

SECOND SESSION OF THE UNITED NATIONS
PREPARATORY COMMITTEE CONFERENCE
ON TRADE AND EMPLOYMENT

Progress Report from opening of the
Conference on 10 April, 1947 to date.

BRIEF RECAPITULATION OF ITO BACKGROUND

The Economic and Social Council at its first session, in February 1946, resolved to call an international conference on trade and employment for the purpose of promoting the expansion of production, exchange and consumption of goods. At the same time the Council set up a Preparatory Committee to prepare for the conference a draft agenda, including a draft convention.

The first session of the Preparatory Committee was held in London in October-November, 1946. In the course of this session a draft charter for an International Trade Organization was prepared and published (Document E/PC/T/33).

The first session appointed a Drafting Committee to edit the Draft Charter produced in London. The Drafting Committee met in New York in January-February, 1947. The results of its work were published as Document E/PC/T/34.

The second session of the Preparatory Committee began on 10 April 1947, at Geneva and will continue until, approximately, the end of August. During this session, the Preparatory Committee is completing its work on the Draft Charter, which will then form the basic document for discussion at the World Conference. The Preparatory Committee, during this session, is also concerned with the drafting of a General Agreement on Tariffs and Trade, which is to be offered for signature by Governments before the end of this session.

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It is therefore clear that the Charter under discussion during this session of the Preparatory Committee will emerge as the final draft to be discussed on a wider basis at the forthcoming World Conference.

Similarly, it should be remembered that the Preparatory Committee is composed of 18 nations of which all but one, the Union of Soviet Socialist Republics, have taken part in the work of the first and second sessions and of the Drafting Committee. In addition, four intergovernmental organizations, many members of the United Nations who are not members of the Preparatory Committee and several non-governmental organizations have sent observers who have given the Committee the benefit of their views. All members of the United Nations will automatically be invited to the World Conference. In addition, the Preparatory Committee has recommended to the Economic and Social Council that invitations should be extended to a group of non-members which have an appreciable interest in world trade, to the appropriate authorities in Germany, Japan and Korea, and to Burma, Ceylon and Southern Rhodesia.

A. CHARTER DISCUSSIONS

The Charter discussions are proceeding within the rigorous timetable laid down. It is expected that the Sub-Committee stages will be completed as scheduled on 31 July and that Executive Sessions of the Preparatory Committee will start on 1 August. The possibility of public sessions during August will be considered.

The texts of Chapters III, VI and VII are agreed, at the Commission stage.

Discussions of Chapter I, II and VIII are proceeding satisfactorily. In certain Articles of Chapters IV and V agreement has not yet been reached on important points of substance (for details see Part Two of this release).

It is expected that the revised Charter, as a whole, will be published (and made available to the press with explanatory

ements) in the second half of August. The prior publication of Chapters already revised and agreed is being considered.

As already announced, the Preparatory Committee has recommended to the Economic and Social Council that the World Conference on Trade and Employment should be convened on 21 November 1947 and that the invitation of the Government of Cuba to hold the Conference in Havana should be accepted. The Economic and Social Council is likely to consider this during the current week.

B. TARIFF NEGOTIATIONS

The target date for the conclusion of Tariff Negotiations is 15 August. A number will finish earlier. Eight pairs of countries have announced they have reached final agreement, subject to any adjustment required in the light of other negotiations as they are completed.

In all, 104 negotiations have been opened, out of a theoretical maximum of 120. In conducting these 104 negotiations more than 500 meetings have been held since the end of April. A few negotiations require only 2 or 3 meetings but the more complicated require regular meetings over a long period. Canada and the United States, for instance, have held 34 meetings.

C. GENERAL AGREEMENT ON TARIFFS AND TRADE

The General Agreement, the draft of which appears in Part III of the Report of the Drafting Committee (Document E/PC/T/34) has now been redrafted by a Working Party. It is proposed that all delegations will obtain the authority of their Governments to sign the General Agreement by 1 September. The agreements reached on the Tariff Negotiations (see above) will be annexed to the General Agreement in the form of Schedules of tariff concessions.

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PART II

MAIN POINTS OF REVISION IN CHAPTERS OF CHARTER ALREADY AGREED

The revised texts of the following Chapters are agreed:

III, VI, VII

CHAPTER III EMPLOYMENT, EFFECTIVE DEMAND AND ECONOMIC ACTIVITY

Main Changes One change has been an explicit recognition of the importance of production, without however shifting the main emphasis of the chapter from employment. The word 'Production' has been introduced into the title of Article 3 which now reads, "Importance of Employment, Production and Demand in relation to the Purposes of this Charter."

Other changes have emphasized the following points:

- (a) The I.T.O. is to be empowered to call Members together and to initiate consultations "against the international spread of a decline in employment, production or demand", in urgent cases in which the taking of action indirectly through the Economic and Social Council might involve undue delay.
- (b) While it is recognized that difficulties in the Balance of Payments of a Member may be due to conditions beyond the control of the affected Member or of any other Member, an obligation is laid on all Members concerned to assist in remedying the difficulties before requiring the affected Member to reduce employment or to resort to trade restrictions.
- (c) The emphasis on the dangers of deflation in the earlier draft has been broadened to recognise the problem of inflation by including reference to the need for production as well as employment.

CHAPTER VI . RESTRICTIVE BUSINESS PRACTICES

Main Changes The main change has been the addition of a new article to follow Article 44, which recognises that certain services such as Transportation, Telecommunications, Insurance and Banking are substantial elements of international trade and which indicates the principles by which they can be dealt with outside of Chapter VI.

CHAPTER VII INTERGOVERNMENTAL COMMODITY ARRANGEMENTS

Main Changes There have been no fundamental changes in the aims and principles of this Chapter, but there is now greater emphasis on expansion of production and consumption. The main changes of detail relate to (a) the definitions of commodities which may be subject to intergovernmental agreements, (b) provision for agreements to expand production and consumption, and (c) relations with other intergovernmental organizations.

(a) The new text defines the types of commodities for which new agreements may be concluded. In particular, the definition of a non-primary commodity has been qualified so as to exclude entirely highly manufactured goods from the field of intergovernmental agreements. For those non-primary commodities which do fall within the new definition, intergovernmental agreements may be concluded, but only in exceptional circumstances and subject to additional safeguards.

(b) Agreements involving the regulation of production, trade or prices have been redefined, in order to recognise that the purpose of regulation may not always be restrictive. (Regulation of production and provision for the possible application of minimum prices may, for example, be essential to the success of agreements to expand total

production and consumption of basic foodstuffs. In such circumstances the operation of regulatory machinery would in no way be inconsistent with the aims of the I.T.O. Charter). The new definition of what are now called "commodity control" agreements and which are still subject to certain rigid safeguards and conditions is therefore designed specifically to exclude expansionist agreements.

(c) The Article regarding relations with intergovernmental organizations has been clarified so as to ensure the closest possible co-operation with these organizations at all stages of commodity consultation and agreement.

MAIN POINTS OF REVISION AND MAIN POINTS STILL AT ISSUE
IN CHAPTERS OF CHARTER NOT YET AGREED.

The following Chapters are not yet agreed, as a whole:

I, II and VIII

IV and V

CHAPTER I PURPOSES

CHAPTER II MEMBERSHIP

CHAPTER VIII ORGANIZATION

Consideration of Chapters I, II and VIII is proceeding satisfactorily. The main point at issue is likely to concern procedures for voting (Articles 64 and 69) and it is possible that alternative suggestions will be submitted to the World I.T.O. Conference. Other points of interest may arise in connection with the discussion of the composition of the Executive Board (Article 68), the procedures for the interpretation and settlement of disputes (Article 86), and the applicability of the Charter to fissionable materials (Article 37).

X CHAPTER IV ECONOMIC DEVELOPMENT

This Chapter is generally regarded as one of the keys to the effectiveness of the Charter as a whole. In general terms, the reasons for the prolonged discussions are the differences of views which exist as to what protective measures can be used to promote economic development, and in what circumstances. A balance has had to be sought between, on the one hand, the promotion of economic development of undeveloped countries by the use of protective devices and, on the other hand, the reduction and elimination of barriers to world trade (in particular of quantitative restrictions) which is a fundamental objective of the Charter.

The Sub-Committee has completed its consideration of Articles 9, 10, 11 and part of Article 12. Discussion continues, however, on the three following issues:

- (a) The question of the prior approval of the I.T.O. with regard to protective measures which would conflict with the provisions of the Charter, aimed at eliminating quantitative restrictions.
- (b) The question of new preferential arrangements envisaged as necessary to promote the establishment, development or reconstruction of an industry where hampered by the lack of a sufficiently large market.
- (c) The provisions for the use of measures in conflict with the Charter during a transitional period immediately following the time when a Member using these measures joins the Organization.

In addition to the above points in Chapter IV still under discussion, a proposed addition to Article 13 to give explicit recognition in the Charter to foreign investment as a problem related to economic development remains to be considered. The main point of this proposal is that although capital for reconstruction and industrial development could be supplied through international organizations, by Government loans, or by private lending, the Charter should recognize the need for encouraging a renewal of the flow of private capital which has largely dried up since the end of the war.

CHAPTER V GENERAL COMMERCIAL POLICY

The Articles of Chapter V can best be considered in the following related groups rather than consecutively.

Articles 14, 15 and 24: Most Favoured Nation Treatment, National Treatment, National Treatment on Internal Taxation and Regulations, Reduction

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of Tariffs and Elimination of Preferences.

Articles 16 to 23 inclusive and Article 37: Customs Administration and Related Matters, commonly known as the Technical Articles.

Articles 25 and 27: Quantitative Restrictions

Articles 26, 28 and 29: Balance of Payments.

Articles 30: Subsidies

Articles 31 and 32: State Trading.

Article 33: Expansion of Trade by State Monopolies.

Articles 34, 35 and 38: Emergency Provisions and Nullification Procedure.

Article 36: Relations with Non-Members.

Articles 14, 15 and 24 Provisional agreement has been reached on Articles 14 and 15 and on Article 24. The main trend of the changes has been to define more precisely the permissible margins of preference (Article 14), to extend Article 15 to cover cases of countries which, having no substantial domestic production, might apply new or additional taxation to protect directly competitive or substitutable products and to apply more concisely internal quantitative regulations where products are used in mixing or processing. A new article relating to cinematograph films, to replace Article 15, paragraph 4, is being considered.

Articles 16 to 23 and Article 37. Agreement has been reached with the exception of minor points. Amongst the technical changes there is an improved agreement in tariff valuations not to resort to artificial or fictitious values.

Articles 25 and 27. Article 25 dealing with import restrictions on agricultural and fisheries products has been broadened to cover restrictions on such products as are directly substitutable for a domestic product of which there is no substantial domestic production.

The only change of substance in Article 27 is the omission of "commercial considerations" as a criterion in the administration of quota or license systems, because their application by government authorities was considered impracticable.

Articles 26, 28 and 29: The main point at issue relates to precisely how it is to be determined that a Member is in balance of payments difficulties of such a character that it might be allowed to resort to import restrictions as a means of safeguarding its external financial position. A further point concerns the division of responsibility as between the I.T.O. and the International Monetary Fund in relation to balance of payments questions and quantitative restrictions on trade,

Article 30 This Article now provides for cases where a Member's exports are adversely affected by subsidies granted by a non-Member.

Articles 31 and 32 No important change was made in Article 31, but the position of Marketing Boards in relation to State Trading was raised and will be further considered by the Preparatory Committee.

Article 32 is still under discussion.

Article 33 The main point at issue is that in the view of certain delegations, there should be more specific provision in this Article (or elsewhere in the Charter) for countries with a planned foreign trade which fall between the accepted categories of free private trade and State monopoly, and which consider it necessary to be selective in determining the sources of their imports and the

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destination of their exports. In relation to this, proposals have been made involving a more rigid relationship between earning abroad and spending abroad. Articles 34, 35 and 38. These Articles provide the vital procedures for emergency action, nullification or impairment of the Charter, and possible ultimate withdrawal from the I.T.O. Articles 34 and 35 remain substantially unchanged. Article 38 now provides under paragraph 2 (b) for a first transitory stage in the formation of a customs union.

Article 36 The relationship between the I.T.O. and Non-Members remains unresolved by the Preparatory Committee, which may decide to transmit several alternative texts to the World I.T.O.Conference. If this procedure is adopted the World Conference would be expected to select for discussion the text most appropriate to the general situation in which it is then expected that the Charter will come into effect.
