

PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE
ON TRADE AND EMPLOYMENT

COMMITTEE II

Thirteenth Meeting

Held on Saturday, 25 November 1946 at 10.30 a.m.

Chairman: Dr. COOMBS (Australia)

1. Discussion of Report of the Sub-Committee on Quantitative
Restrictions and Exchange Control (E/PC/T/C.II/59)

Draft Article 20 (page 29)

Mr. HAWKINS (United States) suggested the deletion of the words "select imports for restriction" in the second line of paragraph 4, and the substitution of the words "may distinguish between products on the grounds of essentiality". That minor drafting change would clarify the sentence.

The CHAIRMAN preferred to keep the words "select imports for restriction", and add the words "on the grounds of essentiality".

Mr. HAWKINS (United States) said that the Chairman's wording would meet his point.

Mr. VIDELA (Chile) and Mr. TUNG (China) indicated their preference for the original wording. Who was to decide the question of "essentiality"?

The CHAIRMAN thought it was clear from the text of the Article that the Government applying the restrictions had the right to decide what constituted essential products.

Mr. VIDELA (Chile) and Mr. TUNG (China) agreed to accept the revised amendment, provided the interpretation given by the Chairman was put on record.

Agreed.

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The CHAIRMAN suggested the removal of the square brackets in the tenth line of paragraph 5, and the substitution of an asterisk to indicate that Note 1 on page 34 referred to the phrase "inter-governmental agency or agencies".

Agreed.

Mr. TUNG (China) pointed out that the Delegation of China had suggested amendments to Article 20 in document E/PC/T/C.II/W.49. He reserved the right to refer again to the proposed amendments either in the Interim Drafting Committee or at the Second Meeting of the Preparatory Committee.

The CHAIRMAN said that the amendments proposed by the Chinese Delegation had been considered by the Sub-Committee; and he felt that several of them had been covered in the draft Article. He pointed out that the views of the Chinese Delegation were mentioned in the Sub-Committee's Report on the Article (page 15).

The Secretariat would take note of the Chinese Delegate's reservation.

Article 20 was adopted, subject to the reservation by the Chinese Delegate.

Report on Article 20 (page 7)

Mr. HELMORE (United Kingdom) proposed the addition of the following phrase to paragraph 12:

"in accordance with its own judgment as to the essentiality of the products concerned."

That would clarify the Report in the sense of the point which the Chinese Delegate had raised.

Agreed.

The CHAIRMAN proposed the addition of the words "on grounds of essentiality" following the word "restriction" in the second line of

paragraph 18, to bring the report into line with the change made in paragraph 4 of the draft article.

Agreed.

The report on article 20 was adopted.

Draft Article 21 (page 35)

Mr. JOHNSON (New Zealand) proposed to add the following clause to sub-paragraph (e) in view of the difficulties which would arise in the administration of quantitative restrictions unless a time limit was imposed :

"subject to importation being made within the prescribed period to which the quota relates."

Mr. MORTON (Australia) supported the amendment.

Mr. HELMORE (United Kingdom) agreed with the idea of the amendment, but envisaged the possibility of a quota being established without a specific time limitation.

He suggested the following revised amendment :

"subject to importation being made within any prescribed period to which the quota may relate."

Mr. KUNOSI (Czechoslovakia) said that a large part of the trade of Czechoslovakia was with countries which had inconvertible currencies, and as such could not become members of the International Monetary Fund. The only way Czechoslovakia could obtain payment for its exports to those countries would be by buying from them. Did Article 21 cover such cases, or should he propose an amendment to cover them?

The CHAIRMAN pointed out that the Sub-Committee had dealt with that subject in Article 22. He suggested that the discussion should be postponed until Article 22 was considered.

Article 21, with the amendment to paragraph 2(e), was adopted

Report on Article 21 (page 16)

The CHAIRMAN stated that paragraph 2 (e) would require amendment to bring it into line with the change made in the draft article.

Agreed.

The report on article 21, with the necessary amendment, was adopted.

Draft Article 22 (page 38)

adopted.

Report on Article 22 (page 16)

It was agreed, at the suggestion of Mr. HELMORE (United Kingdom), to change the words "Member A" and "Member B" to "Country A" and "Country B" respectively.

Mr. KUNOSI (Czechoslovakia) said that he would not raise objections at the present meeting to the provisions relating to trade with countries having inconvertible currencies. After his Government had had an opportunity to study the provisions of Article 22, it might have proposals to make.

The report, as amended, was adopted.

Draft Article 23 (page 40)

adopted.

Report on Article 23 (page 23)

Mr. GUNTER, Rapporteur, submitted the following paragraph for inclusion between paragraphs 2 and 3 of the report:

"It was agreed that Members should undertake not to seek by exchange action to frustrate the purposes of this Charter, nor to seek by trade action to frustrate the purposes of the Articles of Agreement of the International Monetary Fund."

The new paragraph would be paragraph 2, and the numbers of the original paragraphs 2, 3, 4 and 5 would be changed to 3, 4, 5 and 6 respectively.

He also suggested that the following sentence be added at the end of paragraph 3 (or paragraph 4 if the paragraphs were re-numbered as suggested):

"Pending this further examination, the draft Article 23 in the Appendix to this Report has been expressed in a way which implies that Members of the Organization would in general be expected to be Members of the Fund, but that means could be provided for non-members of the Fund to join the Organization."

The Report on Article 23 and the additions submitted by the Rapporteur were adopted.

Draft Article 19 (page 25)

Mr. TUNG (China) pointed out that the Chinese Delegation considered that the exception provided in paragraph 2 (b) was too narrow and that it had offered an amendment to broaden it.

The CHAIRMAN said that the Chinese proposal was considered in paragraph 12 of the report on Article 19 (page 5). The Sub-Committee had felt that the substance of the Chinese proposal had been embodied in other sections of the Charter.

Mr. TUNG (China) replied that the draft Articles presented in the Report of the Joint Committee did not meet the Chinese position. The long procedure envisaged would prevent effective emergency action.

He wished to reserve his position.

Mr. MELANDER (Norway) questioned the wisdom of including an exception along the lines of that set forth in paragraph 2 (e). If the paragraph was included, the words "or fisheries" should be deleted.

Mr. SHACKLE (United Kingdom) thought that the words should be retained. Excess supplies of fish were likely to develop. If a country took action to relieve such a surplus, that action could not be effective unless the country could restrict imports.

Mr. VIDELA (Chile) raised the question of whaling. His country had an important whaling industry. He had previously reserved his position with respect to the words "agricultural or fisheries". He seconded the proposal of the Norwegian Delegate that the words "or fishing" should be deleted. He proposed that in addition the word "agricultural" should be deleted.

Mr. TUNG (China) said that he had previously suggested that paragraph 2 (e) should be amended to read:

"Import prohibitions or restrictions on specific agricultural, mineral, or manufactured products, imported in any form, necessary to the enforcement of governmental measures which operate to regulate production, distribution and consumption of like domestic products, with a view to maintaining a dynamic equilibrium between the diverse economic activities of a nature in the process of industrialization."

At present, however, he wished to join the Chilean Delegate in pressing for the deletion of the words "agricultural or fisheries". He proposed, in addition, the deletion of the last three sentences of paragraph 2 (e).

The Norwegian proposal for the deletion of the words "or fisheries" was rejected.

Mr. MELANDER (Norway) and Mr. VIDELA (Chile) reserved their positions.

The Chilean proposal that the words "agricultural or fisheries" should be deleted was rejected.

Mr. VIDELA (Chile) and Mr. TUNG (China) reserved their positions.

The CHAIRMAN pointed out that paragraphs 6 and 7 of the report on Article 19 (page 4) were relevant to the Chinese proposal that the last three sentences of 2 (e) should be deleted.

Mr. VAN KLEFFENS (Netherlands) suggested that the drafting committee should be instructed to improve the wording of the last three sentences of 2(e) so as to avoid misinterpretation.

The proposal that the last three sentences of 2(e) should be deleted was rejected.

Mr. TUNG (China) reserved his position and requested that the report should indicate that China had recommended specifically the deletion of those sentences.

The draft article was adopted, with the understanding that the reservations which had been made would be set forth in the report on the article.

Report on article 19 (page 2)

Mr. MELANDER (Norway) asked that a sentence should be added in paragraph 6 (after the clause "There was wide agreement for the view that a clause on these lines was desirable", lines 6 and 7 of the paragraph) to the effect that one Delegation doubted the wisdom of including an exception along the lines of paragraph 2(e) in article 19 and that if such an exception was, nevertheless, included, the words "or fisheries" should be deleted.

The suggestion of the Norwegian Delegate was agreed to.

The CHAIRMAN pointed out that, in accordance with reservations which had been made, the clause of paragraph 6 beginning "but one Delegation proposed that the exception...." should be amended so as to indicate that more than one delegation took the position described.

The CHAIRMAN suggested, and Mr. TUNG (China) agreed, that the Chinese proposal for the deletion of the last three sentences of paragraph 2(e) of the Article should be included in paragraph 7 of the report on that article.

Mr. MELANDER (Norway) suggested that the words "there was general agreement" in line 6 of paragraph 7 should be replaced by the words "it was felt".

The suggestion of the Norwegian Delegate was agreed to.

The CHAIRMAN indicated that the wording of the last part of paragraph 12 of the report would be amended to bring it in line with the message which was actually received from the Joint Committee.

In the absence of the Indian Delegate, it was agreed to postpone consideration of paragraph 13.

Paragraphs 1 - 12, as amended, of the report on Article 19 were adopted.

2. Consideration of the Report of the Sub-Committee on Quota Preferences

Mr. SHACKLE (United Kingdom) reported that the Sub-Committee on Quota Preferences had met several times and had agreed to recommend that the following should be inserted as paragraph 14 in the report on Article 19:

"The Committee considered the question of the treatment of certain existing preferential arrangements which were established under international agreements but not affected by the normal method of a difference in rates of duty. In these special circumstances they recommend that any such arrangements remaining after the negotiations contemplated for April 1947 should be dealt with by a provision in a protocol to the Charter or (pending the conclusion of the Charter) to the General Agreement on Tariffs and Trade to the effect that the Member applying these arrangements shall be entitled to continue them or equivalent measures, pending either:

"(a) an arrangement under Chapter VI, if the Member countries concerned desire that the product should be made the subject of such an arrangement, or,

"(b) some other arrangement regarding the matter between the Member countries concerned."

The Committee agreed further that only a very limited number of commodities fell under this heading and that the countries concerned should establish the facts about them so that this recommendation on the subject could be taken into account in the forthcoming negotiations.

It was further recognized that the concessions or lack of concessions in respect of the items concerned would, for purposes of assessing the results of the negotiations, stand on the same footing as concessions or lack of concessions in respect of particular tariff or preference items.

He asked that it should be recorded in the verbatim report that it was the understanding of the United Kingdom that the commodities concerned were: beef, mutton, lamb, bacon, and processed milk, imported into the United Kingdom from Commonwealth or other sources.

Mr. JOHNSEN (New Zealand) supported the recommendation of the Sub-Committee.

Mr. KUNOSI (Czechoslovakia) opposed the recommendation.

The recommendation of the Sub-Committee on Quota Preferences was agreed to.

Mr. JOHNSEN (New Zealand) said that the New Zealand Delegation had not had time to give adequate study to the documents which had been considered by the meeting. He was sure that it was not intended that commitments should be made at present and that the reports had been accepted purely as a basis for further consideration and discussion.

Mr. TUNG (China) associated himself with the view expressed by the Delegate of New Zealand.

The meeting rose at 1.10 p.m.

COMMITTEE II

The Thirteenth Meeting (continued)
held on 23 November 1946 at 3 p.m.

Chairman: Dr. COOMBS (Australia)

1. Consideration of paragraph 13 of Part II of the Report of the Sub-Committee on Quantitative Restrictions and Exchange Control

Mr. LOKNATHAN (India) stated that his Delegation considered that quantitative restrictions were a legitimate form of protection. He had intended to propose an amendment to Article 19; but, as he understood that the question of quantitative restrictions would be discussed by the Preparatory Committee on Trade and Employment at its Second Session, he was prepared to approve paragraph 13 of Part II of the Report on the understanding that the matter would be discussed at a later date.

Mr. HELMORE (United Kingdom) wondered whether the following amendment would satisfy the Indian Delegate: to delete the second part of the last sentence but one from the word "this", and the whole of the last sentence, so as to read "other Delegations considered that the procedure in question was appropriate." He also proposed the insertion between the words "announced that" and "they" of the following: "some Delegations announced that, because they considered that the procedure laid down in the Draft Charter on Economic Development needed further examination, they might propose an addition".....

The paragraph was adopted, as amended.

The Report on Quantitative Restrictions and Exchange Control was adopted as amended for inclusion in the Report of Committee II to the Preparatory Committee.

2. Consideration of the Report of the Sub-Committee on Subsidies on Manufactured Goods

The Report was adopted for inclusion in the Report of Committee II to the Preparatory Committee, subject to certain editorial changes necessary to bring it into conformity with the Report on Subsidies and primary products (E/FC/T/C.II/61).

3. Consideration of the Report of the Joint Drafting Sub-Committee of Committees II and IV on Subsidies on Primary Products

Part I was adopted with one amendment to substitute "Netherlands" for "New Zealand" in line 2.

Part II

Paragraph 1 adopted without amendment.

Paragraph 2 adopted with one amendment by United Kingdom Delegate to read: "the special difficulties referred to in Chapter VI"

Paragraphs 3 and 4 adopted without amendment.

Appendix

Paragraph 1 adopted without amendment.

Mr. SHACKLE (United Kingdom) suggested asking the Drafting Committee to consider the possible inclusion of the words "or of closely competitive products" between "such product" and "from" on line 4.

Agreed.

Paragraph 2

Mr. LOCKANATHAN (India) felt that three years was too long a period. He suggested that a period of one year was as long as circumstances warranted.

Mr. HAWKINS (United States) agreed with the Indian Delegate's views, but stated that he would be unable to commit himself on the matter without consultation with his Government. He therefore asked that the consideration of the question be postponed till the Drafting Committee stage was reached.

Mr. TUNG (China) said that at the present stage of her economic development China still found it necessary to rely on agricultural and mineral products to make up the principal items of her export trade.

In view of the increasing foreign demands for certain commodities, the Chinese Government had spared no efforts to standardize the quality of such commodities, and to enlarge the capacity and reduce the cost of their production, so as to give the world markets a more regular and plentiful supply at reasonable prices. To keep up these standards in future, China would have to adopt or retain such measures as subsidies or price support. Such measures would have the effect not only of safeguarding the employment of a large section of the Chinese population, and of ensuring steady and ~~economical~~ supplies for the international markets, but also of increasing China's exchange resources to pay for her imports, and thereby serving to bring about her balance of international payments.

As such, they were conducive to the achievement of the main aims of the proposed International Conference on Trade and Employment; and their application should not, therefore, be limited by any fixed date, but should be free of any restraint based on the date of any previous representative period.

The Chinese Delegation would therefore like to place on record the following two-point reservation on Article 25 of the United States Draft Charter:

"(1) the adoption or maintenance of subsidies or similar measures to promote the production or exportation of certain special commodities in a Member-Country, which has suffered from a chronic adverse balance of payments, should be allowed until such time as its equilibrium in the balance of payments will have been actually attained, when the question of such measures may be re-considered through consultation by the countries concerned.

"(2) the share of any such special export in world trade, whether or not acquired as a result of the use of subsidies or similar measures, should not be subject to limitation by its share in world trade during any previous representation period, except when it is proved to be part of a burdensome world surplus."

The CHAIRMAN suggested the addition of a note at the end of the Report, stating that some Delegations felt that the period of three years was too long, and that the question should be left open for further consideration.

The Committee agreed with this proposal and adopted paragraph 2 without amendment.

Paragraphs 3, 4 and 5 adopted without amendment.

The Report on subsidies in relation to primary products, and the relevant articles were adopted as amended, for inclusion in the Report of Committee II to the Preparatory Committee.

4. Consideration of the Report of the Sub-Committee on State Trading

The Committee proceeded to consider the report of the Sub-Committee on State Trading (E/FC/T/C.II/62).

Part I was adopted.

Part II, Section on non-discriminatory administration of state trading enterprises was adopted, subject to the amendment of the word "that" in the last line of paragraph 4, to read "the".

Section on expansion of trade by state monopolies of individual products.

Mr. MELANDER (Norway) wished to reserve his position generally in regard to Article 27.

Mr. VIDELA (Chile) stated that there existed an apparent contradiction between Article 26 and Article 27, sub-paragraph (b). Article 27, sub-paragraph (b), seemed to nullify what was set out in Article 26. It was quite clear to the Chilean Delegation that an enterprise coming under the category of a state enterprise could for commercial considerations set different levels of prices in different markets. However, paragraph 27 (b) did not allow a home market price to be cut for commercial considerations because of the height of the maximum margin to cover freight and insurance. At the present stage he did not wish to elaborate a provision to cover this contingency, but requested that his point be brought to the attention of the Interim Drafting Committee for its consideration the following January.

Mr. SHACKLE (United Kingdom) explained that there was no compulsion to have an export margin. Paragraph 27 (b) merely made provision for something equivalent to an export tax in cases of a state export monopoly.

The Section was adopted with the addition of a new paragraph, "7. One Delegation wished to preserve its position generally in regard to this Article".

The Section on expansion of trade by complete state monopolies of import trade was adopted subject to the deletion of the words "subject to possible consideration at a later stage",

Appendix containing a new draft of Articles 26, 27 and 28.

Mr. TUNG (China) referring to the phrase "for governmental use and not for resale" in paragraph 2, Article 26, stated that the Chinese Delegation accepted the phrase only on the understanding that supplies for "governmental use" included supplies for administrative uses, supplies for public works and all other types of government supplies which are not for resale.

Mr. SHACKLE (United Kingdom) thought that paragraph 5 of the part of the report dealing with Article 26 implied the Chinese Delegate's interpretation of the phrase "for governmental use and not for resale".

The appendix was adopted subject to an amendment of paragraph 1 of Article 27 whereby the clause in sub-paragraph (b) beginning "after due allowance ..." should form a new paragraph, and also that the sentence in the following paragraph beginning "members newly establishing ..." should start a new paragraph.

The report of the Sub-Committee on state trade was adopted as amended for inclusion in the report of Committee II to the Preparatory Committee.

5. Consideration of the Report (E/PC/T/C.II/64) on the Work of the Technical Sub-Committee for Inclusion in the Published Report of Committee II.

Mr. HAWKINS (United States) referring to Part II of the Report on the work of the Technical Sub-Committee for inclusion in the published Report of Committee II, thought that the first two paragraphs would suffice and the inclusion of the summary in regard to the individual Articles would only prejudice the work to be done on the other Report of the Sub-Committee (E/PC/T/C.II/54), which was the working Document for the Interim Drafting Committee.

The Report was adopted for inclusion in the published Report of Committee II subject:

- (a) to the addition of the words "and approved as a working Document" to the last sentence of paragraph 5 of Part I
- (b) to the amendment of the second sentence of the second paragraph of Part II to read "A greater degree of unanimity might have been possible if more time had been available".
- (c) to the deletion of the last sentence of paragraph 2 of Part II "the substance of this discussion is given below" and of the rest of the Report thereafter.

5. Consideration of Report on Relations with Non-Members

Mr. SHACKLE (United Kingdom) stated that, in preparing the Report on relations with non-Members (E/PC/T/C.II/W.40), he had endeavoured to make the Report self-explanatory. He drew the attention of the Committee to paragraph 5, in which he had laid down what he had described as the three possible lines of action open to the Committee.

After some discussion, the Committee agreed:

(a) in the Report to the Preparatory Committee, to quote the United States Draft Article on Relations with non-Members, and to say that it considered that this was a matter to leave open for consideration at a later stage.

(b) in the Appendix containing the new draft Articles, merely to insert the heading "Article on Relations with Non-Members", and under this heading a note stating that the matter was left open until a later stage.

6. Documents of Committee II

It was agreed to instruct the Secretariat to refer formally to the Interim Drafting Committee all such Committee II documents as might prove useful in the deliberations of the Interim Drafting Committee.

7. Farewell Amenities

The CHAIRMAN expressed to the several Sub-Committees, their Chairmen and their Rapporteurs, the thanks of the Committee for their labours.

Mr. HAWKINS (United States) on behalf of the Committee, expressed his admiration of the able chairmanship of Dr. COOMES, and thanked him for the way in which he had guided the Committee to the successful conclusion of its task.

Mr. VIDELA (Chile) paid tribute to the work of the Chairman and of the Secretariat.

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The CHAIRMAN thanked the Delegates for their kind congratulations. His task had been made easy by the genuine spirit for co-operation and assistance shown by all members of the Committee.

He announced that the Committee was adjourned sine die.

The meeting rose at 5.55 p.m.
