

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SUMMARY RECORD OF THE TWENTY-FIRST MEETING

Held at the Palais des Nations, Geneva,
on Monday, 6 December 1954, at 10.30 a.m.

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

Subject discussed: Review of the Agreement.

Review of the Agreement

The Minister of Trade and Commerce of Canada, the Rt. Hon. C.D. HOWE, made a statement which is reproduced in Press Release GATT/208.

Sir Claude COREA (Ceylon) expressed his appreciation of Mr. Howe's statement. He supported his appeal to produce a better Agreement, and thought that all countries looked forward to the day when international trade could be carried on quite freely and simply in order to raise standards of living, ensure full employment, and the other objectives of the Agreement. It was necessary also to be realistic. Mr. Howe had referred to countries which required special treatment, and Sir Claude hoped he would realize that it was sometimes necessary to continue restrictions in certain special cases. Many countries in the early stages of development could not adopt the rules that might be practicable for those which had reached a higher level, and an effort should be made to assist such countries to reach the standard which would permit them to remove restrictions. Until then it was necessary to provide them with means to develop and advance, and one of those means was to permit them to impose restrictions when necessary. Restrictions were necessary for the balance-of-payments difficulties which existed as a result of the exposure of these countries to violent price fluctuations. They were more necessary, however, for the sake of the actual process of development. This process necessarily brought with it a growing demand for imports which the conditions of the country would not yet permit to be fully satisfied. His country gratefully acknowledged the assistance which more developed countries had already provided. In the light of this assistance, it would be disastrous if anything were done that would prevent them from taking advantage of it. The question of developing industries must be faced, and the fact that, without some protection, such development was impossible in the face of competition from highly industrialized countries.

Mr. PHILIP (France) wished to make some observations on Mr. Howe's clear and precise statement. The CONTRACTING PARTIES were engaged in an effort to reconstruct an international world market at a time when certain basic conditions for such a

market did not yet exist. He wished to recall how this market had worked in the time of its greatness - during the nineteenth century. There were three conditions for its success. Firstly, that the country which had undoubtedly economic superiority and was at the centre of the network of production and exchange, Great Britain, pursued a policy which enabled its debtors to pay by sending goods, that is, a policy of complete free trade. Secondly, because this country, which was the single creditor, invested heavily in the under-developed areas of the time - an investment which comprised 8 per cent of its national income. Thirdly, as a result of its situation as the creditor and centre of trade, the decisions of London in financial matters, as expressed through the discount rate, were accepted by all countries, and they adjusted their economies accordingly, regardless of the cost in unemployment, misery, changing standards of living and so forth. In fact, this so-called liberalism constituted the first effort at directing and planning the international economy.

After the first world war, countries had dreamed of returning to this system, but all the efforts in this direction collapsed in the 1929 crisis. Among the factors leading to the crisis were the efforts to return to the old system by European countries after a long period of inflation and without the prior structural transformation required, the return by the United Kingdom to a gold exchange standard and of sterling to parity, the fact that the dominant economy at that time, the United States, instead of a policy of free trade and regular investment abroad, pursued a reinforced protectionism and had short-term loans in Europe, which were called in after the crisis and aggravated the situation further. There followed a period of deflationist pressure, which led to policies of protection and the appearance of import and exchange restrictions. The general ruin was thereby multiplied and the world market collapsed. During the thirties, two efforts were made to retrieve the situation, both within a regional framework - the New Deal and the Ottawa Agreements and establishment of the sterling area. Both these efforts formed a positive policy which might have led to a new equilibrium and the basis for the re-establishment of a world market.

Once again after the last war, countries desired to reconstruct the world market. But it was necessary to treat problems which must be resolved either as a prior condition or in the course of the process, if such a restoration were to occur on a solid foundation.

There was firstly the problem of the under-developed countries whose efforts to emerge from their long misery it was the duty of all more fortunate countries to assist. They were producers of primary products and their trade was dependent on a few items, the instability of the price of which made the elaboration of a programme of economic development very difficult. Stability of primary commodities, which the Havana Charter had made some provision for, was essential to them. Nor could their economic development be ensured until a constant system of international investment existed - corresponding to the investment by Great Britain during the nineteenth century. The United States had made great efforts with the Marshall Plan and other investment programmes, but it must be

recognized that these in no way corresponded in quantity, stability or regularity to the conditions which permitted development in the last century. Great Britain had regularly invested abroad 8 per cent of its national income over a period of seventy-five years. United Nations experts had recently suggested that a steady process of economic development would be possible if all industrialized countries devoted at least 3 per cent of their national income to this purpose. In fact, France was the only country, in its investments in the overseas territories of the French Union, which had invested to this amount. With no solution in sight of the problems of primary commodities and investment, it was not surprising that the under-developed countries were seeking a new form of Article XVIII and other Articles to allow them exceptions from the rules of the Agreement. The use of restrictive measures was their only means, in the present circumstances, of achieving a solution to their difficulties.

The second problem, which contracting parties should face realistically, was the situation of Europe. Europe had emerged from the era of reconstruction and was now faced with its permanent structural problems of adjustment. Its foreign investment had been exhausted during the war. The change in the terms of trade, desirable as it was from the world point of view, was a serious problem for Europe. Finally, the fundamental disequilibrium with the United States continued. The presently more favourable situation of the dollar gap was perhaps due largely to the discriminatory restrictions which remained and to the military aid and off-shore purchases of the United States in Europe.

Mr. Philip had thus been disturbed to hear the Canadian Minister say that the moment had arrived when the regional organizations, which had given service in the past, were acting as a brake to further progress. He hoped there would be no conflict between the Agreement and the Organization for European Economic Co-operation. The utility of the latter continued. It was within the framework of Europe itself that the effort for liberalization of markets must be made. Markets could not be created simply by eliminating barriers to trade. A constructive policy was required, and this was easier to accomplish within a regional framework where a common policy of investment and trade could be worked out. Countries should beware of rushing into a factitious universal system which would lead again to nationalist autarchy. The French delegation was in favour of reinforcing the Agreement, but the achievements on the regional plane should not be destroyed. It was effective regional action which gave the basis for a more universal programme.

Mr. BELFRAGE (Sweden) felt that, after a month's discussion of the Review of the Agreement, it might be opportune to revert to the question of the reduction of tariffs and the establishment of a more reasonable balance between the tariff levels of the individual contracting parties, particularly since no particular sub-group was responsible for this matter. Tariff stability, reduction of tariffs and their further harmonization formed one of the most important problems confronting the CONTRACTING PARTIES. He was pleased to note the fairly wide support shown for maintaining tariff stability, but disturbed by the attitude of many contracting parties to reduction of tariffs. The endeavours of the CONTRACTING PARTIES should be directed, in the first

instance, toward a further reduction of tariffs and levelling the present disparity between them, not merely toward preventing further increases. The Preamble itself spoke of "substantial reductions of tariffs".

The impression gained so far from the discussions which had taken place was that most contracting parties, while stressing the general importance of the Agreement in the field of tariffs, did not seem willing to undertake any commitment to reduce tariffs, at least not at the current Review Session. The Swedish delegation had hoped for a more sympathetic consideration of this issue, which was at the heart of the problem for a low tariff country. It was aware of the importance of abolishing quantitative restrictions and other trade barriers and willing to contribute reaching a stricter discipline in these matters. However, considerable progress had been made, particularly in the field of quantitative restrictions over the past years. The same could not be claimed for tariffs. The time had come for the CONTRACTING PARTIES to end the present stagnation in this sphere lest the objectives set with regard to other barriers to trade be jeopardized.

The Swedish delegation knew of the key position of the United States in this field, and appreciated the particular difficulties confronting that country at present. The Review work was, however, directed toward the future, and it was important to define intentions and policies with regard to tariffs as well as quantitative restrictions. All countries had constitutional and parliamentary difficulties and it would be useful to know the future plans and policies of the United States. Other high tariff countries also had responsibilities, and it would be helpful to know whether they were interested in further tariff reductions, by what methods such reductions should be brought about, and their view of the position in this respect of the General Agreement and the new Organization.

The Swedish delegation envisaged the Review of the Agreement as a whole and felt that there should be reciprocity as to commitments undertaken in all the fields covered by the Agreement. The Swedish attitude had been repeatedly explained. Certainly customs duties should be the main means of protection, and quantitative restrictions should be gradually abolished, but it was extremely difficult to believe that the Agreement should aim at freezing the present tariff level, and Mr. Belfrage called attention again to the Preamble. He hoped that the high tariff countries would reconsider their position and that the current Session would see some agreement as to the necessity of bringing about further harmonization of customs duties by reducing high tariffs. This was a problem of importance for the whole future of the Agreement, and definite commitments should be undertaken to this end.

Mr. MACHADO (Brazil) agreed with Mr. Howe that it was important for the General Agreement to continue to exist. It was Brazil's awareness that the existing text was no longer a basis for co-operation that had made them insist on the importance of the Review. A realistic spirit should animate the CONTRACTING PARTIES in drawing up the new text to meet the various difficulties. Efforts should be made both in the multilateral and regional framework.

Mr. Machado referred to the discussion of the problems of primary commodities, development, immigration and investment at the recent conference in Rio de Janeiro. It was apparent that the present basis for considering these matters could not continue without serious consequences.

Mr. BROWN (United States) was interested and encouraged by the Canadian Minister's remarks. He agreed with the French representative's remarks on the differences in the present situation from that of the 19th century, and the importance of rebuilding an international capital market and the need for massive investment in various parts of the world. This was a task in which the countries in which investments were made had also a dominant rôle. He did not wish to understand from various statements that progress in other fields must await the conclusion of this task. Many countries were working on the problem of investment, but this should not postpone the work of the General Agreement. In fact, the process of reducing barriers to trade and the growth of a system of international law which was evolving under the Agreement could materially contribute to a solution of the other problems. Certainly regional arrangements had accomplished much and had further possibilities of achievement, but they should no more impede the work of the Agreement than the Agreement should impede them.

Mr. Brown referred to the concern expressed by the Swedish representatives about progress in the field of tariff reduction. Surely, in terms of history, progress had been more rapid in the last decade than ever before, and with the forthcoming Japanese negotiations, still further progress was in the offing. The Swedish delegate had recognized the difficulty for his Government to give assurances in advance. Mr. Brown would only state that it was the intention of the United States Government to seek to continue the process of the trade agreements work through an extension of the authority granted to it, and to press for early and satisfactory results. He referred to the President's message and the statement of the Chairman of the Ways and Means Committee.

Mr. NAUDE (South Africa) thought that Mr. Howe's reiteration that the purpose of the Review was to give a basis for further progress in the regulation of commercial policy had been very useful. The impression of his delegation during the Review Working Parties had been that, far from progressing, there was a continual effort not to retreat from the principles of the Agreement. The remarks by the Swedish delegate concerning levelling of tariff disparities were pertinent in this connection. Concerning the comments by the delegate of Ceylon on the problems of under-developed countries, he wished to reiterate that South Africa considered itself an under-developed country and one undergoing rapid development, but that it had solved its problems by other means than quantitative restrictions.

Mr. Howe had referred to export subsidies, and the South African delegation agreed that they should be strongly condemned. The very trend of the adjustment to a new equilibrium, referred to by the French representative, was being countered by the use of such devices. The future of the Agreement would depend upon a solution of this matter. Mr. Philip had referred to the rôle of creditor countries, and in this connection Mr. Naude wished to pay tribute to

the efforts of the United States to adjust itself to its new rôle in the world.

He suggested that before Christmas it would be useful for the CONTRACTING PARTIES to meet again to consider the progress of the Review.

Mr. SANDERS (United Kingdom) said that his delegation had been satisfied by the Canadian representative's reminder of the basic objectives of the Review. His emphasis on the need to maintain and strengthen the Agreement and to resist pressures to weaken it, found a response in the speech by the President of the Board of Trade at the opening of the Review Session. The United Kingdom delegation had already made clear the importance it attached to emerging from the Review with a strengthened and reaffirmed Agreement, not only in order to serve the common interests of contracting parties in the immediate future, but also to provide the necessary instrument for the system of freer trade and payments to which countries hoped to move.

Dr. PRIESTER (Dominican Republic) said that the reminder of the Canadian delegate that agricultural products occupied a large proportion of world trade should be taken into consideration when the question of agricultural exports was discussed. This was a vital issue for a small country like his, and it was essential to recognize that, unless the Review could deal with such issues, it would inevitably be considered unsatisfactory.

Dr. Priester was not impressed with the arguments by the French delegate in favour of regionalism and did not think that such systems could be accepted as a pattern. The European Coal and Steel Community was not a valid example, since it was an arrangement obviously long overdue and taking the place of previous private international cartels. Under-developed countries felt that their main need was the greatest and freest access possible to markets. It was true that they also required financial assistance, and Dr. Priester referred to the resolution recently adopted at the conference in Rio de Janeiro on this subject and the assurances of the United States that it would assist in this field. The South African delegate had referred to the rapid development of his country without the use of quantitative restrictions. Surely this development had been made possible rather by the very large capital investment in that country which had rendered various restrictive measures unnecessary. Quantitative restrictions imposed by under-developed countries arose from the fact that they lacked not only capital but markets. Having no access to the world's markets, they must establish domestic markets in their own countries where the purchasing power was generally limited. Under present conditions it was unthinkable to establish an industry without the assurance of a minimum market. If tariff barriers had been sufficient to give this assurance in the nineteenth century, this was no longer the case. However, under-developed countries continued to regard quantitative restrictions as temporary expedients. As imposed by such countries they differed from quantitative restrictions imposed by industrialized countries for balance-of-payments reasons; the latter were used to curtail trade. In the case of under-developed countries, however, they were used in order to build up purchasing power and so lead eventually to an increase in trade. A new industrial revolution was occurring in the under-developed areas of the world, one which had brought, in Latin America for example, a rate of growth higher than that in the United States. The escape clause that such countries were requesting was needed only as a last resort and they would be

willing to accept any provisions in the Agreement that would strengthen and accelerate the process of development.

The Swedish delegate had insisted on the importance of reducing the disparities of tariffs. In this connection, Dr. Priaster wished to point out the different function of the tariff in under-developed countries, where it formed the main source of revenue. It was unthinkable that such countries should renounce the right to maintain relatively high tariffs so long as they had no means of imposing a tax structure similar to that existing in more industrialized countries. He was nevertheless hopeful that some means might be found for a general reduction of tariff levels.

Mr. BANSEL (India) referred to the close relations of his country with Canada, and remarked that it was the hope of the under-developed countries that understanding and adaptability would be shown by the more advanced countries of the world in approaching their problems.

Mr. GARCIA OLDINI (Chile) said that Canada, as part of America and part of the Commonwealth with its roots in Europe, was well situated both to feel the currents throughout the American continent and to understand the European situation. The doctrine expressed by Mr. Howe, like all doctrines, had a certain rigidity. The present reality was no longer the same as that which had provided the principles of that doctrine, and permitted the system worked out on that basis to give such remarkable results. As the French delegate had stated, the liberal doctrine had worked mechanically, and readjustments to any disequilibria were made through changes in the standard of living of the mass of people. Such a system was no longer open to countries, and one of the fundamental defects of the Agreement was the underlying assumption that international equilibrium could still be achieved through the mechanism involving internal adjustments, for which the conditions had ceased to exist.

Even a country like the United States, with its unique degree of wealth, was unable strictly to apply the doctrine of the Agreement; and this because the problem of the standard of living of the people was vital. The United States delegate himself had stated that this was the reason for the policy of agricultural price supports. How could such countries not allow exceptions for under-developed countries which had not only the problem of a basic standard of living to a much more acute degree, but also the problem of industrial development, which was a long-term issue, presenting sometimes insoluble difficulties, linked as it was to the insufficiency of capital? The question of balance-of-payments and monetary reserves in under-developed countries derived from and was closely related to the problem of development. How could the principles and procedures, which even developed countries were unable to follow, be imposed upon these countries?

The directing principles of the Agreement should be preserved, but it was necessary also to be realistic before these material problems. It should not be forgotten that for some countries the objectives and ideals of the Agreement could only be reached after a long and difficult process of adjustment.

Mr. ANZILOTTI (Italy) referred to the difficulties of the Review arising out of the varying structural situations of the economies represented among the contracting parties. The conditions which made difficult a free movement of goods and the common problems of finance had been underlined. The Italian delegation wished to emphasize another factor of great importance, which was the lack of free movement of workers. As the representative of a country with a rapidly increasing population he must insist upon this point. The present situation was much less flexible with regard to the selling of goods abroad, international migration and the transfer of capital than during the nineteenth century. Mr. Anzilotti wished also to support the view that it was necessary to maintain the results obtained by certain regional institutions; the more so as apparently it was intended to continue to develop their work.

The Canadian Minister of Commerce had spoken of negotiations on preferences. This was a delicate and important matter and called for prudence. Any modifications that would in reality increase margins of preferences could disturb the equilibrium that had been reached with so much difficulty, and prejudice the trade of certain countries.

Mr. HAYTA (Turkey) supported the suggestion that the CONTRACTING PARTIES meet before Christmas to review the progress of the Review.

The CHAIRMAN considered the debate had afforded a useful opportunity to take stock of the present position of the Review, and referred to the various viewpoints that had been expressed during the course thereof. The Steering Group would consider the suggestion made by the South African delegate for a further meeting before Christmas.

He emphasized that an effort should be made to clear all items on the Ninth Session Agenda other than the Review before Christmas, and requested delegations to expedite their preparations for the outstanding items.

The meeting adjourned at 1.00 p.m.