

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.9/14
17 November 1954

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CONTRACTING PARTIES
Ninth Session

SUMMARY RECORD OF THE FOURTEENTH MEETING

Held at the Palais des Nations, Geneva,
on Monday, 15 November 1954, at 10.30 a.m.

Chairman: H.E. Mr. L. Dana WILGRESS (Canada)

Subjects discussed: Review of the Agreement

- a) Procedure
- b) First Topic: Quantitative Restrictions

a) Review of the Agreement: Procedure

The CHAIRMAN referred to the proposal of the Brazilian delegation (SR.9/13) that it might facilitate the review discussions to concentrate the consideration of all questions relating to economic development in a separate working party. The Chairman had considered this and had also discussed the question with the Brazilian delegation, and his conclusion was that there was a great deal of force in the objective which the Brazilian delegation had in mind and that, indeed, the Steering Group's proposals should be implemented in such a way as to achieve the same objective. Since it might not be entirely clear from the Group's report how this might be achieved, he suggested that the discussions in the working plenaries, and subsequently in the working parties, should proceed along the following lines: under the first topic and on the first working party the discussions should initially proceed under each heading disregarding the special position of the underdeveloped countries; when all the other aspects had been dealt with, the working party should then address itself to the question of considering special provisions relating to underdeveloped countries both with relation to the use of quantitative restrictions for balance-of-payments purposes and for protective purposes. Similarly, the various headings under the second topic should first of all be discussed with regard to their general applicability, and subsequently and separately in relation to the special problem of the underdeveloped countries. It did not seem that the same problem occurred under the third and fourth topics, but insofar as it might arise, the Chairman thought the same procedure should be followed. If this proposal was acceptable, it would be logical to follow a similar order in the discussions of these topics in stage two.

Mr. MACHADO (Brazil) thanked the Chairman for his understanding and expressed his satisfaction with the proposals made.

The CONTRACTING PARTIES agreed to this proposal and to the working party structure proposed by the Steering Group in its second report (W.9/10).

The CHAIRMAN explained that the membership of the various working parties would be announced later.

b) Review of the Agreement: Quantitative Restrictions

The CHAIRMAN, outlining the scope of the first topic for discussion as set out in the Steering Group's second report (W.9/10), said that stage two of the discussion was intended to provide additional guidance for working parties. The general statements made by Ministers and other representatives during the first stage were fairly specific. He suggested that delegations need not repeat their previous statements but that this stage would provide an opportunity for greater precision. There was no need, however, to discuss the details of proposed amendments, as that would be done in the working parties.

He proposed that the CONTRACTING PARTIES should take up the discussion of the rules relating to the use of quantitative restrictions for balance-of-payments purposes which affected Articles XII-XV of the Agreement. This was an important aspect of the Review and it was necessary to decide whether the rules on quantitative restrictions should be tightened or not. Since there would be inevitable delay before any amendments could come into force, it would also be necessary to consider whether any action need be taken during the transition. The relationship between the International Monetary Fund and the CONTRACTING PARTIES would be a proper subject of comment when discussing Article XV. This subject would also be of concern in the discussion of the fourth topic.

Mr. SEIDENFADEN (Denmark) said the position of his country had been made clear by the statement of the Danish Minister of Economic Affairs. He wished only to enquire whether the secretariat notes on the Review (L/189) would go directly to the working parties since the suggestions it contained were not introduced by any delegation.

The CHAIRMAN replied that each working party would be expected to take it into account.

Mr. JHA (India) had been impressed by the statements made by Ministers and other representatives. Each had naturally placed stress on the matters of most concern to his government. The question of what would happen to quantitative restrictions when convertibility was achieved was very important and of deep interest to India, which would like the new rules to take account of the transitional period. It was possible that the world was on the eve of convertibility. The CONTRACTING PARTIES, however, should not try to lay down permanent

rules on the subject but should remember that the whole question might come up again for reconsideration. When convertibility was achieved, however, there should be no discrimination in the use of quantitative restrictions, and it was essential that Article XIII should be considerably strengthened. A number of European delegations had pointed out that if quantitative restrictions were prohibited the result would be a rise in tariff levels. It was necessary to move progressively on both fronts rather than to condemn quantitative restrictions while permitting other restrictions.

Mr. GARCIA OLDINI (Chile) recalled that the Havana Charter and the General Agreement reflected the hope which existed when these instruments were drawn up, that the economic situation would improve. This hope had proved somewhat premature and he wondered whether contracting parties were justified in taking a more positive stand today. Although convertibility had been announced as imminent, he did not think it was so near. The CONTRACTING PARTIES must at least take the present uncertainties into account in their discussions and decisions, if they were to avoid a repetition of the errors committed in 1947.

The General Agreement now dealt separately with quantitative restrictions for balance-of-payments reasons and those for economic development, but actually the two were closely related. The new draft Article XVIII provided for a number of necessary changes in the Article as it stood at present but no one quite knew in what form it would eventually be adopted. If no satisfactory solution were found in this connection, the underdeveloped countries would again be forced to resort to Articles XII and XIV. The two subjects should, therefore, be considered together. If the CONTRACTING PARTIES could decide on their attitude toward balance-of-payments quantitative restrictions, it would be easier to deal with Article XVIII.

The CHAIRMAN repeated his suggestion that the relationship between quantitative restrictions and economic development be discussed after the other aspects.

Mr. MACHADO (Brazil) declared that the eventual position of his country would depend on the position taken by other countries. It was difficult to discuss quantitative restrictions without knowing the position of countries on convertibility. If countries did not yet wish to divulge their opinion on that subject perhaps it might be better to leave the whole question to the working party stage.

Mr. CLULOW (Uruguay) observed that apart from the economic and technical aspects of quantitative restrictions, the social aspect was also of importance, and failure to give sufficient attention to the latter aspect made discussion of the question difficult. Convertibility was linked with the internal problems of countries, which in an interdependent world, could not be ignored. The Uruguayan attitude to these matters has been explained in the general statement. It was essential not only to consolidate what had been done but also to achieve further progress and it was essential that any new agreement should provide an opportunity for all countries to participate.

Mr. LOUW (Union of South Africa) had, in the course of his general statement, expressed concern that progress had been disappointing and had pointed out that the transitional conditions contemplated in Articles XII and XIV had come to an end. He proposed that all references to the aftermath of war should be deleted from the General Agreement. The South African Government also considered that until major currencies were convertible the right of contracting parties to maintain quantitative restrictions must be retained, but that the provisions of Article XII of the Agreement should be carefully studied by the working party with a view to their full implementation. Under convertibility, no discrimination should be permitted except in the case of a currency in world shortage.

South Africa also regarded the extension of bilateral quota agreements with great concern and felt that countries participating in such agreements were not observing the principles of the General Agreement. Unless there was a faithful observance of the rules, progress towards convertibility would be difficult.

Mr. BROWN (United States of America) said that the leader of the United States delegation had already mentioned the reasons why the United States felt that the provisions of the General Agreement relating to the use of quantitative restrictions for balance-of-payments purposes needed strengthening. He wished to explain those reasons further and outline the United States Government's proposals for strengthening the rules and making them more effective.

The original reason behind the existing provisions was that, in the early postwar period, the use of quantitative restrictions had been unavoidable in many countries as other methods for bringing a country's balance of payments under control were impracticable. The main alternatives to exchange and trade controls lay in sound internal monetary and fiscal policy, or exchange rate policy, or in a combination of both. It had been felt that exchange rate adjustments would not be effective, at a time when the limiting factor of exports was not lack of demand but rather an inability to support export demand because of a disruption of productive facilities. It was also feared that higher-priced import goods might raise living costs to intolerable levels. In view of these and a number of other reasons, the framers of the Agreement certainly appraised realistically the conditions confronting them by authorizing countries with a deficit, or threatened with one, to impose quantitative restrictions. Today, however, conditions were different and, generally speaking, countries were approaching a situation in which they would be able to reach and maintain balanced external accounts by the use of proper internal measures.

It was, of course, recognized that no sovereign government would allow its internal policies to be dictated from without. Neither could it be expected, however, that countries which had made concessions in good faith should be forced to bear the burden of restrictions resulting from inappropriate economic policies in other countries. The United States therefore believed that a country in balance-of-payments difficulties using or proposing to use quantitative trade

restrictions should be required to submit its restrictive system to the scrutiny of the CONTRACTING PARTIES, as only after such scrutiny could the CONTRACTING PARTIES decide if necessary deviations from Article XI were justified. Some such system would allow the CONTRACTING PARTIES to examine the composition of quantitative restrictions and their effects on particular supplying countries, for there could be no doubt that a number of originally justifiable restrictions had later acquired a protectionist character.

In brief, the United States believed that countries applying or contemplating such restrictions should be required to obtain the specific approval of the CONTRACTING PARTIES. It followed that the indefinite maintenance of these restrictions could no longer be justified and the United States Government believed, accordingly, that the new trade rules should contain definite time limits for restrictions.

In connection with the International Monetary Fund, the United States delegation would have some suggestions to make as to the improvement of co-ordination between it and the CONTRACTING PARTIES. Balance-of-payments restrictions were motivated by financial considerations and the hope that they would promote the restoration of balance between a country's external receipts and outlays. The important rôle of the Fund in this connection was recognized in Article XV. Besides providing for closer co-ordination between the Fund and the CONTRACTING PARTIES, the revised Agreement should recognize more clearly the responsibility of the Fund for determining whether a country's financial situation justified the maintenance of a certain level of restrictions, as any conflict of views between the Fund and the CONTRACTING PARTIES would obviously impede the attainment of the objectives of both organizations.

Similarly, as discrimination in the use of balance-of-payments restrictions could be justified only on currency grounds the United States believed that any such restrictions should be non-discriminatory except where the Fund determined that the discrimination was justified.

With regard to the use of quantitative restrictions by underdeveloped countries, the leader of the United States delegation had indicated that in the opinion of the United States the Agreement should be flexible enough to meet any special situation, and that could be achieved by authorizing underdeveloped countries experiencing or threatened with difficulties related to the execution of their development programmes, to apply quantitative restrictions to the extent and so long as necessary to safeguard their balance of payments.

With reference to certain suggestions advanced by other delegations, Mr. Brown said that the Benelux countries had proposed a provision recognizing that the principle of non-discrimination should not be applicable to contracting parties endeavouring to secure a closer integration of their economies and which promoted the maximum development of multilateral trade. The United States delegation felt, however, that the principle of permanent intra-regional discrimination behind this proposal was completely at variance with the concept of

fully multilateral trade which was one of the cornerstones of the General Agreement. At no time had the CONTRACTING PARTIES ever recognized that countries in regional groupings had the right to discriminate against other contracting parties. The United States Government would consider any amendment attempting to establish such a right as a move in the wrong direction and, therefore, unacceptable.

As regards the proposals made by the German delegation for a clause providing for negotiation among contracting parties for the elimination of balance-of-payments restrictions, the United States delegation could not admit the principle that such restrictions should have to be abolished by negotiation, as such negotiations would mean that the countries seeking removals of such restrictions would be forced to pay again for something they had already bought and paid for.

The United Kingdom delegation had suggested that the revised rules should permit discrimination against a country whose currency had become scarce but while appreciating the reasons behind that proposal the United States delegation considered it unnecessary in view of safeguards already existing in the Agreement and the Articles of the Fund.

In conclusion, the United States delegation hoped that pending the satisfactory revision of the Agreement, the existing rules and regulations would be applied more effectively.

Mr. JOHNSON (New Zealand) recalled his opening statement that in general "New Zealand considered the existing balance-of-payments articles provided satisfactory trade rules both for the present and the future. A situation of general convertibility should not call for any substantial change in the rules, but rather for closer attention to the administration of them in the light of circumstances existing from time to time".

New Zealand would not propose any substantial modification in Articles XI-XV. Regarding the proposal that a time-limit be adopted for the elimination of quantitative restrictions, a most important factor for New Zealand was the instability of the level of prices for primary commodities. For such a country the time-limit might prove very dangerous. The fear of a drop in external prices might cause such a country to forestall the time-limit by tightening restrictions in order to build up more quickly their currency reserves and avoid the need for internal deflationary measures. A time-limit of one year would be particularly unacceptable to a country far from world markets. In his country it took from six to nine months for restrictive measures to become effective. He pointed out that there would remain hard-core problems after the balance-of-payment need for restrictions had disappeared and some countries would have to increase tariffs to compensate for the removal of those restrictions. Tariff negotiations under the Agreement had proved to be slow processes for obtaining satisfaction.

Suggestions that prior approval be obtained before imposing quantitative restrictions were not acceptable to New Zealand, since action might have to be taken quickly and the requisite secrecy could not be secured. The New Zealand Government felt it must have the right to protect its balance-of-payments position and to take such action as the circumstances demanded, but it would be ready to co-operate with other countries in seeing that such restrictions were not imposed unnecessarily.

With respect to Article XII:3(b), New Zealand attached the utmost importance to the maintenance of that Section as being a fundamental principle of the Agreement. Its removal might induce unemployment or serious setback in the development of productive resources.

With regard to discrimination, New Zealand agreed that some revision of Article XIV was essential and that discrimination should be applied only when a currency was scarce. He shared the view of the delegate of South Africa that discrimination by bilateral agreements should be avoided.

He favoured closer relations between the International Monetary Fund and the General Agreement but was opposed to the subservience of one to the other. The Fund was competent in matters of financial policy but was not competent in trade questions.

Regarding special exchange agreements under Article XV, New Zealand had been unable to sign such an agreement, since it would entail all the obligations of Fund membership without its benefits. Its position had been made clear in document L/270 and he would welcome further discussion of the difficulties of his country in the working party.

Mr. COHEN (United Kingdom) observed that the discussion so far had covered both the short and long-term periods. The turning point between those two periods would be when the principal currencies of the world were made convertible, the longer-term period following after convertibility. For the shorter-term period, the United Kingdom felt it would be inadvisable to the present Articles of the Agreement. The flexibility now provided under its rules was necessary in that period; amendments might lead to unforeseen results and even impede the movement towards convertibility. He agreed with the proposal by the delegate for South Africa that Article XII:2(b) should continue to be effectively and scrupulously applied while preparations were being made to revert to currency convertibility and multilateral trade.

It would be a mistake to ignore the tremendous headway made in the sphere of liberalization of European trade within the framework of OEEC. Without that organization, the countries of Western Europe could scarcely have reached the goal of liberalizing 85 per cent of their trade. He could agree with the proposals of the United States for tightening the rules against discrimination if they were not intended to apply during the transitional stage.

With regard to the rules to be applied after convertibility, he had listened with interest to the remarks by the delegate of India, and could not share his views that quantitative restrictions were simply one form of a protective device and were not more undesirable than other import restrictions such as tariffs, state trading, etc. The United Kingdom regarded quantitative restrictions as a different class of trade obstacle. Under the Agreement, the CONTRACTING PARTIES had already dealt with import restrictions made effective through state trading, and provided rules parallel to those applying to quantitative restrictions. As for subsidies, they were provided for separately under the Agreement and if misused, the matter should be taken up by the CONTRACTING PARTIES.

Mr. Cohen recalled that in 1947 quota restrictions had been outlawed and tariffs made subject to negotiation. Quota restrictions are more likely than other restrictions to foster inefficient industries. The delegate of India had referred to certain hard-core problems which would remain after import restrictions had been removed. But the rules should not be drawn to fit the exceptional case. The United Kingdom therefore took the view that quantitative restrictions should be imposed only by countries in genuine balance-of-payments difficulties and that these restrictions should be subject to the approval of the CONTRACTING PARTIES. Furthermore, in order to ensure that countries took proper steps to adapt their policies and did not shelter indefinitely behind quantitative restrictions, thereby encouraging inefficient industries to develop and making the eventual removal of quantitative restrictions even more difficult, there should be a time-limit of two years for the recourse to quantitative restrictions. Unless some general rule of this kind were adopted, a country imposing quantitative restrictions might be in no better position after a two-year period than before as regards its domestic economy. In the event of a country still being in serious balance-of-payments difficulties for reasons beyond its control, the CONTRACTING PARTIES would, of course, be prepared to grant a waiver from this general rule.

The transitional provisions of the Agreement regarding discrimination were subject to Article XIV of the International Monetary Fund. The United Kingdom contemplated that the use of Article XIV of the Fund would be terminated after currencies had become convertible and at the same time as the new permanent rules of the General Agreement were applied.

Mr. Cohen recalled the remarks of the delegate of the United States, who said that the present provisions of the Articles of Agreement of the IMF were adequate to deal with the problem if a currency should become scarce. Article VII 3(b) of the IMF, however, could be applied only if there was a technical scarcity of the currency in terms of the Fund's reserves. His Government considered it essential that discrimination be permitted if there were an actual scarcity of a currency in world trade, whether or not a technical scarcity existed. Therefore, they were proposing that Article XIV of the General Agreement be so amended as to make this possible.

Mr. McEWEN (Australia) felt that Article XII as it stood was adequate. When a government was confronted with balance-of-payment difficulties, it should be able to impose restrictions on the flow of imports and trade to protect its solvency. A time-limit within which these restrictions must be removed would not be acceptable to Australia, since from experience it knew that its balance of payments were subject to very wide fluctuations caused largely by circumstances entirely beyond its control, including fluctuations of prices and production and seasonal change in demand.

Mr. HAGEMANN (Germany) considered that present Articles should be adapted to prevailing circumstances. The Articles on quantitative restrictions could be adapted to the improved situation of international world trade by deleting the provisions which dealt with postwar difficulties. The interests of those contracting parties which needed to maintain quantitative restrictions for balance-of-payments purposes, could be met by permitting restrictions only to the extent needed for that purpose. The Federal German delegation had already submitted amendments to Articles XII-XIV.

The requirements of insufficiently developed countries should also be taken into account and Article XVIII revised to adapt it to these ends.

Regarding the future convertibility of currencies by one or several countries, these operations could not be carried out in a single stage. The provisions should therefore emphasize the conditions under which trade would be organized and relations established between contracting parties.

On 9 November, the delegation of the Federal German Republic stated the viewpoint of his country, that quantitative restrictions should no longer be maintained when balance-of-payments requirements no longer called for them. The problem should be examined realistically, since some countries would always adduce reasons for having to maintain quantitative restrictions. He suggested the latter should be eliminated by harmonizing the essential interests of the contracting parties concerned. Germany did not mean by this that compensation should be paid for such elimination.

Mr. ISBISTER (Canada) said his Government felt that the discussion on rules for quantitative restrictions for balance-of-payments reasons was being held at a propitious moment, when it was possible for the CONTRACTING PARTIES to have a constructive approach to the question for the first time since the war. Canada had been encouraged by the progress achieved in many parts of the world towards relaxation of quantitative restrictions for balance-of-payments purposes. The countries which had moved towards liberalization of trade had likewise helped themselves, the process had spread and gained momentum throughout the world, and many countries which had refrained from relaxing these measures now found they were in an unfavourable position. It had been proved that countries which were able to liberalize their trade and were buying the best goods at the cheapest prices available were acting in their own self-interest. The realization of this fact now justified a Review of the Agreement to make it a more effective instrument in removing barriers to trade.

Canada supported, in general, proposed amendments of the balance-of-payments provisions and, in particular, the strengthening of the consultation provisions in Article XII. The CONTRACTING PARTIES were vulnerable to criticism that had been received from a number of quarters regarding the consultation procedure carried out in recent years. Canada was in full agreement with the proposals for a more careful scrutiny of quantitative restrictions. Canada would agree, if need be, to their extension for a certain time but would also support a time-limit within which they should be removed. It was implicit in the provisions of the Agreement that quantitative restrictions should be outlawed.

In revising Article XII, attention should be paid to the fact that balance-of-payments difficulties should be considered an exception, that quantitative restrictions imposed for that reason ran counter to the interests of other contracting parties, who had already paid for certain concessions which they were entitled to enjoy. The countries benefiting from these restrictions should therefore realize they were responsible for rectifying their position. The provisions on consultation and the rules for the period during which recourse might be had to the escape clauses would need to be strengthened. The Canadian Delegation agreed that the CONTRACTING PARTIES should re-examine the consultation procedure with the International Monetary Fund, which should be put on a more effective basis.

In the long run, quantitative restrictions should be non-discriminatory in form. In a world in which currencies had become convertible, it would not be in the interest of countries to discriminate in the matter of import restrictions, and they should therefore be eliminated. He felt the Working Party should first address themselves to the formulation of the long-term rules themselves, and other considerations should not be allowed to take the first place. Secondly, relations between the CONTRACTING PARTIES and the International Monetary Fund could be examined. Thirdly, the question of administering the present Agreement during the period which extended from today until the end of the transitional period, when the new trade would have become fully effective, should be considered.

The road to convertibility was not an easy one but gradual relaxation of restrictions was bringing the CONTRACTING PARTIES step by step in the right direction. Convertibility could, however, not be attained overnight by manipulation of currencies or similar methods. The best procedure appeared to be through the liberalization of the world commodity trade stage by stage. This process could be furthered by examining and strengthening the existing Articles XI and XV of the Agreement.

When agreement had been reached on the substance of the new long-term rules it would be appropriate to see how the present rules could be administered to provide a bridge towards full convertibility and elimination of quantitative restrictions.

The Canadian delegation viewed with concern the use of discriminatory quantitative restrictions for the purpose of perpetuating regional and currency blocs. Canada had not envisaged when she signed the Agreement such use of discrimination.

Referring to the remarks by the delegate of New Zealand, Mr. Isbister saw no reason for special consideration to be given to hard-core problems in connection with dismantling quantitative restrictions. The Agreement provided that they should be imposed only in exceptional and specific cases. It had never been intended that the Agreement should recognize that it would be legitimate to impose those restrictions for protective purposes.

He pointed out the dangers to world trade implicit in the principle of bilateralism. Canada supported in general the long-term trade rules advocated by the United Kingdom and the United States and supported by many delegations.

Mr. BELFRAGE (Sweden) said the Swedish Government was as anxious as other contracting parties to maintain the progress so far achieved in eliminating quantitative restrictions especially as a means of protection. But this should not be attempted by a one-sided procedure. Other restrictions were now even more damaging than quantitative restrictions, much progress having already been made in removing the latter. Most countries were aware of the need for elimination of restrictions which still remained and because it was in their interest to do so many had already taken steps in that direction. The Swedish Government hoped that tendency would continue, with or without binding obligations.

Attention should particularly be focussed on the tariff question which hampered trade, and a concerted attack made on high tariff levels. All countries maintaining low tariff levels were anxious to see that free access to markets was ensured for all and that there was no setback in the progress made.

Referring to the remarks by the delegate of the United Kingdom that quantitative restrictions encouraged the maintenance of vested interests, he pointed out that experience showed, however, that quantitative restrictions had been eliminated in spite of vested interests. Tariff protection also tended to create such interests and was as damaging to trade as quantitative restrictions. He advocated that tariff reductions should take priority, but that there should be a balanced approach in appraising barriers to trade and their gradual elimination. Sweden considered that quantitative restrictions should be maintained only for balance-of-payments reasons and that the Articles of the General Agreement should be strengthened in that respect.

Mr. ANZILOTTI (Italy) considered that the Review of the General Agreement should establish the limits within which the CONTRACTING PARTIES should be able to impose quantitative restrictions for balance-of-payments purposes. The relations between the CONTRACTING PARTIES and the International Monetary Fund should be continued but any intervention by the Fund should be related to the provisions of the Agreement.

Quantitative restrictions should not be administered in such a way as to close markets to specific contracting parties; the impact of these restrictions should be equitably balanced. He agreed that there should be a time-limit after which they would be applied only for balance-of-payments reasons. The Italian

Government felt that the CONTRACTING PARTIES should also be kept informed of the progress made in their elimination and that provisions in the Agreement to enable observation of the effects of quantitative restrictions should be strengthened. The Italian Minister of Commerce supported the view of the delegate of Belgium to the effect that the CONTRACTING PARTIES should constantly bear in mind the work and achievements of other organizations.

The meeting adjourned at 1 p.m.

