GENERAL AGREEMENT ON TARIFFS AND TRADE
Ninth Session of the Contracting Parties

Speech by the Rt. Hon. J. McEwen, Minister for Commerce and Agriculture (Australia)

delivered in Plenary Session on 9 November 1954

The high objectives set out in the preamble to the General Agreement on Tariffs and Trade were designed to provide a solid foundation upon which could be built an international trade organization capable of making a decisive contribution towards the solution of world trade problems.

Australia at the Eighth Session of the Contracting Parties pressed strongly for a comprehensive review of the GATT in accordance with the provision of Article XXIX.

Australia pressed for this Review because it saw the need for changes in the GATT. The desirability of "order" in international trade in the interests of increased multilateral trade and payments is obvious. The need is for a manageable and equitable code of fair trade. Australia seeks now those changes which in its opinion could equip the GATT as a means to such desirable objectives.

In the light of our experience in the past seven years and of our assessment of our needs in the foreseeable future Australia's judgment on GATT is based on five points:

(1) It is incomplete as an instrument governing 'good trading' relations between nations.

(2) GATT embodies a range of rules providing some stability and predictability in tariff relations which are important in trade in manufactured goods. It does not provide anything like a comparable degree of stability and predictability for trade in foodstuffs and raw materials. Some countries have exploited the freedom which ineffective GATT articles permit. They have protected their own high-cost primary production by subsidies of a type and magnitude certainly distorting the pattern of export trade which would exist if the tests of economic production were more seriously applied.

(3) Because of its incompleteness, GATT is in fact partial in content and operation - too much shaped by the interests of advanced industrial nations as exporters of finished goods and importers of food and raw materials.
(4) Being incomplete and partial, it is too rigid, and apparently in danger of becoming more so. Absolutely rigid instruments will break down, as it is found the dynamic needs of developing nations are not helped, but hampered by them.

(5) Quite apart from the need to review certain of the GATT articles themselves, the total benefits we have received under GATT have not been commensurate with the total price paid by Australia. Moreover, the very rigidity of GATT has made it impracticable to restore to their original balance certain highly important bilateral agreements to which Australia was a party long before GATT, and which have given historic shape to the pattern of Australian trade.

When the fifty and more nations met in the early post-war years and hammered out an agreement covering the whole gamut of trade problems, Australia did not visualize the possibility that one portion only of the total agreement - the code we now know as GATT - would become the sole code of trade rules. It is not to be wondered at that GATT, having originated in this manner, is, in the view of Australia, an incomplete document. Being incomplete, its benefits and obligations fall unevenly upon the Contracting Parties. It is therefore inequitable.

The Contracting Parties to GATT may be divided roughly into two categories. The first includes nations more or less fully developed whose trade largely consists of exports of industrial and consumer goods and imports of raw materials and foodstuffs. The second and complementary category is of nations, either undeveloped or in the stage of rapid development, whose trade largely consists of imports of manufactured goods and exports of raw materials and foodstuffs. The former - the developed nations - look to trade rules for shelter from import restrictions and high tariffs imposed by less developed countries for protective and other reasons. The latter - the undeveloped or rapidly developing countries - face dangers not of tariffs and import restrictions so much as of impairment of their markets by violent price fluctuations and by subsidies imposed by developed countries. Primary producers cannot adjust their production to meet these factors as can secondary producers.

An examination of GATT shows quite clearly that it is a fairly effective document so far as it operates to reduce or freeze tariffs and outlaw quantitative restrictions except for balance-of-payments reasons. It is therefore a substantially satisfactory document from the point of view of the needs of developed countries.

On the other hand it is equally clear that the omission from GATT of major sections of the Havana Charter has resulted in its being a completely unsatisfactory document for regulating subsidies and commodity policy. It fails thereby to foster and assist the economic progress of less developed countries some of which are in a stage of very rapid development.
Thus GATT provides valuable safeguards to developed countries and leaves other countries relatively unsheltered from the kind of dangers which are peculiar to their economies.

It is natural that Australia, along with all other countries, should approach GATT from basic national economic and security interests. These interests for Australia are those of an expanding economy with substantial unused material resources awaiting development. The rapid growth of population in the postwar period is likely to continue, with commensurate growth in requirements of consumer and capital goods, both home produced and imported.

Due to its geographic position, Australia has particular security considerations which are made more complex in a period of rapid economic growth. These present some special problems in capital investment and trade.

The various considerations to which I have referred determine Australia's approach to the GATT. We must safeguard the position of our important export industries which are largely but not entirely primary. On their welfare depends our ability to develop our resources in accord with our economic and security objectives.

We must and do look to a growing volume of export trade to finance a necessary and clearly expanding volume of capital and consumer goods from overseas. We must have regard also to the growing industrialization of Australia.

The development of our primary and manufacturing industries has enabled us to make a contribution to neighbouring countries which are anxious to raise their living standards by developing their own resources. Our special circumstances are such, however, that for our progress in development we require considerable flexibility in policies of capital investment and trade.

The flexibility we need is not sufficiently available to us in GATT. This, together with the important omissions I have outlined produces, for us, dissatisfaction with the GATT as it stands. Accordingly, I shall now indicate in fairly specific terms the major matters of importance to Australia in the Review Session.

**Tariff Bindings**

The binding of tariff schedules by Australia has presented my Government with very serious problems. It will be recalled that the firm rebinding for a period of eighteen months following the Eighth Session was undertaken only because of the assurance that a complete review of GATT would be carried out in the near future.

In considering a further rebinding, my Government would want to be satisfied that, when necessary, action could be taken to protect Australian domestic industries, particularly those in early stages of development. Study of
Australia's tariff-making policy will show that the procedure of periodic renegotiation of concessions followed by firm binding of the concessions for fixed periods is wholly unsuited to Australia's requirements.

Successive Australian Governments have made it clear that they do not favour the use of quantitative restrictions for protective purposes, and they have not resorted to this means to protect Australian industries. Australian manufacturers have accepted the fact that they can expect protection against imported goods only by means of the Customs tariff.

To remove questions of tariff protection from the field of domestic pressure groups and party politics an independent tariff tribunal (known as the Tariff Board) was set up in Australia thirty-two years ago. Gradually this Tribunal built up a reputation for thorough investigation and independent recommendations.

Decisions in relation to the establishment of new industries or the extension of existing industries are left to private enterprise; the Australian Government does not give any guarantee in relation to tariff protection in advance of these decisions. As a general rule, the Tariff Tribunal will not recommend protection until the production of the goods concerned has been undertaken on a commercial basis in Australia and until it can be demonstrated that there are sound opportunities for the success of the industry if reasonable tariff protection is afforded it.

Under existing procedures of GATT, the only feasible way of operating would be to withdraw all tariff concessions which may present a problem every time a firm rebinding of the schedules is being undertaken. For instance, we would need to withdraw tariff concessions in every case where the question of a protective duty for a commodity was before the Tariff Tribunal, or was likely to be referred to it in the foreseeable future. Such a procedure would result in unnecessary withdrawal of a considerable number of concessions. It is worth mentioning that, as a result of the implementation of recommendations of the Tariff Tribunal, the rates of duty now operating in the Australian Customs Tariff in respect of some products are below those bound under GATT.

From the time when the binding of rates of duty under GATT first took place in 1947, alarm arose among various interests in Australia who see in this commitment a grave danger of the destruction of the Tariff Tribunal system and a return to arbitrary decisions in relation to tariff levels, including lobbying tactics of pressure groups. These interests cannot reconcile the binding of the rates of duty over a large part of the Australian tariff, with a system under which the question of the level of duty required to encourage a worthwhile industry is determined on the basis of recommendations of an independent tariff tribunal. My Government, from the time it took office, has shared these misgivings.

MORE
Recently, my Government has made a thorough examination of the position. As Australia does not wish to change its present method of encouraging the development of industry by a careful and prudent use of the Customs Tariff an attempt has been made to pinpoint the particular difficulties which the GATT commitments present.

This examination has revealed that there is a need for adequate provision in GATT on the following point. Should circumstances arise in which delay in increasing a bound rate is likely to damage an Australian industry to an extent difficult to repair, my Government should be in a position to take action immediately, provided the negotiation of compensatory concessions is undertaken without delay.

As the GATT stands at present, emergency action to protect domestic industries in critical circumstances is permitted only where established industries are adversely affected by increased imports. Thus there is provision for a type of situation which gives most concern to countries in an advanced state of economic development. On the other hand, there is no provision for emergency action where a contracting party finds that a developing industry will face critical circumstances unless it is placed in a competitive position in the domestic market. Australia, as a rapidly developing country, must have sufficient freedom in this regard.

Preferences

I refer now to what is known as the No New Preference Rule - in other words that part of Article I of GATT which lays it down that margins of preference may not be increased.

In the discussion on GATT and the Havana Charter, this No New Preference Rule was accepted by Australia because it formed part of the package - including both benefits and restrictions - which the ITO Charter gave reasonable promise of providing. But, as I have said, the benefits which countries like Australia expected have not sufficiently materialized. It is impossible, therefore, for Australia to regard the No New Preference Rule as a satisfactory part of continuing obligations under GATT. It must be looked at on its merits.

On its merits, what the Australian Government finds is this - that this rule, which permits of no new preferences and therefore binds all preference margins against increase, imposes an unreasonable restriction on countries which had contracted preferential arrangements before entering GATT. Over the last decade, we have experienced the marked deterioration of the value of specific margins of preference - almost to vanishing point in some instances - and yet GATT denies us an opportunity to negotiate on these.

All tariff rates are subject, not to the complete binding which applies to preferences, but merely to a selective binding, agreed as the outcome of periodic negotiations. Not only that, but unbound tariff rates may be increased. That
is of course subject to certain procedures which have already been used by several Contracting Parties. No parallel facilities for variation through negotiation and compensation are available in respect of margins of preference.

GATT does provide for and approve one form of new Preferences - a Customs Union. The intended result of a Customs Union must be to benefit its members as against non-members. We concede that a Customs Union may be valuable to the circumstances of some groups and countries, notably in Europe. Yet no other method of new preference has any approval from GATT. GATT does not even include the important, although limited, provision of the ITO Charter, enabling Contracting Parties to enter into preferential agreements for developmental purposes.

Recent experience in Europe (the OEEC Liberalization Programme) has shown that in certain circumstances, new preferential arrangements within a geographical area have had beneficial results. It may well be that an extension of the principle of preferences may be relied on in connexion with European coal and steel arrangements. These do not appear to be compatible with the No New Preference rule.

We must draw attention to the inconsistency which presumes our support for a Customs Union or OEEC preferential arrangements while refusing us any right to adjust the terms of our own system.

GATT does not recognize the valuable and healthy influence which preferences have had in the past on the economic development of the countries concerned, with large consequential benefit to world trade. Furthermore, it rejects in summary fashion the possibility that preferences may play such a rôle in the future.

For these reasons the Australian Government, early in this Review Session, draws attention of the Contracting Parties to this defect in GATT. It expresses in particular the view that it is completely unrealistic to attempt to bind all preference margins against increase for the entire life of GATT. It points out that no effective compensation has ever been received for what amounts to a unilateral binding of its preferences.

Subsidies

(a) Export Subsidies

I turn now to the question of export subsidies. Australia regards the question of export subsidies - particularly on foodstuffs and raw materials - as one of the most serious and urgent issues with which the Contracting Parties will have to deal at this Review Session. The GATT and the ITO Charter both have application to surplus disposals through provisions on subsidies, which include any form of price support.
The failure of the ITO Charter (specifically Articles 25-28) has left only Article XVI of the GATT to which exporters can look for protection from the ill effects upon their trade of export subsidy policies of other countries. A glance at this Article even without the experience of the last few years shows quite clearly how ineffective GATT as at present constituted is likely to be.

The Charter Articles were intended to outlaw those subsidies which have the effect of giving a country an undue share of total exports in the commodity concerned, and thus seriously prejudicing the interests of another contracting party. They were designed to oblige a country granting a subsidy on a primary commodity to cooperate in attempts to negotiate an international commodity agreement, and to provide that a subsidy should not give the country applying it more than an equitable share of international trade.

The present GATT provisions in this field are weak. They are confined to a requirement for consultation about those subsidies which tend to increase exports and about the right of an importing country to apply countervailing duties where imports of subsidized goods threaten a local industry.

The value of countervailing duties is limited by the absence of any obligation on contracting parties generally, to preserve the interests in their markets of member countries competing with subsidized exports from other countries.

A GATT provision which merely requires the Contracting Parties to "discuss" is a totally inadequate safeguard for countries dependent largely upon the export of foodstuffs and primary products. In our view, it is essential as a first step that the Charter provisions, mainly those in Articles 26-28, be incorporated in GATT in appropriate form.

As an additional safeguard, the problem of dealing with subsidies in GATT should also be tackled from the importer's end. An obligation on exporting countries to refrain from using harmful export subsidies or from disposing of surpluses in a manner prejudicial to other exporters is not an adequate safeguard. In fact, under certain conditions it may not be a safeguard at all.

Emphasis has been given to the necessity for assuring fair import trade policies on the part of creditor countries under conditions of convertibility. This is very necessary but these policies must be matched by fair export policies by such countries.

Australia as an exporter of wheat, dairy products, canned goods and the like needs no great prescience to realize what might result from bargain sales to her traditional markets. The predicament is not confined to foodstuffs. Many other countries are also likely to be in the same situation in respect of other commodities.
Contracting parties who may be immediate beneficiaries of bargain-counter sales must realize that short-term advantages must be followed by downward adjustments to their own export trade. These adjustments would not only cancel out the temporary benefits of cheap food, and cheap raw materials, but would set in train a series of economic reactions which would leave them immeasurably worse off than if they had never received their "bargains". In short, the economies of many countries must be seriously impaired if world-trade patterns are to be distorted by uneconomic export subsidies with which they cannot possibly compete. Such subsidy policies are frequently necessitated by high domestic price-support programmes.

Under these circumstances, Australia will propose that GATT should not only impose an obligation on exporting countries to refrain from using export subsidies or disposing of surpluses in a manner prejudicial to other exporters, but should also place an obligation on importing countries to impose measures to protect the interest of third countries against subsidized goods disrupting their markets.

Finally, in the situation which exists at present - where large surpluses already exist or threaten to accumulate - GATT should set out safeguards governing the entry of surpluses into world trade and develop effective criteria for ensuring that subsidized goods do not obtain more than equitable shares of world trade.

(b) Domestic Subsidies

Australia would not argue that domestic subsidies of agricultural and other commodities are necessarily harmful to world trade.

It is clear, however, that they may operate in such a manner as to stimulate domestic production to the extent that trade opportunities of other contracting parties are impaired - or surpluses accumulated to an extent which affects confidence in world trade and prices.

They should, therefore, be subject to some kind of control equivalent in result, if not identical in form, to that operating in regard to tariffs and quantitative restrictions, and be subject to something more than formal reporting to the Contracting Parties.

There is no equity in a situation where certain countries are limited in their protection of secondary industry by either tariffs or quota restrictions, while other countries - principally the importers of foodstuffs and raw materials - are free to resort to the no less effective protective device of subsidies.

Commodity Arrangements

Australia considers that the vacancy in the commercial policy field created by the exclusion from GATT of the provisions of Chapter VI of the ITO Charter, is an appropriate subject for the present Review Session of GATT. Certainly,
the absence from GATT of positive provisions for effectively working-out arrangements designed to prevent in a measure the disequilibrium between production and consumption, the accumulation of burdensome stocks, and pronounced fluctuations in prices of primary products was not contemplated by Australia back in 1947.

While Chapter VI of the ITO Charter might be a starting point for drafting, Australia, in the light of the experience of international commodity agreements in the postwar period, considers that a number of additions or amendments may be necessary.

For example, I refer to two aspects of commodity policy where the ITO Charter falls short of what Australia would regard as desirable.

Commodity control agreements can only be concluded in harmony with Chapter VI of the ITO Charter in conditions of burdensome surpluses. This prerequisite condition of burdensome surpluses applies to agreements regulating prices as well as those controlling production and marketing. It is suggested that it would be desirable to reconsider this aspect.

The view is strongly held by Australia that, if the real purpose of commodity agreements is to prevent persistent disequilibrium between production and consumption and avoid pronounced fluctuations in price, then such commodity agreements must be effected in some cases in conditions where no accumulation of burdensome stocks actually exists. The justification for an agreement in such a case would lie in the previous history of supply, demand and price, in respect of the commodity concerned.

Both the ITO Charter and GATT have recognized that special difficulties exist for countries which are mainly exporters of primary commodities. Both concede that inter-governmental commodity agreements may be warranted, but the principles of Chapter VI make their achievement more difficult than necessary. Firstly, the procedural requirements are so cumbersome as to inhibit a quick settling down to the negotiation of terms of an agreement. Secondly, the principles governing participation are too universal; it should be open to smaller groups of countries (importing and exporting) to initiate agreements, upon terms which would not offend fair trading practices.

Further, it should not be impossible to envisage agreements among producer countries provided these comply with criteria laid down by GATT.

We are conscious of some confusion in existing and proposed international machinery for dealing with commodity problems. We recognize the valuable work already being done by FAO and we understand the anxieties which led to the recent ECOSOC decision to establish a Permanent Advisory Commission on International Commodity Trade. Again, there is the Interim Coordinating Committee for International Commodity Arrangements. To suggest that GATT has a rôle may seem, at first blush, to add to the confusion. We firmly believe, however,
that the 1947 debates were on right lines and that GATT should have a provision which would make possible the development of effective principles and procedures for consultation and action on commodity problems. We will ask that the Review Session attend to this question - including, if necessary, the problem of overlapping among international bodies - concurrently with the other important matters before it.

Quantitative Import Restrictions for Balance-of-Payments Reasons

Certain contracting parties have said they consider that, in framing long-term trade rules to be applied in a convertible world, conditions more stringent than those in the existing GATT should be laid down to regulate the application of quantitative import restrictions on balance-of-payments grounds.

It has been suggested that such a tightening-up of the existing provisions might take the form that countries imposing such restrictions should be required not merely to consult with the Contracting Parties about them but to seek without delay the approval of the Contracting Parties for them and, if such approval were not forthcoming, to withdraw them. It has also been advocated that no restrictions imposed for balance-of-payments reasons should be allowed to be retained for longer than a fixed period.

My Government could not accept any greater limitations than those imposed by the existing GATT Articles on its freedom to apply quantitative import restrictions, deemed necessary in order to protect the national solvency. Nor could my Government agree that the duration of the application of such import restrictions should be determined by mere reference to the calendar, irrespective of the economic circumstances at the time.

These are objections of principle which my Government would regard as fundamental.

It is obvious that some countries are much more vulnerable to fluctuations in their balance of payments than others.

Australia is dependent for her export income mainly on wool, wheat and other primary products.

Seasonal considerations affect the volume of these exports and their value is subject to even more violent changes because of movements in world prices, particularly of wool.

To illustrate the scale of the swings that can take place in the Australian balance of payments, I might mention that in 1950/51 the surplus on current account was £A 104 million. In the following year, 1951/52, this was transformed into a deficit of no less than £A 583 million, i.e., a swing in one year of £A 687 million, equivalent approximately to the total export earnings of what might be termed a reasonable export year.
So far as Australia is concerned there is in any case a tendency for pressure to be exerted on the balance of payments by the very pace with which, for the highest political and strategic reasons, we have been pushing ahead with our economic development and encouraging a large intake of new migrants. The experience of early 1952 has established in our minds the strong conviction that when a Government is confronted with a balance-of-payments crisis, it must in the last resort be able to exercise its own judgment on the need to place quantitative restrictions on the flow of imports and on the extent of such restriction required to protect its solvency.

At the same time, Australia recognizes the need for some safeguards against the abuse of quantitative import restrictions. The existing GATT Articles were carefully drawn up with the dual objective of meeting the needs of countries in genuine balance-of-payments difficulties, and at the same time, of bringing pressure to bear on countries making improper use of the balance-of-payments escape clause. We do not consider that any case for amendment of these particular clauses of the GATT has been established.

There is also a suggestion that the GATT Articles should be revised in order to provide "improved coordination" between the IMF and the GATT Contracting Parties in the matter of restrictions imposed to protect the balance of payments.

If "improved coordination" means giving to the Fund greater powers in respect of trade questions than are now provided in GATT, my Government would not be able to entertain the proposal. The existing GATT Articles already adequately provide for close cooperation and consultation between the Contracting Parties and the Fund. We entirely support the view that the Contracting Parties should look to the Fund for information about the ascertainable facts of the financial position of countries invoking the balance-of-payments escape clause. However, we see no need to go beyond this.

In a balance-of-payments emergency, broad judgments have to be made not merely about the past but also about the probable trend of future events, the adequacy of available reserves and the all-important question of what has been called "the confidence factor". The Government of the country confronted with the problem must make the judgment in the first place and, if other countries consider that the action taken is unjustifiable or unduly damaging to their trade interests, the right of challenge and adequate consultation provisions are written into the existing GATT Articles. If we are to have an international trade organization, it cannot be a subordinate body.

**Conclusion**

I have now reviewed major issues of concern to Australia. There will be other particular points including an amendment to Article XX to ensure our right by quantitative restrictions on exports to conserve natural resources. These questions will be raised in appropriate Committees.
We have approached this Review Session confident that we have good cause to seek important amendments in, and additions to, the terms of GATT. While far from satisfied that GATT in its present form meets Australia's national interests, our criticisms have not been advanced in any carping spirit. They flow directly from real policy needs and experience. Moreover, the criticisms are not meant to destroy. Australia would prefer a revised GATT which will enable it to recognize and operate a manageable set of fair trading rules. We need to be able to negotiate trading relations which, while recognizing and complying with agreements made, will enable a tariff structure and trade arrangements more in keeping with the changing economic situation.

We therefore commend to the consideration of the Contracting Parties the changes we are putting forward in the belief that they will result in a more complete instrument, and a more acceptable and manageable set of international trade rules which will foster and protect an increase in multilateral trade.

We realize we are not alone in seeking changes impelled by our national interests. Moreover, there may well be controversial debate before the interests and needs of all are reconciled in a new GATT.

The final position of the Australian Government in GATT will be determined by the scope and content of any new document. Meanwhile, the Australian delegation will play a constructive role in the work of the Conference in the common effort to produce an Agreement which all governments, my own included, will regard as a realistic and acceptable instrument.

END