with such information as it may require, within the general scope of Article VIII, Section 5, of the Articles of Agreement of the International Monetary Fund, in order to carry out its functions relating to this special exchange agreement.

6. The Organization shall seek and accept the opinion of the International Monetary Fund whether action by the Member in exchange matters is permissible under the terms of the special exchange agreement and shall act in collaboration with the International Monetary Fund on all questions which may arise in the working of a special exchange agreement under this Article.

Note on Article 23

With respect to the words in square brackets in paragraph 3, reference should be made to paragraphs 2 and 3 of the report covering this Article.
