GENERAL AGREEMENT ON TARIFFS AND TRADE

CONTRACTING PARTIES
Sixth Session

SUMMARY RECORD OF THE SIXTEENTH MEETING

Held at the Palais des Nations, Geneva, on Saturday, 29 September 1951 at 10 a.m.

Chairman: Mr. Johan MELLANDER (Norway)

Subject discussed: Balance of Payments Restrictions (continued)

Balance-of-payments Restrictions (continued)

Dr. van BLANKENSTEIN (Netherlands) said he was generally in agreement with the draft prepared by the Secretariat and certainly with the conclusion that greater progress in promoting trade would be obtained under a system of multilateralism. Unfortunately the General Agreement did not touch upon all of the fundamental problems at the root of present difficulties; it recognized the symptoms and attempted to alleviate some of the ills, but it did not remove the causes. He stressed this particularly in view of the Canadian delegate's reproach to the countries whose production had increased since the war but which had not proportionately relaxed their restrictions. Experience had shown that increased production was not the only problem to be solved; even more important causes of the monetary unbalance were to be found in the problems of internal financial equilibrium, the quickly-shifting scene in the world economy and the attempts of various countries to protect their national interests against the effects of these changes.

The report referred (page 40) to the question of tariffs. The Netherlands had always felt that there was a lack of balance in the General Agreement between the condemnation of quantitative restrictions and the tolerance of high tariffs. Customs duties were often a greater barrier to trade than quantitative restrictions and his delegation would like to see high tariffs included among the obstacles to the removal of restrictions. It was, of course, the aim of the Netherlands Government eventually to do away with restrictions.

When countries could procure enough of other currencies, the controls did not necessarily restrict trade, but where there was a shortage and it could not be denied that there still existed a dollar shortage, the restrictions necessarily hindered imports, particularly of finished goods. He did not intend to repeat the well-known reasons, but only to add the consideration that it was often difficult for manufacturers in soft-currency countries to obtain raw materials from markets which were open to hard-currency manufacturers. He considered the report somewhat less than fair.
in its reference to bilateral agreements (page 26). Such agreements aimed not only at a balance of trade but frequently also at a balance of payments. The Netherlands Government agreed that bilateralism was an expedient to be used no longer than absolutely necessary but in fairness, it should be stated that bilateral agreements had helped to revive trade after the war. In many cases also they had permitted the continuance of certain so-called non-essential industries and the preservation of the crafts and skills involved.

Dr. van Blankenstein thought that the view expressed in the draft that the official mind was unadaptable was unduly pessimistic; the substantial liberalisation of trade presently taking place in Europe showed that the contrary was true. The draft concluded by referring to the danger that protectionism would be a result of the quantitative restrictions. It was true that many countries, his among them, felt it necessary to protect new industries. The Netherlands however considered that protectionist measures should conform to the terms of Article XVIII, should be temporary, cover only exceptional cases and a small proportion of a country's trade. For this purpose quantitative restrictions were, in the view of his Government, a more suitable instrument than tariffs because they were by their nature temporary.

Mr. BORRESEN (Norway) thought that all contracting parties had agreed that import restrictions had been a necessary instrument to achieve rapid reconstruction and expansion of production after the war. Lack of convertibility made it impossible freely to exchange goods between countries and the absolute necessity for Norway to apply restrictions was beyond doubt. His Government had to give priority to the import of capital goods to build up the most important exporting industries and to restore the shipping industry. Only thus could his country hope to pay for imports. He wished to stress that the restrictions had been applied in accordance with Article XII and certainly not from protectionist motives. There had been considerable improvement since the end of the war and gradually some restrictions were being removed. In view of the general difficulties the progress in this way had not been negligible. The South African delegate had referred to the growth of bilateralism, but Mr. Borresen thought that important steps away from bilateralism had been taken by European countries. The methods of bilateral trading had altered the situation and added to the complexity of the problems. Certainly all contracting parties should aim at the achievement of complete liberalisation of trade as far as compatible with their general economic objectives. On the question of the consultations under Article XIV his delegation attached great importance to coordination of the work of the Fund and the Contracting Parties.

Mr. PEREZ CISNEROS (Cuba) said that his Government considered the question of quantitative restrictions one of the highest importance. Cuba was one of the few countries in the fortunate position of not having to invoke Article XII, but his Government had, since 1947, shown great interest and sympathy in the problem of general economic disequilibrium. At the time of the drafting of the General Agreement, and then later in the Contracting Parties, his Government had exhibited understanding of the balance of payments difficulties of many countries. They felt that their present international commercial policy was making a contribution to the return to multilateral trade by giving other countries the opportunity to earn dollars in Cuba through the suspension of certain preferences with the United States.
His Government, however, was concerned at the fact that, although the situation had considerably improved, many countries had failed to relax restrictions which affected the general level of world trade and the exports of many individual contracting parties. He would question, along with the Canadian delegate, whether the balance-of-payment situation would not allow some relaxation of these restrictions. The present state of affairs and the rearmament programme certainly created difficulties for many countries, but on the other hand there were countries which, as a result of this situation, showed an important increase in their monetary reserves and thus, under the Agreement, were no longer justified in maintaining their restrictions. The countries which had agreed in Geneva and Havana to the exceptions contained in Article XII had believed that they would be only of a temporary character. Four years had passed since that time and the restrictions were increasing and becoming permanent. Any conclusion by the Contracting Parties that the restrictions must continue would cause serious difficulties for many countries. Such a state of affairs would be a marked rupture of the compromise which had been negotiated four years ago, and would result in placing several countries, not invoking Article XII, in serious balance-of-payment difficulties. He hoped, therefore, that the Contracting Parties would seriously examine the problem and that some action or procedure for action would be adopted at this Session. The interest of his Government in the whole matter was one of the reasons why Cuba had supported the proposal for the continuing administration of the Agreement.

Mr. LECUYER (France) disagreed with the United Kingdom delegate that tables of balances of payments should not be included. It was important for the Contracting Parties to have a complete picture of the situation of the balance of payments and monetary reserves of the various countries. Nor could he agree with the remark of the South African delegate that there was an increased tendency to bilateralism. The Netherlands delegate had commented on this matter and he merely wished to emphasise that in Europe the programme of liberalisation through the Organization for European Economic Cooperation was narrowing very considerably the scope of bilateral agreements.

Mr. PRESS (New Zealand) said that the working party should consider the technical details but he was glad of the opportunity that had been given to contracting parties to express their general attitudes on these questions. The policy of the New Zealand Government was directed toward the eventual elimination of quantitative restrictions; in fact, within a very short period the non-discriminatory restrictions had been removed from over 80% of imports from other than hard-currency areas, and further progress would be made. The picture of the discriminatory application of restrictions was less bright. All countries must regret the impossibility of making more progress in the elimination of the latter and he did not consider that there was any real disagreement between the countries forced to apply discriminatory restrictions and the other countries such as Canada. No country had any stake in maintaining restrictions. The unfortunate experience of hasty and premature removal of controls, however, had led his Government to feel that the net result of a rapid removal would be a step backward which would more than cancel any advantages resulting therefrom. Until there was a definite and permanent improvement in the conditions which were responsible for the application of restrictions the best way to approach the problem was by gradual relaxation.
New Zealand had a very high stake in multilateral trade as they exported a limited number of products to limited markets and imported a great variety of products from many different sources. Certainly the ultimate objective was multilateral trade and free convertibility, and his delegation believed that the present manner of moving towards that objective was less dangerous than a hasty removal of discriminatory restrictions.

Mr. KASTOFT (Denmark) stated the Danish opinion on the possibility of making further progress in the abolition of quantitative restrictions. Circumstances had forced his country to establish a system of quantitative restrictions to safeguard their balance of payments, but it should be remembered that their customs tariff remained the lowest in the world; nor should it be forgotten that protectionist tariffs often had much the same effect as quantitative restrictions. The Contracting Parties should try to be realistic in their present evaluation of the situation, and premature action might cause damage difficult to repair. The distinction between structural problems and temporary difficulties should be borne in mind; the countries of Western Europe had made good progress during recent years in dealing with the former, but the past year and a half had unfortunately brought problems which could be safely described as temporary difficulties. He referred to the sharp deterioration in the terms of trade of Denmark since the second quarter of 1950 and to the development in the raw material producing countries where a marked improvement in the balance of payments situation could be seen. Such differences would continue as long as some countries were faced with structural problems and well-balanced international economy had not developed. The problem should also be seen in connection with another main objective of the Havana Charter, namely full employment. To a certain extent there was a choice between liberalisation of trade and a policy of full employment and no country could be blamed for giving priority to the latter.

Mr. Kastoft stressed the view that for several countries, among them Denmark, convertibility was the fundamental condition for the abolition of discrimination. Probably in no circumstances could Denmark ever reach a balance in trade or payments with the dollar area, and so long as it was not possible to convert surpluses earned with other areas, discrimination would be a necessity for his country. In conclusion, he suggested that realism, combined with a certain amount of optimism, would enable the Contracting Parties to reach their objective before very long.

Mr. ARGYROPOULOS (Greece) considered that the report of the Secretariat had given rise to a very interesting debate. He had been particularly struck by the statements of the South African and Canadian delegates on multilateralism. Certainly multilateralism was the only possible objective for all contracting parties, but unhappily it presupposed conditions which did not at present exist. It had been said that the 1947 forecasts had not been realised. In the case of his own country the war had been followed by a new war which created further ruin and resulted in a most precarious economic situation. The trade balance deficit was twice what it had been before the war and the invisible earnings needed to make up the deficit had decreased even more. The Greek case was certainly an extreme one, but many other countries were also faced with grave difficulties in their internal and external economic relations.
To eliminate immediately all restrictions would probably cause a far worse situation. In any case the action of individual countries at the present time depended heavily on the action of the whole community of nations. No country could gain by another's difficulties and the United States aid was one of the proofs of the present need for international solidarity. In the circumstances, many expedients had been tried, among them bilateral agreements and collective agreements. The first had often made it possible to obtain products from nearby countries without expending hard currency, and he would cite, as an example of the success of the latter, the case of the European countries where convertibility was re-established through the Payments Union. These expedients were only means to get past the present difficult situation and no one denied that the re-establishment of multilateralism was the ultimate goal. But it would be unwise to move too rapidly in that direction, and in aiming for the ideal the Contracting Parties should not lose sight of present difficulties.

Mr. PERARA (Ceylon) said that Ceylon had removed nearly all quantitative restrictions and had substantially relaxed the discriminatory application of those that remained. In his country there was still a sharp controversy between those who favoured the removal of controls and those who considered it extremely unwise. The latter attitude was hardly to be wondered at in view of the events of 1948 and 1949, and moral distinctions between the two attitudes should not be drawn. In fact he would state quite frankly that it was only the outbreak of war in Korea that had so improved the economic situation in Ceylon. The United States delegate had suggested that less emphasis should be laid on the United States role in stockpiling, but much of the present improved position of Ceylon was due to the stockpiling by the United States. Surely it was clear that the problem was a complex one, and not as easy to solve as the Canadian delegate had implied. Countries had not yet reached the equilibrium that had been envisaged by the framers of the Agreement and they must move with caution.

The meeting adjourned at 12.30 p.m.