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UNITED NATIONS  
ECONOMIC AND SOCIAL COUNCIL.

PREPARATORY COMMITTEE

of the

INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT.

Verbatim Report

of the

FOURTH MEETING

of

COMMITTEE II

held in

The Hoare Memorial Hall,

Church House, Westminster, S.W.1.

on

Tuesday, 29th October, 1946,

at

3.00 p.m.

Chairman: DR. H.C. COOMBS (Australia).

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

THE CHAIRMAN: Gentlemen, at our last meeting we had a general discussion concerning several items of the agenda. There were quite a large number of specific suggestions and criticisms put forward by different delegates, and, since they bore on the materials submitted by the United States Delegation both in their Draft Charter and in their Delegate's statement to the Committee, it was felt that we would advance considerably if we were to get from the United States Delegate a comment on the various views put forward, so that before we refer this to a Drafting Committee for the preparation of a detailed draft for our consideration, it would have been possible for all delegates to have expressed their views to the Drafting Committee, to know broadly how far the various proposals had widespread support.

I do not think it is necessary for me to run over the main points. I think they will become clear as Mr Hawkins deals with the various matters. I suggest, therefore, that we proceed immediately to hear the United States Delegate.

MR HAWKINS (U.S.A.): Mr Chairman, I shall try to cover all of the points raised so far as I understood them. If I omit any, I shall be glad to have the delegate concerned raise the point at this meeting.

We were discussing Articles 8 and 18, and I shall take up the points in the order in which they come up in connection with our draft of the Charter.

The first questions related to public works contracts, and were raised in connection with the last sentence of paragraph 1 of Article 8. The last sentence of paragraph 1 of that Article reads: "The principle underlying this paragraph shall also extend to the awarding by Members of governmental contracts for public works, in respect of which each Member shall accord fair and equitable treatment to the commerce of the other Members". The first question raised on that sentence is whether the commitment relates to purchases of materials for public works as well as to the awarding of contracts for public works. Our purpose was to confine it to the awarding of the contracts. Purchases of materials by govern-

-ments for public works or other government use would be covered by the preceding sentence, which requires the granting of most-favoured-nation treatment in respect of all laws and regulations affecting such purchases. You will note from the draft that certain provisions of Article 9 are incorporated there by reference. In determining whether the governmental purchases themselves, as distinct from the laws or regulations governing them, are in fact on a non-discriminatory basis, the rules laid down in Article 26 would apply. That Article requires that purchases be made where they can be made to best advantage; in other words, the so-called commercial considerations.

There was a further question: whether a country which receives bids for public works and awards the contract to nationals of a country lending money to finance the project violates the last sentence of paragraph 1 of Article 8. Our answer to that would be "No", provided all countries were given the same opportunities to offer the financial assistance. I am referring here solely to the obligations of the borrowing country, under this paragraph of the Charter. I will mention the lending country later.

There was a further related question as to whether the borrowing country which uses a tied loan for the purchase of materials for public works violates Article 25, that is to say purchases. You will have to refer back to that because it is not one of the Articles immediately under consideration; it is closely related to this. In the circumstances I have just cited, as we would see it, the borrowing country is merely taking advantage of the opportunities available to it, and would in no way violate the letter or spirit of its undertakings.

Mr Chairman, I have been speaking so far of the obligations of the borrowing countries. It is quite natural that the question should have arisen out of the discussion whether the tying of loans by lending countries is consistent with the general object of promoting multilateral trade. This is a point which may very properly be discussed, although I

am not at the moment in a position to take any definite attitude on it. I am merely trying to point out that I do not consider the question raised, I believe by the Netherlands Delegate, to be irrelevant.

A further question was whether the obligation to accord fair and equitable treatment in awarding contracts for public works applies to contracts of local as well as central governments. Our view on the point -- a tentative one -- is that the obligation should apply to contracts of local governments in those cases in which the action of the local government can constitutionally or traditionally be controlled by the central government. I cannot speak with complete authority as to what the position would be on this in the United States, although I think that I know the answer. I believe that in the United States, by analogy to some other cases, a commitment by the central government would control the state government in respect of this matter.

We would be content to leave it, however, that it depends upon the constitutional situation in each country, the idea being to have the obligation go as far as it could. We are open to change on that point, however, if it does not seem appropriate. A further question was raised whether the obligations in paragraph 1 of Article 8 apply to crown companies. If this refers to procurement agencies obtaining supplies for governmental use, the answer is that paragraph 1 of Article 8, requiring most favoured nation treatment, and Article 9, which requires national treatment, would apply. Now, if such companies were trading companies purchasing for re-sale, our view would be that Article 26 would apply, namely, that they should buy in accordance with the commercial considerations.

There was one suggestion made - not in the form of a question - which I would just touch upon, and that was that the exception from the national treatment provision for purchases by or for the military establishment be limited to purchases for the military establishment only. The point there was that the purchases might, under the language as we had it, be made by the military for other than military purposes. We agree with the suggested change.

A further question was raised, as to whether preferences other than those in the form of import customs duties, for example, preferences awarding public works contracts, would be excepted under paragraph 2 of Article 8. We think not. The preferences dealt with under paragraph 2 are preferences which would come under negotiation along with tariffs, but we are not quite able to see how you could negotiate preferences in the form of a mere inclination to award public works to particular countries.

There was another series of questions relating to the

exceptions to most favoured nation treatment as provided in paragraph 1 of Article 8, that is to say, the rule for most favoured nation treatment being provided in paragraph 1 of Article 8. One of those was the dates in paragraph 2, where there are two alternatives, and an additional one was put forward. The exceptions in our draft provide that certain long established and universally recognised preferences existing as of a specified date shall be excepted from the automatic application of the most favoured nation clause. In other words, all such preferences in excess of those in effect on whatever date is agreed upon would be abolished automatically; and questions were raised then as to what that date should be. Our draft provides that preferences on any product in excess of that in effect on July 1 1939 or that in force on July 1 1946 - whichever is lower - will be abolished. Now, the reason for the 1939 dating is that preferences increased during the war and presumably as a war time emergency measure would not be retained as a bargaining weapon. The reason for the 1946 date is that if preferences had been reduced or eliminated they should not be re-established. However, since it can be argued that it would be more equitable to treat all war time alterations in preferences as emergency measures, we are prepared to drop the 1946 date.

There was a further suggestion made that preferences existing at the time of signature of the Charter should be excepted from the most favoured nation clause. We would not favour this, because it would permit the retention of war time emergency preferences which were not reduced as a result of the tariff negotiations which are contemplated. In other words, it is conceivable that you could have preferences on some products even after your negotiations which would be considerably higher than they were pre-war.

Now, there were a number of suggestions for preferences in addition to those of paragraphs a. and b. of our paragraph 2: those were preferences of the group or regional sort. The kinds of exceptions that were mentioned during our last meeting seemed to fall into two categories. The first: those which are set forth in paragraph 2 of Article 8 of our draft, which are excepted only on condition that they would be subject to conditions looking towards their elimination. That is one kind. The second kind were exceptions of a permanent character which would not be subject to negotiation and would not go on indefinitely.

Now, with reference to what we might call the temporary exceptions, such as we have in sub-paragraphs a. and b. of paragraph 2 of Article 8, suggestions have been made that there are other preferences that ought to be added to this category. We are aware that various clauses have been included in bilateral agreements relating to preferences between neighbouring countries or those having special geographic or other relationships, but, as the Brazilian delegate pointed out the other day, many of these exist only in theory and have never been made effective. The long established preferences of the kind to which we are referring in sub-paragraphs a. and b. have resulted in the creation of patterns of trade the changing of which would present difficulties - and very material difficulties - for the countries concerned. It is for that reason that such preferences are made the subject of negotiation with a view to enabling the countries concerned to obtain compensating benefits.

In the case of preferences which have been provided for but which have not been made effective, or have been made effective only to a very limited extent and which have not

therefore created important trade patterns, no reason, as we see it, exists for retaining them for the purposes of negotiation.

Now, as to the permanent suggestions, those would be exceptions of a kind which would not be subject to elimination by negotiation. There were a number of suggestions for exceptions of that general type. We have provided for certain permanent exceptions in Article 33 of our draft charter, and the exceptions provided for in that Article are those relating to customs unions and frontier traffic. I assume there is no controversy about those. But three additional exceptions relating to preferential arrangements among groups of countries have been proposed. First, regional preferences which have been put forward as desirable per se, either for the purpose of creating larger markets for smaller countries which wish to industrialise, or for other reasons. The second type: regional preferences which are transitional stages towards a customs union. The third kind mentioned were open end arrangements under which unusually favourable customs treatment is accorded by the parties to each other but which are designed to be only temporarily preferential, inasmuch as the arrangements would be open to other countries on the same terms.

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I would like to comment briefly on each of those three types. With respect to the first type, that is to say, regional preferential arrangements put forward as desirable in themselves, we feel that regional preferential arrangements are open to the objection that they tend to create rival and sometimes hostile blocks and to reduce the total volume of world trade. In our view, the aim should be to create an open world market where trade may flow more freely by removing the partitions created by preferential arrangements. It is for this reason that we hope to eliminate by negotiation long-established practices. It would not be consistent with this objective to provide for new preferential arrangements.

It has been argued that regional preferences might nevertheless be accepted if they are transitional steps leading towards customs unions. The objection to this is that such preferential arrangements may never get out of the transitional stage, with the consequence that other supplying countries would be placed at a disadvantage without the compensating advantages that they would obtain from the larger volume of international trade which full customs unions may be expected to produce. The greater volume of trade in the case of a full customs union is a result of the enlarged free trade area and more prosperous conditions within it. In the case of the regional preferential arrangements no such free trade area exists; the protective barriers between the parties still remain. In our opinion, the difference between regional preferences and full customs unions is so great as to amount practically to a difference in kind.

Now, with reference to the open end preferential arrangements which I believe were mentioned by the delegate of the Netherlands, we do not object in principle to the idea; that is, it is the

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same idea that underlies our draft of the Charter. We are doubtful, however, whether in practice agreements among only a few countries can be truly open to adherence by other countries. The discussions of this Committee make it perfectly clear that any multilateral agreement in order to be truly open must be formulated in the light of the situation and needs of a large and representative group of countries such as we have here.

There is a further exception proposed to the most-favoured-nation provisions in Article 8; that was the amendment proposed by the Cuban delegate, which is designed to promote the denial of most-favoured-nation treatment to goods produced by exploited labour. This apparently means that most-favoured-nation treatment could be denied by a country having higher labour standards to products coming from countries having lower labour standards. We are very much afraid that instead of helping to raise labour standards, such an exception might make bad working conditions even worse by destroying the market for the products of countries where wages are low. The exception might result in widespread discrimination, international friction and lower levels of international trade.

Now, there were a number of questions on Article 18 which provides for or contemplates the substantial reduction of tariffs, the elimination of margins of preference and has in view negotiations at a later time with that end in view. The question was raised by the delegate of India as to what is meant by "substantial" in Article 18 of our draft Charter. Our proposal is that tariffs be reduced and preferences eliminated by a process of detailed negotiation. What is substantial in respect of each product would be left for determination by the negotiators. I should add that we have already indicated that in such negotiations as much value would be attached to the keeping of a low rate of duty against increase as to the reduction of a high one.

The delegate of India also in connection with his question as to what is a substantial reduction of tariffs referred to paragraph 3 of Article 18 and questioned the desirability of withholding the benefit of tariff reductions from countries which fail to make adequate tariff reductions in return. I should like to make clear our own ideas on that point. Our idea is that countries on the Preparatory Committee would first negotiate detailed tariff schedules among themselves, and that other countries joining the Organisation should also in due course be required to effect comparable tariff reductions by negotiations with the countries comprising the original group and with others. Paragraph 3 of Article 18 is designed to ensure that this will in fact be brought about.

Now, in such negotiations, that is, with countries other than those on the Preparatory Committee, it is our view that full weight must be given to tariff reductions already effected by countries comprising the original group. The mechanism for carrying out this procedure is set forth in Article 56, which provides for an interim tariff committee. The interim tariff committee would consist initially of members of the Preparatory Committee which would JUDGE whether any other country had complied with the obligation to reduce tariffs in paragraph 1 of Article 18, in the light of what had been done by members of the Preparatory Committee themselves.

Another question raised related to the negotiating process and had to do with preferences. The proposal was made by the delegate of Australia and supported by the delegate of New Zealand that certain preferential quotas should not be abolished under Article 8, but should be subject to negotiation in the same way as preferential tariffs. Mr Chairman, while this subject relates to quantitative restrictions and might seem properly to be a matter for consideration in connection with that subject,

I am inclined to agree that it is closely bound up with the subject of tariff preferences; but it also seems to me that it represents a very special case and might best be looked into by the countries most concerned with it. I just do not feel in a position to comment much further on it in the light of the discussion that has been had so far.

The delegate of Australia also raised a technical question on this subject; that is, on the subject of negotiations relating to tariffs and preferences. He asked whether a negotiated reduction in a preferential rate of duty would be consistent with the provisions of Article 18, paragraph 1.b, whereby reductions in most-favoured-nation rates should operate automatically to reduce or eliminate preferential margins. Our answer to that would be: Yes, provided that the most-favoured-nation rate is correspondingly reduced, even though not a subject of negotiation. This is provided for in Article 8 which prevents increases of margins of preference. Now, if the most-favoured-nation rate is also negotiated, the preferential rate may nevertheless be reduced, provided that the maximum margin of preference resulting from the negotiations does not exceed the negotiated most-favoured-nation rate and the preferential rate in force in 1939.

There was a further question on the negotiations. The Australian delegate inquired whether under the Charter it would be possible during the negotiations for one country, such as Australia, to obtain preferential treatment of a given product which is extended to other Empire countries, but not extended to Australia. In our view the answer to the question would be No, since it would be an increase in preferences contrary to the provisions of Article 8.

A further question, again on the proposed negotiations, which was raised by the Australian delegate, was whether in the tariff negotiations such negotiations should be confined to products of which the participants were the principal suppliers. While we contemplate that tariff concessions will be negotiated with countries which are or may become principal suppliers, we do not consider it wise to lay down any rigid rule on the point. In the main our view would be that the negotiations would be confined to actual or potential products of which the participating countries are actual or potential principal suppliers.

A further question was raised by the Australian delegate. He referred to the provisions giving flexibility to tariff commitments and inquired whether similar flexibility should be allowed with respect to preferences. In our draft Charter there are two let-outs of the sort he had in mind. The first, Article 29, which provides that, if unforeseen developments require, a country may withdraw or modify a concession temporarily, but must notify interested countries before doing so, and goes on to say that failing agreement on the action contemplated an injured country may suspend application to the trade of the offending country of benefits already granted. We have some doubts about the applicability of Article 29 to preferences. We

would, nevertheless, be prepared to discuss the point when the escape clauses are under consideration and in the light of the exact nature of the clauses. There are differences which we should like to bring out when we get on to that subject. The other provision that I mentioned, Article 55 -2, provides that the organization may set up criteria and procedures for waiving any obligation; that is, any obligation assumed under this Chapter IV. That Article already covers the point raised by the delegate of Australia, since it applies to all commitments.

A further question raised, I believe by the delegate of France, was whether the granting of most-favoured-nation rates should not be limited to direct shipments. Our draft Charter would prevent such a limitation, in two places. There is Article 8: the most-favoured-nation clause contains no exception on the point. Para. 5 of Article 10, relating to freedom of transit, would prohibit such discrimination. We believe that these are sound provisions, since it seems desirable to permit goods moving in international trade to use the most convenient and economical routes.

That, Mr. Chairman, I think covered most of the questions raised. If there are any others I shall be glad to try to answer them.

THE CHAIRMAN: Gentlemen, you have heard the reply of the United States delegate to a number of points raised at the last discussion. It is my hope that we will be able to refer all of these matters dealt with to the Drafting Committee at a fairly early stage this afternoon, so that we can proceed to a consideration of the next item on our agenda, which deals with quantitative restrictions.

(At this point the delegate of France asked for a further translation of the statement of Mr. Hawkins).

MR AUGENTHALER (Czechoslovakia): Mr Chairman, I would like to ask the honourable delegate of the United States if he would give us the opinion of his delegation on one point. There are certain countries, especially in Europe, which have not yet got stable currencies. What is to be the situation in their case?

MR HAWKINS (USA): Mr Chairman, I want to be sure I have understood the question. I believe the delegate of Czechoslovakia has asked this: Where there is a depreciated currency and increased prices, the effect of which is to reduce the protection accorded by the specific rates, should allowance be made for that? Have I correctly understood him?

MR AUGENTHALER (Czechoslovakia): I do not think that is quite my point. I am asking this: What is to be the position with countries which have not yet proceeded to stabilise their currencies?

MR HAWKINS (USA): Mr Chairman, it seems to me that the tariff negotiations should proceed on the basis of relying on another institution, namely, the Fund, to bring about a stabilisation of the currencies. I do not think it would be a function of the International Trade Organisation to deal with that. There is, however, this relationship: there always is a possibility that where tariffs have been reduced the arrangements may be upset if there is a material change in the value of the currency. In our bilateral agreements we have allowed for that possibility by making provision that in the event of a radical change in the value of the currency there would have to be re-consideration of the tariff concessions. I think that a similar provision conceivably could be incorporated in whatever arrangement comes out of the tariff negotiations next year.

THE CHAIRMAN: Is that an answer to your point?

MR AUGENTHALER (Czechoslovakia): Yes.

THE CHAIRMAN: Before we go further I would like to remind you that I am anxious to get these matters referred to the Drafting Committees as soon as possible. The matter referred to by the United States delegate, covering the last sentence in Article 8(1), dealing particularly with public works contracts, is, I understand, already being discussed by the Sub-Committee set up for this purpose, and I would suggest that, since they are making some progress, I understand, we do not seek to discuss that matter here further. That would leave before this Committee the other references to the most favoured nation clause, certain suggested modifications of it, and the matters relating to Article 18 covering tariffs and preferences. If any delegate feels that he wants to get further clarification or would like to discuss further any of the matters dealt with by the United States delegate, he should do so now.

MR BARADUC (France)(Interpretation): Mr Chairman, I think we must all thank Mr Hawkins for his careful answering of all the questions which have been raised. I would not like to prolong unduly this discussion, and I hope I will not give offence by saying this, but I regret that he answered a question which I had not raised, concerning direct traffic. However, I would like to ask his opinion on a question which I asked the other day, which is not very important, but which concerns the last sentence of Article 8. I had asked if in the minds of those who drafted the charter it was well understood that the principle of the most favoured nation clause would not apply to grants which states on account of their sovereign rights might give to their national production.

MR HAWKINS (USA): I must first apologise for answering a question not asked by the French delegate; it was asked by

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someone and I did not remember who it was. As to his present question, I take <sup>it</sup> you are referring to the last sentence of the first paragraph of Article 8; and the question is whether it would in any way interfere with the awarding of contracts to nationals of the country which is letting the contract? It would not. This is a most favoured nation clause.

M. BARADUC (France) (Interpretation): Mr Chairman, I must apologize, but I have another question to ask Mr Hawkins, and I may be more lengthy on this topic. Last Friday the French delegation insisted very much on ulterior negotiations towards the reduction of preference and on the date of July 1st, 1939. If I understand correctly what Mr Hawkins said, he would not insist on the provisions of the Charter according to which preferences which might have been increased would not have to be considered. I apologize: I mean, if I understood correctly, the phrase in Article 8 (2) providing that these preferences should not exceed their level in 1946. On this topic I must insist again on the importance of the state of things in 1939 for France and for the French Union, and I apologize, Mr Chairman, for using this opportunity to make a very brief declaration on the general position of France and of the French Union in order to avoid any misunderstanding in regard to ulterior negotiations. As M. Alphand said in his speech on the first day in the Plenary Session, and as we have had occasion to remind the Committee several times, we represent here not only Metropolitan France but also all the territories which constitute overseas France. You know that France and its overseas territories constitute a political unity and a financial and economic unity. The political unity has just been confirmed with new vigour by the French Constituent Assembly, which, by founding the Constitution of the Fourth Republic, consecrated the French Union. The financial unity reveals itself in the fact that the currencies of the overseas territories, even if they have different names, such as the Indo-Chinese piastre, or different exchange rates with respect to the £ or the dollar, yet constitute a single group, which, as you know, is represented by France alone in the International Monetary Fund.

I will remind you that there is a common fund of foreign exchange for all the overseas territories from which those territories draw for their foreign purchases. As to the economic unity, it is confirmed by traditional commercial trends which give a very important part to the relations of each territory with other parts of the French Union. I might remind you, as an example, that for the transitory period which we are now experiencing, a period in which we find ourselves obliged to restrict our imports, this economic unity reveals itself by the establishment of a general programme of imports in Paris drafted by the Government after having consulted the various territories and as applied to the whole of these territories. It is, moreover, well understood that these restrictive measures will follow the fate of those which interest directly the Metropolis according to the provisions which we will discuss ulteriorly and which will be adopted in the Statute for the transitory period. But within this French Union there exist different tariff organisations which are determined mostly by historical reasons and have been consolidated by economic developments. There are some territories which are purely assimilated, from the tariff point of view, to the Metropolis. That is the case, for instance, of the French West Indies, French Guiana and the Island of Reunion, which have recently achieved the status of Departments of France, as already exists in the case of Algeria for a long time. These territories have the same tariff regime as the Metropolis, with some changes which may be instituted by local situations. Other French territories of the overseas empire are not at all assimilated to the Metropolis, for instance, French West Africa, but exist in a regime of reciprocal preference towards the Metropolis. The other territories such as Indo-China enjoy tariff autonomy, that is to say, a tariff regime which is peculiar to that territory. Finally,

some territories as a result of international treaties grant to all products, whatever their origin, equality of treatment. This is in particular the case, of which I do not have to remind this Conference, of Morocco, as also of Cameroons and Togo.

I have no intention of relating to you in detail all these very complex regimes of our overseas territories which are the result of a slow evolution. I wanted only to use this opportunity to say that the French Union forms an economic confederation which will maintain its fundamental unity while at the same time perhaps containing different tariff regimes. Assimilated colonies will be considered as being part of the Metropolitan territory. Non-assimilated colonies or those which enjoy autonomy might be maintained as at July 1939. I wanted only to confirm the general principle by affirming again the unity of the French economy. This union becomes more concrete in tariff matters by an internal preferential system, and, of course, as I said last Friday, we will come to those future tariff negotiations according to the principles in the Statute which we are discussing, but also we will take as the basis the system which existed in 1939, and I shall insist very much on this point, because only the date of 1939 is justifiable for us.

I need not remind you now of all the events which since then have upset the relations of Metropolitan France with its overseas territories: the war, the invasion of our Metropolitan territory and of part of our overseas territory, separation of overseas territories from the Metropolis, and since then the liberation and the considerable difficulties which we have had to face both in the Metropolis and in these territories. For these various reasons, the only period which we can consider is that which preceded all these upheavals, the only normal period, and it is the date foreseen in the Statute of July 1st, 1939.

Mr Chairman, may I ask you if Mr Hawkins followed this in English?

Mr HARRY HAWKINS (USA): Yes.

Mr NADIM DINECHKIE (Lebanon): Mr Chairman, I should like to ask: in case of any disagreement with the point of view of the United States delegate on the points mentioned in his statement now, is it anticipated that we should discuss it now, or is it intended that any point of disagreement should be expressed in the form of an amendment?

THE CHAIRMAN: I suggest that it would not be appropriate to submit suggested amendments here. If you feel that there are phases of the matters raised in the discussion which were dealt with by the delegate for the United States where your point of view is not fully clear or not fully amplified, I suggest that you speak on that matter now. If it is a question of suggesting an amendment in line with a statement you have already made in the earlier part of the discussion, I suggest the proper way to deal with that would be to submit your suggested amendment or addition in writing, and it can be dealt with by the Drafting Committee. However, if you feel that anything that you have said requires amplification before it goes to the Drafting Committee, it would be proper to speak on it now.

Mr NADIM DINECHKIE (Lebanon): Then, Mr Chairman, with your permission, I shall adopt both ways. When the delegate of the United States spoke of the exceptions of preferences, he divided them into two sections: the temporary sort of preferences and the preferences of a determinant nature. Mr Chairman, my remarks are only about that section which deals with permanent preferences. Those preferences which are of a permanent nature also were sub-divided by the delegate of the United States into three sections. One deals with regional arrangements because of the permanent nature of small countries the economies of which are complimentary and that lead in effect to a customs union, and another kind which might be open at any time for other

States to join. Here, Mr Chairman, my remarks concern the first two - those that lead to a customs union and those which are advisable by themselves.

The delegate of the United States thought fit to reject those two considerations that were offered here in the meeting, on the ground that hostile blocks, in the first case, might develop which might hinder international trade. Well, Mr Chairman, if that is the only objection, I do not think it is a very strong objection, because every question has two sides to it: it has a black side and a white side. Why the delegate of the United States has taken the black side of it I do not know. He says not all such regional arrangements in the form of preferences lead to hostile blocks being created. Such regional arrangements as we suggested last time were only for one purpose. Where there are small countries which happen at the same time to be under-developed, as has been agreed by the people who drafted the Charter, some sort of protection for infant industries should be granted. Therefore for such small countries the market should be widened for them in order to stimulate industry and thus raise the standard of living of the populations concerned, and thus increase international trade and not decrease it. The aim is not at all to produce a block hostile to anybody.

Then the delegate of the United States stated that whereas a customs union would provide such a state of affairs, preferences would not. I am sorry to say that I disagree with him, because, after all, a customs union is an extreme form of preference. A customs union has a lot of complications in it. I know that from experience, Mr Chairman, because we have a customs union with a sister State. Preferences might be entered into much more easily. A customs union involves questions of sovereignty, difficulties of administration and division of revenue, as to who is going to administer the customs union; while a sort of

preference that would bring down to a very large extent the barriers between countries would certainly stimulate industry in the countries mentioned.

I know it is difficult for the delegate of the United States to appreciate that, he coming from a highly industrialized country which enjoys a very large market, but we do appreciate it, Mr. Chairman, and if that is not taken into consideration the countries who happen to be in a position similar to ours will feel that they are condemned to remain under-developed for good and condemned to keep the old standard of living which they have now.

Furthermore, when that suggestion was made we never intended it to be put as a general rule. What we suggested was that there should be an opening left for it in the Charter and then such a scheme could always be studied on its merits. We never intended to have an item saying that preferences in a region are permitted. If, when we study it, we find that such a thing leads to the creation of hostile groups, then we will not recommend it, but if we feel such a step is essential in the development of a region then we must recommend it and leave an opening for it.

The second part of my argument, Mr. Chairman, relates to Customs Unions, and I think I can cover that by saying that Customs Unions have a lot of complications in them with regard to division of revenue, administrative questions and questions relating to sovereignty. All the same, where it is possible to reach such a goal a transition period is essential to find out the different revenues of the States concerned, and no two States can just form a Customs Union in one night. Therefore, a transition period is essential.

MR. SPEEKENBRINK (Netherlands): Mr. Chairman, I hesitate a little to again ask the attention of this meeting on the question of these open conventions, and I only do so because I think it is a very important point on which Mr. Hawkins made certain remarks, and I would only like to make our ideas

clear in that respect.

Now we have just submitted a Paper, No. 20 of this Committee, to which I would recommend your attention. I will only deal with a certain part of it because I think that gives the answer to certain remarks made in this meeting. I quote as follows: "The Netherlands Delegation wish to put it on record that in their opinion, as a rule preferences should be limited both in number and in extent. But, on the assumption that the present Conference will be successful in finding and defining such a set of rules, it is suggested that with regard to the members of countries involved, preferences should be given the possibility to expand and to grow, so as to <sup>be</sup> applicable - on a reciprocal basis - to an increasing number of states and to all countries as a final stage and as an ultimate end. If this should not be possible, the line of conduct should be to diminish the margins of preference gradually and ultimately to abolish these altogether, with as the only exception, a customs-union as defined in the Charter.

The Netherlands Delegation therefore suggest that the Preparatory Committee study the possibility of admitting 'open conventions' within the framework of the Charter as proposed above, and of defining a set of rules applicable to those multilateral agreements on a smaller scope than the suggested Charter and Protocol in which the latter agreement, the result of the coming tariff negotiations would have to be embodied and which would have then to come into effect at once. These rules should in any case imply that the participating countries should accept the ruling of the International Organisation, to be set up, and - as the case may be - of the International Court of Justice with regard to the settlement of disputes arising out of such multilateral action of a number of countries."

I quote this specially because here you observe that we do not like to go very far and are fully prepared to submit ourselves to the Rules of an international body with regard to these conventions.

I would only make one or two other remarks. I note specially that the main argument of Mr Hawkins is that the negotiations should lead to substantial reductions in the tariffs and in the preferences. Now, I should like to take here a realistic point of view. You may even call me a cautious Dutchman, but I see a possibility of all these wishes not being fulfilled and then this problem will crop up again. Therefore, I think it useful to make that remark now.

The last remark I would like to make is this: Mr Hawkins spoke of the existing preferences mentioned in paragraph 2 of article 8 as being universally accepted. I would like to make a small change there and would like to say only that while they are there we have to take them into consideration, but as for "universally accepted", well, that is a little too strong. Thank you.

THE CHAIRMAN: Is there any further discussion of these matters or can we now refer them to the relevant drafting committee?

I take it then that the Committee is agreeable to the reference of articles 8 and 18 to the Drafting Committee set up to deal with procedure, tariffs and preferences.

There is only one exception to that. I think Mr Hawkins suggested that in relation to the question of the negotiability of preferences which take the form of quotas, since that is fairly limited in its application and rather specialised in its form it might be discussed, first of all at any rate, between the countries primarily concerned. They would be, I presume, the United States, the United Kingdom, Australia, New Zealand, and Canada. Is it agreeable to the Committee that we ask those countries to have a preliminary look at that question and report either to this Committee or to the Drafting Committee dealing with tariffs and preferences according to which they think is the better procedure?

All right. We will take it then that articles 8 and 18 have now been referred to the Drafting Committee with that exception, and that goes

to the <sup>Special</sup> Committee for the purpose. I suggest we adjourn now for 20 minutes and that when we resume we deal with the subject matter of quantitative restrictions, with the understanding that in the first place we deal with quantitative restrictions in general excluding those imposed for the purpose of restoring equilibrium in the balance of payments. I think we will keep our discussion clearer if we reserve that particular question to special discussion.

MR. RODRIGUES (BRAZIL): <sup>in</sup> Mr. Chairman, the Sub-Committee on procedure of Committee 2 certain doubts appear to have arisen in respect of the interpretation of the Brazilian proposals as to general most-favoured-nation treatment. In view of this fact and since this sub-Committee is discussing a question of substance on which Brazil has been one of the first countries to submit agreed proposals, the Brazilian Delegate would like to be included amongst the members of this Sub-Committee on procedure of Committee 2.

THE CHAIRMAN: I suggest that we might get over that question by asking the Chairman of the Sub-Committee on procedure and tariffs and preferences to invite the Brazilian Delegate to be present when that phase of its work is being discussed. Would that meet your point?

MR. RODRIGUES (BRAZIL): Thank you.

MR. SPEEKENBRINK (NETHERLANDS): Mr. Chairman, we discussed that in our meeting yesterday and we came to the conclusion that it would be advisable to keep to the American draft. I am quite prepared to discuss it again, but that was in the first instance the conclusion arrived at.

THE CHAIRMAN: I presume that when you are discussing under the headings of the American draft the matters on which the Brazilian Delegation have made specific proposals you would be prepared to invite them.

MR. SPEEKENBRINK (NETHERLANDS): Yes, quite. I only wanted to make the position clear in case the Brazilian Delegate came into the Committee and thought he found there a bloc with one opinion, because we did discuss it and took <sup>the</sup> Paper into consideration.

THE CHAIRMAN: I can well understand that, but it should not prevent the full consideration of the proposals put forward by any other Delegation.  
(The Committee adjourned from 5 p.m. till 5.20 p.m.)

After a short adjournment:

THE CHAIRMAN: Gentlemen, we will resume our discussion now on the item of the agenda dealing with quantitative restrictions, noting that we defer for the time being those aspects of this question which relate to action to restore equilibrium in balance of payments. This covers Article 19 and in some respects Articles 21 and 22 of the United States Draft Charter.

I think it would be of assistance to us if we commence by asking, as before, the United States Delegate to outline briefly the ideas which lie behind the work of the United States experts in these matters.

MR HAWKINS (U.S.A.): Mr Chairman, with the elimination of the balance of payments exception, I think I can be fairly brief. The basic provision laid down in Article 19, in the first paragraph, is that the use of quantitative restrictions would be prohibited. However, that rule would be subject to a considerable number of exceptions, which I will go over briefly.

The first type of exceptions are those covered by paragraph 2 subparagraph (a). They relate to restrictions of a temporary sort which could be imposed under the more or less emergency conditions following the war. They could be used, as specified in our draft, until July 1st, 1949, but they could be extended, in particular cases where the need is apparent, by the trade organisation for successive six months periods. The first of these early post-war transition period exceptions would permit quantitative restrictions to be imposed where this is essential to the equitable distribution of products in short supply. That is probably self-explanatory. It would cover quite a few things, but as an example it would take care of the case in which a country had agreed under an allocation plan to import only from some specified source. It could, under the exception, exclude imports from other sources.

The second of these early post-war period exceptions relates to the orderly liquidation of surplus government stocks. Under that exception, a government having surplus stocks could keep out imports until the stocks

were liquidated, or it might perhaps enter into an agreement with other countries that had surplus stocks under which exports would be controlled, with the idea of limiting the amount of exports during specified periods in order not to create a serious effect on prices for current production.

Those are examples of the kind of action contemplated under the exception. There are doubtless others that you could think of.

The next exception, subparagraph (b), would permit restrictions at any time -- at any time in the future -- when local supplies of a product are scarce. It might be necessary to prohibit export, for example, where food is very short and where conditions may even be approaching famine. There is an obvious need for an exception of that kind. Subparagraph (c) would permit import or export restrictions on substantive products. That might be done, for example, to protect the liquidation of a particular product abroad by not letting inferior

products go on to the market and spoil the name for other producers

in the country; or a country could have an import restriction to

keep out substantive products in order to protect consumers.

J.fs.

The next exception, d., would permit obviously quantitative restrictions under recognised or accepted commodity agreements, since by their very nature those agreements would involve trade controls.

The next exception, e., is a bit more difficult. Perhaps to some extent there may be doubt about it. I should just like to explain what we had in mind in putting it in. In fact, that clause is a national treatment clause as applied to quantitative restrictions. It would permit the imposition of import restrictions equivalent to restrictions on domestic production. In other words, if a country is faced with a surplus problem at home and decides that it is necessary to restrict domestic production, it seems to us it should be possible and permissible to apply the same degree of restriction to imports. Now, on the question of what is equivalent, in other words, what restriction on imports would be equivalent to the restriction on domestic production, equivalent is here defined as not reducing the ratio of imports to domestic production as compared with the ratio of imports to domestic production in a previous representative period. I am not going to read all that language; you will see that is qualified, taking into account any special factors which would make it difficult to apply the representative period idea.

There is a further exception, (ii) in paragraph e., which would permit import restrictions imposed when a temporary surplus of a domestic production is being relieved by making quantities of the product available to needy consumers free of charge or at low cost. It seems to us that the right to impose the quantitative restriction is desirable in such a case in order that supplies removed from the market at public expense will not at once be replaced by imports from abroad.

The largest exception of all, and the most important and the most difficult, is in the next article, Article 20, which, in accordance with the Chairman's suggestion, we will pass over for the present. That is one of the major problems to be dealt with by this Committee and would deserve, I should think (and I believe the Chairman thinks) a meeting to itself.

Now, there are other pertinent provisions which I might describe briefly. Article 21 relates to the administration of such quantitative restrictions as may be imposed under the authority of the recognised exceptions. The basic rule laid down is the rule of non-discrimination. The rest of that Article is an attempt to define what is meant by non-discrimination. There may be some difficulty with the definition in view of its necessary complexity when spelled out in the way in which we have done it; but I should like to indicate the type of measures which would be permitted and which would be regarded as non-discriminatory. I shall not attempt here to take the text in any particular order; I will merely indicate the types of things which under that language would be permitted. First, a country in administering quantitative restrictions could provide for global quotas, that is to say, could indicate and lay down the total quantity of the product that could be admitted from all sources in the world during a specified period of time. A global quota, in other words, is one which is not allocated among sources of supply. Now, as to the administration of a global quota, the imports could be distributed among traders by any system it chose, provided it did not require them to import from any particular source of supply: in other words, provided it was left to the trader to choose his source.

Now, a second type of permitted arrangement would be to allocate the global quota among the supplying countries on

the basis of the shares of the total trade obtained in a previous representative period, with due account being taken of special conditions, that qualification being rather important now because of the greater difficulty that exists in finding a representative period owing to the fact that there has been six years' war. There is, of course, wide room for disagreement as to what is representative. However, we feel that the importing country should choose the representative period which it thinks appropriate but that its choice would be a matter for consultation with interested countries who raise questions regarding it, and that there should be a possibility of reviewing any differences by the Organisation. You will note that it is not required under our draft that there be an allocation. If the global quota were used without allocation you would avoid the problem of the representative period. That is for the country to choose, however, as to which it would prefer to apply.

Now, finally, there is a third possibility permitted under our draft, which would be a pure licensing system, without any global or country quotas. That is subject, however, to the qualification that importers must not be required to use the licences they get for imports from any particular source. If licences are issued the importer must choose the source from which he will buy. There is the further proviso that full information will be provided as to the licences granted over a past period. The purpose is to enable supplying countries to see what the distribution among supplying countries in fact was.

Now, there is one further Article I could touch upon, I think, without getting too much involved in the balance of payments exception, and that is Article 22, which provides for certain exceptions from the rule of no discrimination

as I have just described it. There is first the exception that members would not be held to the rule of no discrimination in respect of trade with a country whose currency had been declared scarce by the International Monetary Fund. There is a further exception related to the Monetary Fund agreement under which it would be permitted to discriminate in view of the provision of the Monetary Fund which permits of establishing fixed rates of exchange among countries having a common quota in the Fund, the point there being that in order that the rates of exchange remain fixed in relation to each other it may be necessary for the countries concerned to take joint action in respect to the trade of outside countries which would involve favouritism among themselves.

There is a second exception from the rule of no discrimination which relates to the case in which inconvertible currency of another country is accumulated and can be utilised only by discrimination in favour of imports from that country. There is a time limit on that: it refers to discrimination in order to utilise inconvertible currencies which have been accumulated up to December 1931, 1948. The purpose of the time limit is to avoid encouraging countries to accumulate inconvertible currencies. There may be some doubt in the minds of some of the people here as to the reasonableness or desirability of that time limit. To any such delegates I would point out that under a later provision,-- I think it is Article 52 -- the Organisation can set aside or waive any commitments undertaken under the Charter in particular cases, and it is possible that such cases might arise under this provision.

Mr Chairman, I think that covers everything in the quantitative restriction section except the balance of payments Article.

THE CHAIRMAN: The subject matter is open for discussion.

Mr VIDELA (Chile): Mr Chairman, first of all, I would like to call the attention of the Committee to the words "like product", which are mentioned not only in Article 19 but also I believe in Article 9, and it was the subject of discussion yesterday in one of the Subcommittees. It is very important for discrimination problems to refer to Article 19 (2)(a), and I would like to call the attention of the Committee to the words "on any agricultural product". It seems to me that the agricultural countries are in a very unfair position beside the industrial countries, and my first idea is perhaps that it would be convenient to delete the words "agricultural", and to put on the same level the agricultural countries with the industrial countries. It is only a first idea and I would like to have a general discussion, and afterwards I will see whether it is possible to arrive at a solution.

THE CHAIRMAN: That refers to the use of the phrase "agricultural product" in Article 19 (2) (a)?

Mr VIDELA (Chile): Yes. I would also like to mention the doubt that I feel with reference to Article 8 (1) (a), in connection with imperial preferences, and I would like to ask this question: Is there included here in this extension any quota system? Because before the war the economic policy of Great Britain was to reserve first to the national production its market, then to the Imperial countries and afterwards to foreign countries. I remember that in some Conference dealing with quotas we had to deal with this question because in respect of some particular products it was resolved by the United Kingdom and the Imperial Conference to reserve a specific quota to the Imperial countries, after reserving a specific quota to the national production. We see clearly that this extension under Article 8 (2) (a) has nothing to do with quotas.

THE CHAIRMAN: The position is that the United States delegate was asked whether the preferences referred to in Article 8 (2) (a) included preferences expressed in the form of quotas. His reply was that it did not include those preferences in the form of quotas, but he was prepared to discuss the question of whether preferences in the form of quotas should be negotiable, that is to say, should be reduced and ultimately eliminated as the result of negotiations in the same way as preferences in the form of tariff margins, and it was suggested that that discussion might take place between the countries primarily affected. If the delegate for Chile feels that the interests of his country are affected by that matter, then I would be happy to add him to the group who will discuss them in the first instance; but it is understood that the preliminary discussion is only preliminary and that the results of it would be brought back to the full Committee. But it is quite clear that Article 8 (2) (a) refers only to preferences in the form of tariff margins and not to quotas.

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My understanding was that Mr McCarthy was speaking of only one or two products of a special character: it was not a long list of things, but just one or two.

Mr VIDELA (Chile): Mr Chairman, another small question that I want to put before the Committee is this which was also discussed in another Subcommittee: what is the meaning of "previous representative period"? I have already heard the explanation given by the United States delegate, but I would like to point out that this was a matter of discussion in another Subcommittee.

THE CHAIRMAN: Is there any further discussion on this matter?

Mr BRENNAN (South Africa): Mr Chairman, a number of delegations have stressed the need for quantitative control. As Article 19 (1) now reads, quantitative control is excluded except under special circumstances, and Article 19 (2) (e) provides for a fairly wide range of such circumstances. Now, I would just like to mention one example of the control we might impose in respect of Article 19 (2) (e). In South Africa we have a central co-operative control of the wine industry, and that industry limits the planting of vines in order to limit the output of spirits. In terms of (e) (1), in other words, we presumably find reasons and excuses for controlling the importation of raisins in order to stabilise the production of wines and spirits - of potable spirits and I expect we should go down to industrial spirits. Now, is it fair to prohibit quantitative restrictions and then leave it open for such roundabout methods to be followed? The other aspect which has to be considered is that if quantitative control is not recognised as a legitimate means of controlling trade, you will have a large number of countries resorting to a greater extent to State trading, because it is not very difficult to convert from an existing basis of trade to a State trading basis, and then, simply on the basis of commercial considerations, you would have the same type of control; but the question is whether it would be desirable to revert to State

trading in preference to keeping trade on the normal basis within the requirements of a legitimate set of rules and quantitative control.

Mr McCARTHY (Australia): There are a few points which we should like to raise on the exceptions which are stated in paragraph 2. The first is in relation to the price-control measures which our Government, at least, introduced during the war, and which it considers should be continued for some time. This price control means, to give an example which is current at the present time, that in many products the local price which has been laid down by the Government is considerably less than the export price and this means that unless some action is taken to restrict exports by a process of quantitative regulation, no goods will remain in the country for our own use. It does not appear to be covered, from our examination of this draft. We examined a and b rather carefully, but in a it refers to a post-war transitional period; it narrows it to certain classes of regulation or certain conditions which do not appear to meet our case. It could occur, of course, though it is not apparent at the present time, that the reverse would be the case: that our prices might be at a level higher than the import parity, and we would require to protect that higher local price by restricting import. This price control is a war measure and it is being continued under special powers taken by the Central Government in collaboration with the State Governments, and it seems to us that an exception should be made.

If it were included in a. we think it would be a later date than July 1st which would be required, and the qualification made a little later, "Extraordinary and abnormal circumstances", might not be considered applicable. b. seems to refer only to conditions of distress, which perhaps we could not claim.

Another point which we should like to raise might be met by some amendment of sub-paragraph d. We contemplate the possibility of an intergovernmental organization being set up which does not come under Chapter VI, or the delay which might take place in bringing it under Chapter VI. The arrangement which I have in mind is our wool arrangement. We are not quite certain yet what steps they will have to take to carry out the agreement, and we would wish to keep that open until we have conferred with the other countries party to that agreement and see whether we are sufficiently protected from a charge of a breach of this particular section.

The third point relates to the impossibility of using quantitative restrictions for some protective purpose. It does seem to us that in all cases the protection of a new or growing industry by quantitative restriction was necessarily more restrictive than if other means were used. That is, it does occur to us that there might be cases where the imposition of a high tariff to secure an appropriate share of the market to domestic producers would exclude the imports. The use of a quota might achieve both lower prices to consumers and a guarantee of some imports, where the high tariff might exclude imports altogether. We ask whether that might not be included as an exception. We would agree, I think, that it would apply to special cases only and

perhaps should receive the approval of the organization under some machinery that might be set up.

In regard to paragraph e, I followed Mr. Hawkins' explanation as carefully as I could, but I suggest that the Drafting Committee consider whether the wording of that particular sub-paragraph carries out <sup>all</sup> that it is designed to do, without a loophole being created for some practice which might not be altogether desirable. It seems that the safeguard stated under (i) - that is, the last sentence of § - might not be sufficient to protect exporting countries against action by an importing country whereby that importing country, by introducing a small measure of restriction of its own production, could impose an embargo against imports which might injure supplying countries. I am not certain that the point is valid, but all I want to ask is that it be considered by the Drafting Committee when it is reviewing this particular sub-paragraph.

MR. MCKINNON (Canada): Mr. Chairman, I would like to reinforce something Mr. McCarthy has said, namely, a problem that arises when a country is endeavouring to maintain price control, when a neighbouring country may not be doing the same thing at the same time, and there could grow up under circumstances of that kind or may grow up quite a wide disparity in prices of products, and if the country has no way of protecting itself it may be completely denuded of various goods, thereby making price control wholly impossible. I do not think that either a or b of 19 -2 cover the situation adequately at the present time. We have price control in our country at the present time. We cannot say now how long that will continue. That depends upon results, and from the standpoint of our domestic policy it is a matter of very considerable importance.

Also, Mr. McCarthy referred to 2.e. We are also concerned about the section under (i), which says "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 between the two prevailing during a previous representative period, account being taken in so far as practicable of any special factors which may have affected or may be affecting the trade in the product concerned." Of course, in many cases where tariffs have been exceedingly high in the representative period the proportion is almost zero, and in many cases this limitation is really not of any consequence. I think some regard would have to be had, if this limitation is to have any effect, to the tariff situation that prevailed in this previous representative period.

That is all the comment I want to make at this time, Mr. Chairman.

MR. JOHNSON (New Zealand): Mr. Chairman, I have submitted in Paper No. 22, which has been distributed, certain proposals for an addition to Article 19, designed to cover the position of countries like New Zealand which we think are not covered by the provisions in the draft Charter. Just to make our position clear I would like to give a general outline of that position.

In view of New Zealand's high productivity and small population only a relatively small proportion of the products of her primary industries are consumed within New Zealand, the balance being exported. So far as secondary industries are concerned, while there has been a certain amount of development in that direction, this has been limited, not only by the relatively small domestic market available, but also by the fact that

many basic raw materials require to be imported. In the circumstances our import requirements are heavy and cover a wide range, including not only consumer goods, but also capital goods. To name a few, we require to import, for example, essential foodstuffs in the form of citrus and dried fruits, tea and sugar, textiles for clothing manufacture, fertilizers, industrial machinery, iron and steel, transport requirements, motor vehicles, motor spirit and oils, railway equipment. To provide for such requirements we must necessarily have a satisfactory market for our export products which will give us the wherewithal to pay for the imports.

I might say here that before we commence to draw on our overseas funds for imports we must set aside a substantial amount to cover the servicing of overseas debts, thus reducing to that extent the amount available for imports. From this it will be seen that New Zealand has a very high level of overseas trade, both imports and exports, in relation to population. Her per capita trade is probably higher than that of any other country in the world. In 1938, according to the League of Nations Review of World Trade, New Zealand's total merchandise trade per head of the population was twice that of the United Kingdom and seven times that of the United States. This will, I think, give a fairly clear indication of New Zealand's abnormal sensitivity to conditions which affect her overseas markets, and of the necessity, therefore, that she should have means constantly available to her whereby she can adjust her position to such conditions.

It has become apparent also that in order to provide avenues of employment for her people and an increased population, there is need for a diversification of her

economy. The scope for increased employment in primary industries is limited, the increased use of improved machinery being a factor in that connection. An endeavour must accordingly be made to find other avenues of employment, and the only scope offering in that direction is the development of suitable secondary industries. This trend, as we have already discussed, is in conformity with the objects of the I.T.O. proposals.

In considering, therefore, the question of quantitative or qualitative import control, two issues are involved from the point of view of New Zealand and countries in a similar position, the first being the use of that procedure as an aid to development of suitable industries, and the second being the use of that procedure to safeguard the general economic position.

Taking the first question, New Zealand is, I think, recognized as a low tariff country. In view of the necessity for New Zealand's primary products normally to compete in overseas markets it is essential that costs of primary producers should be kept as low as possible. To that end it is desirable that the cost of manufactured goods which are used by such producers should not be inflated through high tariffs.

A further point to be considered in that connection is that the market for a secondary industry is generally so small as to necessitate that a major share of it should be available to the industry if it is to be conducted successfully. Where a new industry is being developed, involving high capital outlay, some assurance of a market is necessary in order to encourage such an undertaking.

A tariff is an inflexible implement. There can be no certainty as to its effectiveness, unless of course a rate is fixed so high as to be absolutely prohibitive. This is undesirable, particularly since it would probably be desired from the outset to allow some imports of a competitive nature. Furthermore, the duty might necessarily require to be applied to a wider range of goods than might immediately be available from the local industry, or at least available in quantity sufficient to meet a reasonable share of requirements.

It is not normally

It is not normally possible readily to alter the tariff to meet circumstances of that nature. Another factor regarding the use of tariffs is the difficulty in determining at the outset at least what might be a reasonable and adequate margin of protection. This applies also in the case of subsidies. Apart from this, <sup>-ever,</sup> how-/a country like New Zealand would have difficulty in resorting to the general use of subsidies as a protective measure for secondary industries. Not only is there the difficulty of financing such a procedure, which is possibly not so evident in the case of the larger highly industrialised countries, but there is also the prospect that once such a policy of subsidisation were embarked upon, it would require to be generalized to other industries. We are strongly of the opinion, therefore, that having regard to its effectiveness and flexibility to meet changing conditions, the use of qualitative regulations on imports as an aid to development of industry has much to commend it, and can be fully justified when considered in relation to the facts governing the position.

With respect to the general use of import control, as is possibly well-known, the policy of New Zealand is one of full employment and improved standards of living. As a result of this, there is a high level of spending power in New Zealand and a consequent strong demand for consumer goods of all classes, many of which require to be imported. At the same time, under a policy of planned national development, large importations must be made of industrial equipment and materials. There is little doubt that, in the circumstances, there will be a constant pressure on overseas funds, and it is necessary, therefore, that priority should be given to the most necessary imports. Our overall position -- that is, our sensitivity to overseas conditions -- is dependent on a very narrow range of exports, and our heavy import requirement is such that it is necessary that we should have constantly available a considerable amount of overseas funds, but also that there should be readily available means whereby the position could constantly be controlled. As will probably be appreciated, it is not

possible periodically to institute and remove controls. Such a procedure would have too disturbing an effect on trade. It is recognised that any control exercised over imports should be operated with a view to expanding trade; that is, all the funds available for that purpose should be expended on imports. Subject to that condition being observed, it is considered that the maintenance of quantitative or qualitative regulations on imports, in the circumstances outlined, can be justified, and that provision should be made accordingly.

That is all I have to say on that aspect of it, Mr Chairman, but there is just one question I would like to ask Mr Hawkins if he would be good enough to enlighten us about, and it is in Article 21, to which he referred. The procedure employed where quotas are used, as distinct from that employed where import licences without quotas are utilised: in the first place, in paragraph 2 it is provided that quotas should be, when they are apportioned amongst supplying countries, related to a previous representative period. We just cannot see how there should be a distinction there between the use of quotas and the system of licences. Is there any particular reason why the licences should not be related on the same basis to the previous representative period?

MR HAWKINS (U.S.A.): Mr Chairman, the only purpose in relating allocated global quotas, that is global quotas allocated among supplying countries, is to try to get a fair distribution of the global quotas allocated amongst the suppliers. In the case of licences, always provided that the licences are issued without restriction as to where the importer can buy from, there is an automatic allocation, so to speak, and you do not need a previous representative period; in other words, the supplying country best able to supply the market, under a licensing system administered in that way, would supply the market. Does that answer the point?

MR JOHNSEN (New Zealand): No, not quite. We have a system whereby we do not necessarily fix a global quota, but we grant licences on the basis of imports in some previous period; it might be 1938 or it might be 1940.

In that particular case there is no discrimination as between countries. The importer gets a licence related to the imports from the country that was the supplier in the previous period.

MR HAWKINS (U.S.A.): Then I take it, Mr Chairman, that you are applying the representative period; you are really allocating your global quota there.

MR JOHNSEN (New Zealand): There is no global quota.

MR HAWKINS (U.S.A.): You have allocated the total amount permitted to come in on that basis.

MR JOHNSEN (New Zealand): Yes.

THE CHAIRMAN: I suggest, gentlemen, that we adjourn now and re-assemble for our next meeting at 3 p.m. tomorrow. Is it agreeable that we meet at 3 p.m. tomorrow? Then the meeting is adjourned.

The meeting rose at 6.25 p.m.

PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE  
ON TRADE AND EMPLOYMENT

Corrigendum to E/FC/T/C.II/PV.4

On page 44, in the statement attributed to Mr. JOHNSON (New Zealand):

"Our overall position - that is, our sensitivity to overseas conditions - is dependent on a very narrow range of exports....."

should read:

"Our overall position - that is, our sensitivity to overseas conditions, our dependence on a very narrow range of exports, and our heavy import requirements - is such that it is necessary not only that we should have constantly available a considerable amount of overseas funds, but also that there should be readily available means whereby the position can be constantly controlled."

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