

United Nations
ECONOMIC
AND
SOCIAL COUNCIL

Nations Unies
CONSEIL
ECONOMIQUE
ET SOCIAL

RESTRICTED

E/PC/T/C.6/W.30
28 January 1947

ORIGINAL: ENGLISH

DRAFTING COMMITTEE OF THE PREPARATORY COMMITTEE OF THE
INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT

VIEWS OF THE PARTICIPATING OBSERVER OF THE
INTERNATIONAL MONETARY FUND

ARTICLE 26

In the meeting of the Drafting Committee, 24 January 1947, the representative of one Nation suggested that the word "or" be substituted for "and" in two places (lines two and nine) of Section 1 of Article 26 of the redraft (document E/PC/T/C.6/W.11), so that the respective passages of Section 1 would read: "external financial position or as a step toward..." and "to safeguard its balance of payments or monetary reserves..."

The Chairman of the Drafting Committee asked the Observer representing the International Monetary Fund for his opinion about this change. The Observer representing the Fund requested to be allowed to present his opinion in the next meeting of the Drafting Committee. This opinion is set out below.

Article 26, Section 1, refers to two purposes which justify the use of import restrictions: (1) to safeguard a Member's external financial position, and (2) to assist the restoration of equilibrium on a sound and lasting basis. It has been suggested that these two purposes should be connected by the conjuncture "or" rather than "and", implying that either of them constitutes a sufficient justification without the other. In the light of the provision of Article 26, Section 2 (a), however, this implication would seem to be clearly inadmissible. A Member cannot act on the second ground alone. If, for example, it has no need to safeguard

/its external

its external financial position because its reserves are adequate and no serious reduction in them is threatened, it cannot proceed to impose import restrictions in order to restore on a sound and lasting basis an equilibrium that has been slightly upset. To do so would be inconsistent with Article 26, Section 2 (a). The need to safeguard the external financial position must always be present if the conditions of Article 26, Section 2 (a) are to be met.

While it was clearly intended that import restrictions should be applied only if there was a serious situation with regard to monetary reserves to correct, it was also understood at London that import restrictions were not a permanent solution. They were designed to meet an emergency promptly and to hold this position until broader corrective measures could work out their effect. One major delegation, for instance, emphasized in London that its country was employing import restrictions as part of a national programme that would restore the country's exporting capacity. When that capacity had been restored, equilibrium was on a sound and lasting basis and import restrictions would no longer be necessary to protect the country's reserves. This conception of import restrictions as a temporary device, as part of a broader programme, that would soon render them unnecessary because the fundamental equilibrium would be restored, was generally adopted in London. It appears also in the text of Article 26, Section 3 (e) almost in the same words.

It would be unfortunate to suggest that countries might take restrictive measures to deal with their external financial position which were entirely divorced from any effort to restore equilibrium on a sound and lasting basis. Such views seem to be alien to the ITO philosophy which seeks to broaden rather than to contract international trade. This is perhaps the basic economic reason why "and" rather than "or" was used in the above discussed passages of the London draft. The text of Article 26, Section 1, in the version of the London draft was designed to describe the policy that the membership as a whole, and properly, would be expected to follow at all times.