

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
PREPARATORY COMMITTEE
of the
INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT.

Verbatim Report
of the
SECOND MEETING
of
COMMITTEE II
held in
The Hoare Memorial Hall,
Church House, Westminster, S.W.1.
on
Wednesday, October 23rd, 1946.
at
11 A.M.

Chairman: Dr. H.C. Coombs (Australia).

(From the Shorthand Notes of
W.S. GURNEY, SONS & FUNNELL,
58, Victoria Street,
Westminster, S.W.1.)

THE CHAIRMAN: Gentlemen, I declare the meeting open. At our preliminary meeting last week it was suggested that the Chairman should confer with the Secretariat in order to put before the Committee a suggested arrangement for our work. That has been done and some consultation has taken place with individual heads of delegations; and, as a result of those consultations and the work of the secretariat, we put before you the suggested outline of work which is set out in document E/PC/T/C 11 W 1, dated the 21st October. In outlining that proposal, I should say that the underlying principle is that we should commence by giving all delegations the opportunity to state their views both on the proposals which are the subject matter of this Committee as a whole and also in each of their main divisions before we seek to refer that subject matter either to a subcommittee of this Committee or to drafting committees for more detailed work. In that way it is our belief that it will be possible in the early discussion to focus the main issues upon which there is general agreement and the issues upon which further investigation and detailed discussion may be necessary before the existing measure of agreement or disagreement is known.

Item 1 offers, therefore, an opportunity to discuss the central provisions of the work of this Committee. Item 2 gives an opportunity to discuss in general terms some of the very important technical questions which are also before the Committee. It is hoped that after a general discussion on item 2 it will be possible to refer those detailed technical questions to a subcommittee of officers who have particular competence in that field. We then propose in items 3, 4 and 5 to deal in more detail with the particular items dealt with more generally in item 1, particularly tariffs, preferences, quantitative restrictions, exchange control and subsidies. At the end of that discussion it is hoped that it will be possible for us to see a sufficient body of agreement, or, at any rate, sufficient clarity as to the

principles involved, for us to set up a small working committee or drafting committee which could prepare an outline report or a draft report which would then come back to the full Committee for consideration. I shall be glad to have the views of any delegation as to the adequacy of this proposed outline of work.

M. A. KUNOSI (Czechoslovakia): Mr Chairman, I wanted to ask you if it is understood that we shall start our work with a general discussion. If it is so, I have no objection to the proposed agenda. If it is not, I would propose that we should start with the general discussion in which all the delegations would state their attitude towards the points and the general tenour of this chapter.

THE CHAIRMAN: That is the purpose of item I of the proposed outline, to give all the delegations an opportunity to state their case generally.

Mr. R.K. NEHRU (India): Mr Chairman, will this proposed drafting subcommittee draft actual provisions of a charter or merely embody the views of the various delegations in some form of draft for the consideration of the delegations?

THE CHAIRMAN: I think that is a question which we postponed at our last meeting for later consideration, and I suggest that we postpone it again to-day, because it is a question which does affect not only this Committee but other Committees also, since it would be desirable that the form of report should be reasonably common from Committee to Committee. At the end of our work today it may be possible for us to see more clearly what form we think the Report should take. I would suggest, therefore, that consideration of this question might be taken up at the meetings of heads of delegations which is scheduled for tomorrow I think. Will that be agreeable?

Mr NEHRU (India): Yes; I only raised the point for the drafting subcommittee.

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THE CHAIRMAN: Can I take it, then, that the proposed outline of work set out in this document is acceptable to the Committee?

(After a pause:-) Very well. Before we pass to consideration of item 1 of that outline of work, there are one or two minor matters to which I would like to refer. The first is in relation to the secretarial work. It will be necessary when we get down to detailed consideration of the various matters before us to have in some detail the various proposals put forward by the different delegations in so far as they affect the particular items which are on our agenda, and it would be a very great help to the secretariat and myself and to working committees and drafting committees set up later if the various proposals can be examined and tabulated. In order to do that, it is necessary for us to have those proposals, so far as possible, in writing. A number of delegations have already submitted their views in written form and work is proceeding on the examination of those; but it would be of great help to the secretariat if other delegations will place their views before the Committee, if possible in written form. In that connection it would help if we could have views affecting the general commercial provisions section and the tariffs and tariff preferences section before the end of this week, and material relating to other items, particularly quantitative restrictions and exchange control, subsidies, &c., not later than Monday. As the burden of work of that kind on the secretariat is pretty heavy, I have made tentative arrangements with a number of the delegations to provide some assistance to us by the loan of the services of some of their officers who are familiar with this work. They will be engaged not on any analytical or policy work, but merely on the examination of proposals and the grouping of those proposals in so far as they are relevant under the particular items. That will, I believe, greatly facilitate the work of drafting committees and working committees at a later stage.

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I have asked those delegations to provide us with some assistance in this form where it seemed to me that in view of their familiarity with the work and the size of the delegations, they would be able to assist us. If there are any delegations whom I have not asked who would like to offer help in this regard, I shall be very pleased to hear from them.

Finally, I have been asked to remind you that the success of the simultaneous translation does depend upon some consideration for the translators by the speakers. If you would speak somewhat slowly and pause occasionally in order to allow them to complete their sentences, they will be able to give you better service.

We pass now to a discussion of the first item in the proposed outline of work, that is, a discussion of the general principles affecting most-favoured-nations treatment, tariff and tariff preferences, quantitative restrictions, exchange control and subsidies. I think it is appropriate that I should call upon the delegate for the United States to open this discussion.

Mr HARRY HAWKINS (USA): Mr Chairman, what I have to say relates for the moment more largely to questions of procedure for getting on with the work of the Committee. I think it will be well to consider at the outset of the Committee's work the ultimate objective that we should keep in view. The Economic and Social Council, in its resolution of February 18th, 1946, constituted the Preparatory Committee "to elaborate an annotated draft agenda, including a draft convention", for consideration by the International Conference on Trade and Employment to be held at some later time. The task of the Preparatory Committee is therefore to prepare a draft convention, which might be called a charter, or articles of agreement of the International Trade Organisation, or whatever title may be appropriate. The drafting of such a document would therefore seem to be the objective toward which all of the work of this

working committee and the other working committees should be constantly directed. This does not necessarily mean that we should start immediately to draft provisions for inclusion in the charter but only that everything we do should point in this direction.

Any international agreement relating to regulations, restrictions and discriminations affecting international trade must deal with a variety of subjects such as anti-dumping duties, internal taxes on goods, tariff valuation and many other subjects. In taking up its work it would, of course, be desirable if the Committee could group together for consideration subjects which are closely related to each other. But since all of the subjects within the Committee's competence are closely related and we cannot deal with all of them at once, it seems to me we should select for first consideration those subjects which are of basic importance and on which the consideration of others in greater or less degree depends. Thus I take it is what the Chairman and secretariat had in mind, I suggest that in the agenda before you there are two such subjects. These are Item B, Tariffs and Preferences, and Item C, Quantitative Restrictions. Unless there is to be international agreement regarding tariffs, preferences and quantitative restrictions, there is no need to consider such exceptions as those relating to the freedom of action to be allowed during the post-war transition period, or for dealing with balance of payments problems, or a number of other questions. In other words, if there were to be no commitments regarding tariffs, preferences and quantitative restrictions, a large proportion of the other questions which have been listed for consideration would have little meaning.

For these reasons the obvious starting point for the Committee is the basic commitments respecting tariffs, preferences and quantitative restrictions, and I therefore suggest that this Committee

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begin its work by considering items B and C on the agenda. Since exchange control and subsidies are important and closely related subjects, items D and E on the agenda should also be made the subject of early discussion. Now I should like to comment very briefly on each of these topics.

With respect to tariffs and preferences our proposal is that the charter or articles of agreement of the International Trade Organisation should contain a provision that members would enter into mutually advantageous negotiations directed to the substantial reduction of tariffs and to the elimination of import tariff preferences. The obligation of the countries concerned not to increase tariff rates so established would be subject to such qualifications as may be generally agreed upon.

With respect to quantitative restrictions, our proposal is that the charter should contain a provision to the effect that member countries would not impose quantitative restrictions on trade, this commitment being subject to agreed upon exceptions, which should include exceptions on the following subjects:

- (a) The post-war transition period and balance of payments problems.
- (b) Import quotas on agricultural products subject to domestic restriction.
- (c) An exception for quantitative restrictions imposed pursuant to recognised commodity agreements.
- (d) Exceptions for certain minor or technical matters, if there should be any. I am not at this moment, as you see, attempting to limit the number of exceptions which might be considered. I have merely said that the exceptions should include the ones I have mentioned. Doubtless others will be put forward.

With reference to quantitative restrictions consideration should also be given to provisions to govern the application of such restrictions, that is to say, such restrictions as may be

imposed under the agreed upon exceptions. Our proposal is that the charter should provide that such restrictions shall be imposed in a non-discriminatory manner as among supplying countries, but that there must be agreed exceptions from this rule of no discrimination. These exceptions from the rule would include:

- (a) An appropriate exception relating to currencies declared scarce by the International Monetary Fund.
- (b) An appropriate exception relating to inconvertible currencies.

That for the moment is all the comment I have to make on the substance of the two topics. I should, however, like to discuss briefly some procedural questions connected with giving effect to certain of these principles. Even after we have agreed in principle on the action to be taken with respect to tariffs, preferences, and quantitative restrictions, we will be faced with difficult problems of a procedural nature in giving effect to certain of these principles. It seems to us entirely appropriate that the Committee should give attention to these procedural questions. I should like to outline briefly our own ideas on this subject.

It is our conception that the ultimate object of the Preparatory Committee's work is to formulate a draft charter for the International Trade Organisation. This charter would deal with the subjects which the Preparatory Committee has assigned to its five working committees. It should deal with these subjects in precise detail so that the obligations of member governments would be clear and unambiguous. Most of these subjects readily lend themselves to such treatment. Provisions on such subjects, once agreed upon, would be self-executing and could be applied by the governments concerned without further elaboration or international action.

In the case of tariffs and preferences, however, selective

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treatment is required because thousands of tariff items are involved, which must be considered on a product-by-product basis. Provisions regarding actual tariff reductions cannot, for this reason, be incorporated in the charter itself. Yet it is necessary to deal with them if the commitments regarding tariffs are to have the same practical meaning and effect as those relating to non-tariff trade barriers.

In order to implement an undertaking to bring about the reduction of tariffs and the elimination of preferences, therefore, the United States proposes that the countries on the Preparatory Committee meet next spring to complete such negotiations among themselves. When these tariff schedules have been completed, the tariff provisions of the charter will have been put on the same footing as those relating to quotas and other types of trade barriers.

The Committee will then be in a position to submit a draft charter for the International Trade Organisation to the United Nations Conference on Trade and Employment. As regards tariffs and preferences it would have taken action in pursuance of the principle laid down in the charter, and this action by members of the Committee would create the standard by which to judge the requirements to which other nations joining the organisation should be expected to conform. In other words, any country joining the organisation would, according to our view, assume the obligation to "enter into reciprocal and mutually advantageous negotiations - directed to the substantial reduction of tariffs - and to the elimination of import tariff preferences". The extent to which members of the Preparatory Committee have taken action under this provision would be the test of what other countries joining the organisation should do in this respect.

At the end of the spring meeting, when the tariff schedules had been completed, the charter would be approved by the committee

for submission to the World Conference on Trade and Employment. You will observe that our aim is to deal with these problems in such a way that general obligations with respect to quotas and non-tariff trade barriers would only be adopted when satisfactory tariff schedules have been formulated.

I should now like to comment very briefly on the other two agenda items which I mentioned as being important and closely related to the subjects I have just discussed. I refer to exchange control and subsidies.

Exchange restrictions and quantitative restrictions are alternative methods for dealing with balance-of-payments difficulties. It is our view, therefore, that whatever rules may be agreed upon with regard to the use of quantitative restrictions for meeting balance-of-payments difficulties should also apply to exchange restrictions for the same purpose, due account being taken of the appropriate provisions of the International Monetary Fund Agreement.

With respect to subsidies, the proposed charter will also need to deal with assistance given in that form. With regard to direct subsidies for domestic producers, it is our view that they are much less objectionable than tariffs or quotas and therefore should be permitted without limitation except in those cases where they can be shown to cause serious injury to international trade.

Export subsidies, on the other hand, are likely to be harmful. They must frequently be supported by high tariffs or quotas, and they usually create international friction and illwill. It is our proposal that export subsidies be abandoned, except under agreed circumstances and rules.

I would like to suggest that since differences of opinion regarding the rules to be laid down for subsidies, whether domestic or export, are likely to arise primarily in the field of commodity policy, the Committee may, therefore, wish to consider whether this topic on the agenda should not be taken over by Committee IV, dealing with commodity problems.

Mr. Chairman, there is, of course, a great deal more to be said on all of these items, and I am sure that other countries will want to comment on them. For the moment that completes what I have to say, although I think I shall have occasion to comment later. Thank you.

THE CHAIRMAN: Does any other delegate wish to speak now? The French delegate.

MR. ALPHAND (France) (Interpretation): Mr. Chairman and gentlemen: On the provisions of Article 1 of our proposed Agenda I should like to offer a few explanations, in rather more detail than the ones I could offer before, with regard to the position taken by the French Government. I have already said that France takes a great and particular interest in the renewal of international exchange and the reduction of customs barriers and the increase of exports. I have already said also that in principle, as a consequence of all this, the French delegation was most favourably disposed to all the provisions under the corresponding Articles of the Charter and with the aim which it has

undertaken to see one day a world such as is shown to us in the proposed Charter: a world where discrimination will have been done away with except in some special cases, as Mr. Hawkins has said - in some defined and well-understood exceptions; where customs duties will be relatively low; where the most-favoured-nation treatment will be applied to all members of the organisation; and I should like to mention and point out that the French Government has already announced that it would on its own account put into practice a tariff system based on a very low scale.

As a consequence, where the final aims, the future aims of this proposed Charter and of the American delegation are concerned, we have no objections whatsoever to offer. However, as I have already mentioned, it seems that in order that such a Charter, so conceived, might really be put into practice, it might be necessary that there should be a certain preliminary levelling of the economies of the member countries. It seems to us that we are invited by the American Government to take part in a sort of sports competition, a game, the object of which is to win external markets, but it seems to me that in order that such competition should be subject to the laws of fair play the teams should not be too unequal as far as training and preparation are concerned.

Among the countries which will, let us say, take part in this game, there are some countries whose economies are still young, countries who must develop their industries, and there are those, like many countries of Europe, who must now forget the ravages of war and modernise their means of production in order not to enter without protection into the international field of competition. That is why we feel we must insist upon the importance of this period of transition which is foreseen

in the Charter, and of course in such a period of transition France would like to maintain a programme of importation, which is something that you call quantitative restrictions of imports. This programme of importation has two aims. First of all, to allow us to bring equilibrium into being, and, secondly, to make it possible for us to re-establish and modernise our economic system. As a consequence, during this period we shall not be able to import into France products other than those which are quite indispensable for the reconstruction and modernisation I have mentioned. I should like to add, however, that certain things will be included in our programme with regard to commodities which are not indispensable, so as to maintain a balance of trade and exchange.

I should also like to say that we agree with and shall agree to put into practice, beginning from a certain date, the policy of non-discrimination, even where licences are concerned. We plan, so to speak, three periods. The first one will be the one during which, for reasons of balance of payments and economic re-establishment, we shall maintain at the same time the programme of importation which I have mentioned, and also bi-lateral agreements. Then during the second stage, when we have enough foreign currencies to suffice for our importation needs, we shall still maintain the programme of importation and we shall grant licences following non-discriminatory methods; and, finally, in the third period, we shall accept the final aims of the Charter; that is, we shall have eliminated our programme of imports and shall have accepted all the principles of non-discrimination. These, gentlemen, are the three periods which we plan to put into practice in successive stages in order to bring us to the final aim which the Charter proposes.

I should like to say that the obligation which I have here mentioned is not a new one. It has been brought up by the French Government before the Franco-American Agreement on the 28th May, 1946, which has always been maintained by the French Government, and it seems to me that it was then agreed that the period of transition of which we speak would not be determined as to its duration in a final way, but that we should try, on the contrary, to determine the criteria which might be applied to such a period. In other words, the French Government believes that concerning this period of transition the Charter gives provisions which are too detailed, and that we cannot accept the fixed determination of the duration of the period during which we would have to give up our quantitative restrictions, but that we should rather try to see what criteria are to be followed in allowing or not allowing a country to abandon restrictions. In this respect, therefore, it seems to me that the provisions suggested in the proposed American Charter should be more elastic, and we hope ourselves to put forward certain changes and certain amendments.

There is a second point which I should like to mention, and that is our preoccupation with regard to working in certain stages. We are rather worried that this Charter might change the natural currents of trade. The American Charter seems much too ambitious in all of these regards. It plans to bring about almost instantaneously a homogenous economic policy of the whole world. It seems to us that such a vision of the future, desirable as it may be, may be rather premature under present circumstances. On the one hand, it is possible that certain strong economic bodies may for the time being stay outside this Charter, which is a thing we do not

desire to see. On the other hand, there are certain natural economic currents which are not within political limits and which are strong enough to keep even today their original intensity.

It seems to us that the proposed Charter does not take into account all these problems and does not realise that it might be impossible to dispose of them all immediately. That is why the French delegation believes that in the first place the problem of non-member countries should be examined most carefully in relation to all provisions, allowing perhaps that certain provisions to maintain all the benefits of most-favoured relations with non-member countries might not be quite enough. On the other hand, we should be careful not to destroy, even before world economy can be re-established, certain traditional ways of trade and exchange. However, such a policy is only a first stage. It will allow easier integration of these partial economies within the borders of the world organisation such as is provided for in the American Charter. Subject to this provision, I believe certain traditional methods of exchange - certainly for certain luxury and semi-luxury products - should be maintained. Such exchange will allow us to elevate the standard of living of the population.

I have now finished dealing with considerations of a general order, and I hope what I have said will permit the Committee to follow the lines of the French proposals during our future discussions. We entirely favour the proposals of the Charter, but we do believe that, as with all such works, it is slightly abstract, and that its aims and tendencies are perhaps too absolute and too definite, and therefore occasionally seem contradictory. I must admit that when I read the Charter I frequently asked myself whether it was

possible to reconcile the principles of complete liberty of exchange, liberty of action, removal of customs barriers, elimination of all discrimination, with the policy of commodity agreements, the logical consequence of which is the enforcement of certain economic control in such important sections as that of raw materials, and also with the policy of full employment, which falls easily under commercial regulations and all rules which tend to regulate unemployment. Our work then must be to bring together the Charter and reality. France, for its own part, will collaborate in all this work, and in a few days the Secretariat and the Chairman will be seized of our country's proposals, which will deal particularly with Section C, Article 31, and certain Articles of Customs formalities.

MR. C.L. TUNG (China): Mr. Chairman, in view of the importance of the various topics on our agenda and in view of their relation to the question of industrial development, the Chinese delegation wishes to express a few general comments upon the principles of these various topics in connection with industrial development. We want to make it clear that generally we are wholeheartedly in favour of these principles which underlie the proposals made by the United States and other delegations, which are devoted to the common cause of world trade expansion, but we want to make an important reservation on one point.

That is, that in our opinion the under-developed countries must be given a transition period during which they can institute or maintain reasonable measures of protection in respect of tariff adjustments, quantitative control of commodities, exchange control, subsidies, and

so forth. Then the question arises, what is the definition of a transition period for under-developed countries? We notice it is provided in the proposed American Charter that three years may be given to those countries who wish to maintain a certain measure of restriction, especially of quantitative restrictions, but, as anybody could understand, this is almost impossible for most under-developed countries, to achieve industrial development in three years.

Then it is further provided in the Charter that those countries who suffer from a deficit in balance of payments or have a low level of monetary reserve may, in consultation with the Trade Organization, continue their control for a certain period, but I think this criteria or this definition of a transition period is rather ambiguous and not satisfactory. We feel that the criteria of monetary reserve and balance of payments are good criteria for monetary stability, but that does not mean that they are also good criteria for industrial development of an under-developed country. For instance, a country may have a large monetary reserve and may have sufficient balance of payments, but if, through regulation of imports, their home market may be overloaded with consumer goods, non-essential or even luxuries, they may never be industrialized, so in addition to the criteria of monetary stability we must have additional criteria for the industrialization of under-developed countries. In the absence of any suggestion for such criteria the Chinese delegation would venture to say a country may be considered fairly industrialized when 50 per cent. of its population is employed in modern industrialization, production and distribution, and/or when 50 per cent. of its national income is derived from modern enterprise in industry, commerce or finance. We think that before such stages of development

can be attained by under-developed countries those countries may maintain a reasonable amount of protection in respect of tariff adjustments and quantitative restrictions, exchange control, and other means of trading regulation.

But these protective measures should not be maintained, of course, except with the following provisos:-

- (a) they must be maintained on a basis of mutuality;
- (b) they must be maintained absolutely on the basis of non-discrimination against member races or non-member races, which is the policy of the Trade Organization; and
- (c) they must be maintained absolutely for the purpose of industrialization and minimised to the fullest extent as regards their effects on the commerce of the member races.

These in general are the views of the Chinese delegation when we are going to discuss the topics of the principles underlying tariff adjustments, quantitative restrictions, exchange control, subsidies and so on, and we hope these views will be adopted by this Committee and proposed to the Joint Committee for consideration, and that before that is done we are going to proceed with this task in the light of a transition period as I have just tentatively defined it.

MR. VIDELA (Chile): Mr. Chairman, the Chilean Delegation, in accordance with the Declaration made by its Chairman at the Plenary Session, considers that the suggested Charter circulated by the Government of the United States of America represents an admirable basis for discussion. Therefore, it proposes to set forth in the present document certain general observations on the aforesaid suggested Charter, by reserving to itself the right at a later stage to make observations on proposals made by other Delegations.

1. Article 8 of the suggested Charter concerning the general most-favoured nation treatment calls for the following remarks:-

- (a) The Chilean Delegation accepts paragraph 1 of the Article.
- (b) With regard to paragraph (2), the Chilean Delegation would like to point out that there has not been included a generalised exception between the American countries, known as the "bordering countries" clause, which provides for the exclusion from the most-favoured nation treatment such particular advantages as are or may be conceded by neighbouring countries. The clause in question is essential in order to promote the industrial development of small nations, with small populations and a reduced purchasing power, and constitutes an exception inserted in various Trade Agreements signed by American countries. This same clause was also favoured by the Pan-American Conference of Montevideo. In view of the foregoing, the Chilean Delegation proposes that among the exceptions in paragraph 2 of Article 8, a section (c) should be incorporated, reading as follows:-

"(c) Preference treatment in force between neighbouring countries."

2. In connection with Article 17 relating to boycott, this Delegation considers it appropriate to suggest that the cases which might be considered as boycott should be more clearly defined.

3. In respect of Article 18 relating to the reduction of customs duties and the suppression of preferential tariffs.

the Chilean Delegation points out that:

paragraph 3 of this Article proposes, in resume, that if a member has failed to concede tariff reductions to another member, the latter may have recourse to the International Trade Organization, and that if the refusal has not "sufficient justification" the country in question may be deprived of the benefits of the Charter.

The Chilean Delegation thinks it advisable to establish in the Charter the circumstances in which a refusal to reduce tariffs would be considered justified, which would facilitate the work of the Organization in such matters and would offer more guarantees to the member countries.

We suggest that justifiable circumstances for the rejection of lower Customs Tariffs might be the following:-

- (a) When a concession affects or might affect a national industry in its initial stages of development, and for which adequate tariff protection is still necessary.
- (b) When a concession affects or might affect a national industry which is vital to production and employment in a particular region and which cannot easily be replaced by another industry.
- (c) When home industries are sufficient to supply internal consumption.
- (d) When home industries use for the most part the raw materials of the country itself.

With regard to Article 20, we must point out that, according to its terms, in order that any particular country can maintain restrictions in order to establish the equilibrium of its balance of payments, it is under the obligation of proving the existence of the unfavourable position in which it finds itself. It would, however, be more convenient to apply the opposite method, that is to say, that the country which opposes this method of control should be under the obligation of proving that the restrictions are unjustified in that there is no unfavourable balance in the country which has applied for the restrictions in question. In the opinion of this delegation, it would be desirable, in connection with Article 25, relating to subsidies, to make it clear that each time subsidies are referred to, direct and indirect subsidies should be understood.

With regard to Article 26, relating to the non-discriminatory administration of State trading enterprises, it would be as well to make clear the exact meaning of "State trading enterprises". It might well happen that, in view of the tendency towards nationalisation in many countries, a large number of enterprises come under Government control. The conception of enterprises on whose operations a member Government exercises, directly or indirectly, a substantial measure of control, is imprecise and open to dispute, all the more so in that in other parts of the suggested Charter, such as Article 34, reference is made to enterprises which appear openly governmental as well as commercial enterprises. It would be as well that these Articles should be discussed and their meaning clarified.

In respect of the commercial state enterprises it would appear that the reference to non-discriminatory treatment accorded to the commerce of any member country would mean that

the said enterprise would be obliged to fix uniform selling prices in the country of origin for the various foreign markets without any consideration for the greater or lesser importance of one market as compared to another; that is to say, for the volume of its purchases or other commercial considerations.

The Chilean delegation is somewhat doubtful about the above interpretation, inasmuch as the same Article 26 lays down that (page 21 of the suggested Charter) "to this end such enterprise shall, in making its purchases or sales of any product or service, be influenced solely by commercial considerations, such as price, quality, marketability, transportation and terms of purchase or sale". In other words, the above interpretation might be taken to mean that ^astate commercial enterprise receiving exclusive or special privileges from its Government would be in a position to sell its products in their place of origin, on a specific market, at a different price from that at which they would sell to another market, in view of the fact that the importance attaching to the retention of a market by such an enterprise does unquestionably represent a commercial consideration of the highest importance. We should point out that this Article has the widest possible range, inasmuch as it would also apply to enterprises to which the state has "granted exclusive or special privileges, formerly or in effect....etc." - a text which might include a large number of modern enterprises.

The Chilean delegation considers it of great importance that it should be made clear that such concerns will enjoy the same freedom to adapt themselves to specific markets, in the same way as the private enterprise can do, with due regard to their immediate or future commercial requirements.

These are the most important considerations which the

Chilean delegation for the moment desires to make on the question which this Committee has been set up to consider.

MR KUNOSI (Czechoslovakia): Mr Chairman, I feel that before starting I should explain that, in spite of the fact that my speech might appear to be an English translation of M. Alphand's speech, that is not the case; I had no previous consultations with him.

We have, Mr Chairman, I believe, made it sufficiently clear in our general statement to this Conference that our economic structure and the policy our Government has pursued in the economic field makes us greatly interested in any co-operative attempt to expand international trade. My Government considers an increased exchange of goods is one of the means of achieving and ensuring full employment and a rising standard of living for our working people and is a contributing factor to the welfare of the whole nation.

I should like to begin by saying that I am not certain whether we all are fully aware of the fact that restricted access to raw materials might be one of the important obstacles in expanding the foreign trade of some countries, especially the smaller ones. We do not contest the need to reduce and eliminate a number of the existing trade barriers, but we submit that the ways and the means by which this aim should be gradually achieved should be chosen from the point of view of safeguarding full employment, of raising the standard of life of the different nations, and especially bearing in mind the burning problems of economic reconstruction in the countries exploited for long years by Nazi Germany.

Mr Chairman, Czechoslovakia could co-operate and make her contribution to this international undertaking if due regard were paid to her problems of economic recovery. It

has already been mentioned that Czechoslovakia was first occupied and last liberated; and the fact that Czechoslovakia was subjugated before the war broke out meant that the enemy could carry out under peace time conditions his most far-reaching plans for using and misusing our economic resources and our skilled manpower. She took at that time full measures to adapt the whole structure of our economy to Nazi war purposes. There was a thorough elimination of some of the most important branches of our industrial production. Factories producing consumption goods typical in our export trade, destined largely to cover our import needs, had to be closed down. Our heavy industry was fully converted to suit German war requirements. Consequently, our economic potential is dangerously enfeebled and will be for quite some time in a delicate and fragile condition, especially as we have a complete lack of reserve of raw materials, foreign exchange and gold. Our machinery is out of date and in need of replacement, so that our production in many cases is uneconomic, and all this influences unfavourably, as you can believe, our possibilities for competition on the world market; and so we feel that our co-operation in reducing and eliminating some of the means by which we are bound in this post-war period to regulate our foreign trade ought to be considered in the light of these facts. In our view, it is a first duty to ourselves, Mr Chairman, and to the international community, to concentrate for some time all our efforts on overcoming the handicaps created by Nazi exploitation and war action. Of course, we need some time to mitigate and wipe out these serious shortcomings and dangerous setbacks caused by the enemy. This transitional period needed for the convalescence of our economy might be shorter or longer according to the degree of understanding and amount of help we receive from those states that have not been occupied by

the enemy. We have not in the past and we do not intend in the future to introduce restrictions on foreign trade in order to promote self-sufficiency or to create reserves of foreign exchange. My country has always taken great care, and will in the future, to fulfil her commitments of payment abroad. That means to us that we cannot imagine freeing our foreign trade except in organic relation with our foreign exchange position. I submit, therefore, Mr Chairman, that we have to deal with the problem of reducing trade barriers parallel with solving the problems of foreign exchange. It follows that we must apply in many ways more or less the same measures and regulations in the two fields. So we cannot help drawing your attention on this occasion to the fact that, while we have only a very limited amount of convertible foreign exchange, mostly needed for our import of raw materials and investment goods, we have to use it in the most economical way and have to concentrate its use in the import of those things essential for our economic life.

We agree in this respect and in many other respects, as I have already indicated, with the views put forward by the French delegation. Here Czechoslovakia is in a rather special position, because our foreign trade balance used to be most favourable with countries with inconvertible currencies. Czechoslovakia is geographically and economically compelled to export into those countries and very often has no choice at all, except to stop production and create unemployment. This alternative would not be desirable either from the point of view of Czechoslovakia or from that of other nations. So we have to receive payments in goods in the form of imports from those countries, as we are, as you know, not in a position to give credits. It is quite natural, then, that we should feel that these facts should not be considered

as amounting to discrimination. On the other hand, we believe, Mr Chairman, that the countries here represented could consider favourably perhaps the idea of introducing no new restrictions in their foreign trade and from now on reducing or eliminating their import and export barriers wherever possible.

Mr Chairman, I am coming now to a point that we, the Czechoslovak delegation, consider of major importance, and I should like to emphasise our views on this point. I believe there is no doubt that the main objective that we should never lose sight of is to consolidate peace through economic collaboration. We have no doubt that the more states that are attracted and are able to join the I.T.O., the more fully this objective and the more specific aims of the organisation will be achieved. If we pay due regard to the different economic structures as well as to the different degrees of economic development reached by the member states of the world community, that will in our view most effectively facilitate participation in the organisation by the largest number of countries. That is the reason why I have drawn your attention to the special needs and legitimate ambitions of the countries formerly occupied by the enemy, of which Czechoslovakia is one.

From this point of view, Mr Chairman, I would like to make a general remark on the sanctions proposed. I find them, in view of the post-war fluctuating and still chaotic situation, a bit too ready-made, instead of indicating the leading principles and leaving the detailed arrangements to the I.T.O. for study and decision. We are for these very reasons very reluctant indeed to approve the severe sanctions suggested. In this connection we often wonder how a system such as would be created by the proposals could function for those members of the organisation only a fraction of whose

foreign trade would come within the circle created by the organisation and the great bulk of whose foreign trade is dependent on states outside the organisation.

Mr Chairman, we agree on the whole with the agenda of this Commission. We wonder if quite a few items on the agenda, with which, as I said, we are in substantial agreement, could not be better tackled by turning to the Geneva Conventions as a basis and attempting then to incorporate these conventions proposed in a revised form into the new Charter. In respect of some of the proposals under this heading we shall put forward in due time a few suggestions aiming at their improvement, especially in connection with customs formalities, marks of origin and so on. Concerning information and statistics, we shall ask that a minimum standard should be worked out, perhaps by the Statistical Commission of the Economic and Social Council, taking into account the limited possibilities of the small states in this respect. As for tariffs, we intend to aim at their gradual reduction. We are in a precarious situation, especially with countries which have ad valorem tariffs. We shall therefore have to adjust our tariffs in accordance with the changed value of the crown. So far as the procedure about which Mr Hawkins has just spoken, of reducing tariff barriers, we are willing to negotiate with the different countries which are interested in a significant way in the import of the goods for which they seek tariff reduction. In furthering the process of tariff reduction it must be remembered that the countries which have considerable protection will have to reduce it relatively more than those with low tariff walls. Of course, we would like to see some provision for revision of these commitments in order to avoid harmful rigidity. As far as the problems of the exchange control are concerned, we should like to point out that great care

should be taken to avoid a conflict with the provisions of the International Monetary Fund.

Mr Chairman, we believe we have some understanding of the problems of state trading but, not having practised and having no intention to introduce methods of state trading, we find it extremely difficult to appreciate how far the formula proposed is acceptable and practicable in this connection. Our own nationalised industry is, as you know, trading and will trade on the principle of private business.

Now, I do not want to go into all the points of the agenda at this stage, therefore, if you will allow me, I will reserve the possibility of presenting our views and some amendments to the agenda when we reach the particular items.

MR PARANAGUA (Brazil): Mr Chairman, I just want to make some considerations about the agenda and the suggested Charter. The American Charter put forward the basic idea that the members of the organisation should develop trade on a reciprocal and mutually advantageous basis, and the idea of non-discrimination. We have in Article No. 8 the principle of no discrimination, which is to a certain extent in conflict with the idea of reciprocity. It is well known to any negotiator of commercial treaties what difficulties arise from unconditional and unlimited "most favoured nation" treatment, because it provides for juridical or formal instead of effective reciprocity; and that is due to a great extent to the difference in tariff systems.

About sixteen years ago I put forward this situation: A most-favoured nation clause in its conditional and unlimited form gives reciprocity advantages only in a formal and not in an effective way. The inconvenience flows from the diversity of tariff systems. For example, if we have a contracting party with a ^{double} autonomous tariff and another contracting party with a general and conventional tariff, the result of the reciprocal concessions of the unconditional and unlimited most-favoured nation ~~treatment~~ is that the contracting party having the general and conventional tariff grants to the contracting party having the autonomous tariff the benefit of the conventional tariff, which can be further reduced by concessions made to a third country, whilst the contracting party having the autonomous tariff grants only his autonomous tariff, that is to say, assures the benefit of a tariff the rates of which this party can freely increase. The contrast would be more striking if the contracting party had a single autonomous tariff and the other contracting party had a general ^{and} conventional tariff. Well, we cannot accept that as a general principle. I put the idea of reciprocity above the idea of non-discrimination. We are here to settle on a workable organization; and I suppose the best way would be to have multilateral agreements, because in the case of a multilateral agreement for this reduction of tariffs we would have no need of a clause because there would be no discriminations. If we suppose the case of all member countries subscribing to this agreement they would be placed on the same basis and on the same treatment; there would not be any discrimination because we would receive and give the same concessions. Then they would have real reciprocity. I do not want to say that we are against the idea of non-discrimination; and also if there is a bilateral agreement it is quite normal and understandable that any country is not willing to give concessions to any other party if that party can give more concessions to a third contracting party. But the time for bilateral agreements is over for this organization. We must have multilateral agreements. About the Charter, the Charter was drafted by the very nation which used to have the

policy of the conditional most-favoured nation treatment. The United States had this policy from 1778 to 1923. It was with Brazil that for the first time this American policy was reversed to the unconditional and unlimited form. For this reason we put forward some proposals about this clause, and in due time I shall propose an amendment to this Article VIII, if our proposals are not accepted. There is another point I would like to speak about - that is preference. It seems to me that everybody is afraid about preference. I recently met somebody in America who asked me if the policy of British Imperial Preference was not one of the causes of the second World War. I said, "Yes - also for the sunspots!" - because, after all, the British Commonwealth is an economic unit. We must recognize the facts, not have only principles, but recognize what really exists in the world. Then we have a paragraph about preference for Cuba; but I think there are some other special clauses in treaties which are equally respectable with those of Imperial Preference and Preference for Cuba. For example, there are the Scandinavian clauses, concessions made amongst the Scandinavian countries. I do not know why we should oppose those; they are quite special concessions. There are the concessions between Denmark and Iceland, which are also to be accepted; or we have all the agreements amongst the Central American countries; and the Chilean Government has treaties also with special concessions to other Latin-American countries. There are also Portuguese commercial agreements, but excluding from the effects of the clauses the concessions granted to Brazil. I do not like the idea that people might suspect that only the interests of Imperial Preference or of the Cuban Preference are acceptable. I would like everybody to feel that the Charter is for the whole world and that all interests are considered.

Then there is a third point I should like to mention about quantitative restrictions. As everybody knows through the war we could not replace all the machinery required by our industries. I want therefore to maintain at least for a period the right to a certain priority; that means, to reserve a certain amount of exchange to buy machinery abroad. That also

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means, I would say, priority of machinery over cosmetics and similar articles, and I would like to have something about that in this Charter. When the right moment comes I will take the liberty of speaking about it.

For to-day I think that those are the only considerations I have to point out, quite frankly.

THE CHAIRMAN: Thank you.

The meeting is now adjourned and will re-assemble at three o'clock.

(The meeting adjourned at 12.45 p.m.

until 3 p.m.)

(For verbatim record of afternoon session see Part 2

of D/PC/T.C.II/PV/2)