"International Trade - 1955" is being prepared and, prior to publication, copies of the draft are being sent to contrasting parties.

The draft of Part III describing the principal activities of the CONTRACTING PARTIES is attached hereto. Any contracting party wishing to make suggestions is requested to do so not later than 15 April.

The drafts of Part I, describing developments in international trade, and of Part II, dealing with tariffs, quantitative restrictions and export promotion, will be distributed shortly.
PART III

ACTIVITIES OF THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The CONTRACTING PARTIES held their Tenth Session from 27 October to 3 December 1955. They have an increasing volume of business requiring attention at their annual sessions and altogether some forty-five items were dealt with at the Tenth Session. This agenda included procedures for the 1956 Tariff Conference, the annual consultations on the discriminatory use of quantitative restrictions, commodity arrangements and the disposal of surplus stocks, in addition to reports on waivers granted to contracting parties and differences between governments concerning the interpretation of their rights and obligations under the General Agreement.

The Protocols of amendment and the Agreement establishing an Organization for Trade Cooperation, which were drawn up at the Ninth Session following the review of the operation of the Agreement from 1948 to 1954, have been signed by the United Kingdom and several other governments but not by a sufficient number to bring them into force. If the United States Congress approves participation by the United States in the proposed Organization, as recommended by the President, it is expected that the Protocols and the Agreement will enter into force by the time of the Eleventh Session, which opens on 11 October 1956.

THE 1956 TARIFF CONFERENCE

As this report is being written, twenty-five contracting parties are engaged in another multilateral conference for the reduction of customs tariffs. This conference has been arranged by the CONTRACTING PARTIES to renew the attack on tariff barriers begun at Geneva in 1947 and continued at Annecy in 1949, at Torquay in 1951 and in connexion with the accession of Japan in 1955. The results will supplement the extensive achievements of those earlier conferences.

The 1956 Conference comes at a time when considerable progress has been made in the relaxation of quantitative import restrictions and thus constitutes a part of a broad effort to reduce trade barriers generally. It has its place also in the development of co-operation among European countries which finds its expression both in GATT and in the OEEC. From the European point of view the conference can have important results in reducing the disparity in tariff levels in Europe and in improving accessibility to the markets of North America.

Special interest is given to this conference by the powers accorded by the United States Congress to the President to reduce rates of duty by 15 per cent and to bring down to 50 per cent any duties which have a higher
incidence. The reductions accorded by the United States will be made effective in equal instalments over a period of three years. Other participating countries have no such legal limitations on the extent of the concessions they may grant.

For several years the CONTRACTING PARTIES have endeavoured to devise an improved scheme for tariff reduction to replace the method used in previous conferences of negotiating bilaterally on a product-by-product basis. The governments were not able to accept the proposed changes for the conduct of the present conference, but the usual procedures have been modified on some points. For instance, the terms of reference of the tariff negotiations committee, which is an organ of the conference, have been extended to enable it to assist the participating governments in obtaining the maximum practicable results from their negotiations, inter alia by reviewing from time to time the offers of concessions made by each government to all other participants and by arranging, whenever necessary, for triangular or multilateral negotiations on particular items. The reduction of customs tariffs and the removal of other barriers to trade is a gradual process, and the present conference promises to be a further important step towards the achievement of the objectives of the General Agreement.

QUANTITATIVE RESTRICTIONS

The elimination of import quota and licensing controls continues to be one of the main preoccupations of the CONTRACTING PARTIES. Restrictions on balance-of-payments grounds have, on the whole, been substantially relaxed in recent years, although the restriction of imports requiring payment in dollars remains an important element in the commercial policy of many countries. The developments in the application of balance-of-payments restrictions were examined at the Tenth Session.

The restrictions imposed on importation to protect balances of payments and monetary reserves have persisted beyond the period envisaged when the Agreement was drafted. During the review at the Ninth Session, the CONTRACTING PARTIES looked forward to the time when these restrictions will be eliminated but recognized that there will inevitably be difficulty in removing those restrictions which have afforded incidental protection and have fostered the development of domestic production. Accordingly, they provided that in certain circumstances they would waive the obligations of the Agreement for the elimination of quantitative restrictions in order to allow for a limited period the maintenance of restrictions on particular products to enable an industry to adjust itself to the situation which will arise when the restrictions are no longer justified on balance-of-payments grounds. By this arrangement the CONTRACTING PARTIES have provided for the progressive removal of balance-of-payments restrictions including the so-called "hard core" whose sudden elimination would cause distress. In examining an application by Belgium for concurrence in the maintenance of restrictions on certain agricultural products they took the first step in getting rid of the "hard core".
(i) Restrictions of imports for balance-of-payments reasons

A contracting party which substantially intensified its balance-of-payments restrictions is required to consult with the CONTRACTING PARTIES. The only such consultations held in 1955 were those with the Government of Australia which tightened its control of importation from both dollar and non-dollar countries. Australia's representatives described the economic and commercial policies and the long-term measures which were designed to raise productivity and export earnings. The Australian Government was endeavouring to maintain full and productive employment in addition to a high rate of immigration and to ensure the rapid development of resources. When it became evident in 1955 that foreign exchange reserves would fall below a level considered desirable, as a result first of heavy purchases from abroad and later of falling wool prices, the Government had decided to take a number of internal measures to restore equilibrium. In order to arrest the sharp fall of monetary reserves and to give time for the internal measures to take effect, restrictions on imports had had to be tightened. But it remained the policy of Australia to work towards removing the need for import control and to adopt internal measures which would assist towards that end. The consultations with Australia were concluded in July and December.

Twenty-five of the thirty-five contracting parties still maintain quantitative restrictions for balance-of-payments reasons, and twenty-three of those are applying their restrictions in a manner which discriminates among sources of supply as permitted under the terms of the Agreement during a transitional period. Countries which have resorted to certain of the provisions for the continuance of discrimination are required to consult annually with the CONTRACTING PARTIES. Consultations of this nature were conducted with five contracting parties at the Tenth Session.

Both in the consultations with Australia and in those on the discriminatory application of restrictions, the CONTRACTING PARTIES developed a technique for a more thorough examination of the balance-of-payment difficulties of the countries concerned, of the internal and trade measures taken to cope with those difficulties and of the effects of the restrictions on the trade of other contracting parties. The new methods adopted should yield good results in the greater effectiveness of consultations in future.

The discriminatory practices referred to above are the subject of an annual report by the CONTRACTING PARTIES. In their 1955 report, they noted that a number of contracting parties, including the United Kingdom,

1 The sixth annual report on discrimination, which includes a brief description of the systems in force in the twenty-three countries, has been published in the Fourth Supplement to the Basic Instruments and Selected Documents.
Western Germany, Sweden and Denmark, had introduced a further relaxation of their restrictions on imports from dollar countries thus freeing a substantial part of their imports from the dollar area. In addition to the formal measures adopted in these countries, it appears that the degree of discrimination against dollar imports has been reduced through a more liberal grant of import licences. The progress made in the relaxation of restrictions discriminating against dollar imports has not uniformly benefited the various classes of goods; generally the freer facilities for importation are available for industrial raw materials and other basic commodities, while many manufactured products remain subject to discriminatory restriction. The CONTRACTING PARTIES commented in their report that the relaxation of dollar restrictions by major trading countries should facilitate the adjustment process which will follow the eventual restoration of convertibility of their currencies.

The controls directed against imports from dollar countries, however, are not the only feature of discrimination in the application of balance-of-payments restrictions. For example, the removal or relaxation of restrictions by members of the Organization for European Economic Co-operation has not been uniformly extended to all sterling countries, although, through the United Kingdom's participation in the European Payments Union, their currencies and those of member countries are freely transferable. Regional non-dollar discrimination is becoming less justifiable with the widening of the transferability of currencies and its removal would be in accord with the objectives of the General Agreement.

Many countries continue to negotiate bilateral agreements for the exchange of products, thus practising further discrimination in the non-dollar sector of their trade. These agreements prevent the full play of competitive factors in the selection of sources of supply. Many agreements are renewed from year to year as a means of maintaining favoured markets for particular exports or of preventing competitive forces from bringing about a decline in the prices of these exports. A substantial part of the trade between certain West European countries and many countries of Latin America and also some in Asia, as well as part of the non-liberalized portion of intra-European trade, is still governed by bilateral trade agreements. Another form of bilateral agreement is that which arranges for an exchange of products with state-trading countries.

Although the end of these discriminatory policies - against dollar goods, between groups of non-dollar countries and through bilateral agreements - cannot be foreseen in the immediate future, the CONTRACTING PARTIES noted that many countries are now seeking a solution for their balance-of-payments difficulties in internal fiscal and economic measures rather than by the intensification of restrictions. The CONTRACTING PARTIES again urged countries to recognize that restrictions have an incidental protective effect and that, if maintained for a long period, they may accentuate the
balance-of-payments difficulties and prolong them. In conclusion the report re-emphasized the view of the CONTRACTING PARTIES that discriminatory restrictions cannot provide a satisfactory solution to these difficulties and that delay in their removal may postpone indefinitely the achievement of non-discrimination and the full benefits of multilateral trade.

(ii) Restriction of agricultural imports by Belgium

The application for concurrence under the "hard core" waiver submitted by the Government of Belgium related to imports of certain agricultural and a few fisheries products. Belgian agriculture is composed largely of very small holdings and the costs of production are relatively high. To assist the farming community the Government fixes standard prices and maintains these by protective measures. Alternative methods of aiding agriculture are not considered practicable at the present time; since domestic producers supply the bulk of requirements, subsidies would be too heavy a charge on the state finances and Belgium's freedom to adjust customs duties is limited by the special arrangements with her partners in the Benelux Customs Union. The Belgian Government has established a fund for the purpose of making Belgian agriculture more competitive and has entered into an agreement with the Netherlands which provides for the harmonization of the agricultural policies of the two countries.

The CONTRACTING PARTIES concluded that there was a reasonable prospect that the restrictions would be eliminated within a comparatively short period and agreed to meet the Belgian request by concurring in their maintenance until the end of 1960 and, if necessary, for two years beyond that date. This covers the restrictions, many of them seasonal, on various products including meat, dairy products, vegetables and fruit. The CONTRACTING PARTIES will review annually the progress made in the relaxation of these restrictions on the basis of reports submitted by the Belgian Government.

In this connexion mention should be made of the application submitted by the Government of Luxemburg for the maintenance of import restrictions on a variety of farm products. As in the case of Belgium, these affect trade with Luxemburg's partners in the Benelux Customs Union as well as trade with other countries. The CONTRACTING PARTIES recognized that the Luxemburg case was unique and granted a waiver for an indefinite period. Luxemburg will, however, submit an annual statement on the restrictions maintained, and the situation will be reviewed in 1960.
COMMODITIES

During the review of the General Agreement at their Ninth Session, the CONTRACTING PARTIES considered a proposal that provisions along the lines of Chapter VI of the Havana Charter for an International Trade Organization should be inserted in the Agreement. A majority of the contracting parties opposed the inclusion of these provisions but considered that some provision should be made for dealing with the problem of wide fluctuations in the prices of commodities which account for a large part of international trade. Reflecting the views of the majority, the CONTRACTING PARTIES considered what, if any, intergovernmental action should be taken and appointed a working party to study procedures. A report submitted to the Tenth Session included a draft agreement to govern the future negotiation of commodity arrangements. Some points of difference remain on important provisions of the draft and will be studied further during the current year.

DISPOSAL OF SURPLUSES

During the review of the Agreement at the Ninth Session many contracting parties were in favour of inserting an article governing the disposal of agricultural surplus commodities. The CONTRACTING PARTIES recognized that surpluses are likely to arise from time to time but instead of including a specific provision they adopted a Resolution calling upon governments when liquidating agricultural surpluses not to disturb world markets and to engage in consultations with other principal suppliers in order to avoid causing damage to their interests. The actions of governments and the development of consultation procedures, subsequent to the adoption of this Resolution in March 1955, were reviewed at the Tenth Session.

At the present time the main surplus problem is in the United States where large stocks of various agricultural products have been purchased by the Commodity Credit Corporation. The stocks of several commodities - cotton, wheat and other grains - have increased, while stocks of dairy products, linseed oil and sugar have been somewhat reduced, but the total investment of the CCC on 30 June 1955 was about 15 per cent higher than a year earlier. Programmes for the disposal of these surpluses - by sale on world markets, by gifts in aid, by agreements with other governments and by stimulating domestic consumption - were described by the United States representative.1

1 These programmes are described in the section of this report dealing with export promotion (see page ...).
During the discussion of this question, it was suggested that in no circumstances should surpluses be destroyed and that relief programmes and, generally, the movement of surpluses into consumption were desirable. Contracting parties recognized that the best solution for the problem would be to bring about an increase in effective demand both in the country holding the stocks and in other countries. It was suggested that the sale of surplus stocks which displace ordinary commercial sales by other exporting countries would cause the accumulation of surpluses elsewhere and deprive those countries of export income thus intensifying their payment difficulties. The contracting parties principally affected by the disposal of agricultural surpluses expressed disappointment that the United States had not used the consultation procedure more extensively and had not dealt more effectively with the fundamental causes of the accumulation of stocks.

Another aspect of United States agricultural policy was examined by the Contracting Parties in connexion with the action taken by the United States Government under the waiver granted in March 1955 which permits the imposition of quotas and fees on imports of agricultural products to protect price support programmes as required by the Agricultural Adjustment Act. It was noted that the import restrictions on oats, barley, almonds and filberts had been removed and that it is the United States Government's intention to terminate the restrictions as soon as they are no longer required to protect these programmes.
One of the objectives of the CONTRACTING PARTIES is to conduct their trade and economic relations in such a way as to raise living standards and to develop the full use of the world's resources. To this end the CONTRACTING PARTIES have recognized, both in the drafting of the Agreement and in its application, the need for flexibility to meet the situation of countries faced with economic development problems. Three applications for authority to use special measures for development purposes were considered at the Tenth Session: authority was granted to Ceylon to give special protection to two new industries and to Australia and Italy to grant exceptional facilities to imports of certain products from Papua - New Guinea and Libya, respectively.

(i) **Permits granted to Ceylon**

On several occasions Ceylon has had recourse to the provisions which envisage the use of measures, otherwise inconsistent with the Agreement, to promote the establishment of particular industries. Authority was granted to assist several industries by requiring importers of competing goods to purchase certain quantities of the domestic product. In 1955 Ceylon was granted a similar release for ceramic ware, and, also a release for the imposition of quantitative restrictions on petroleum products.

A new factory has been established in Ceylon to process indigenous deposits of kaolin, felspar and quartz in the manufacture of chinaware and porcelain. The CONTRACTING PARTIES accepted the view of the Ceylonese Government that the development of this manufacture would bring a fuller and more economic use of Ceylon's natural resources and manpower and was unlikely to have any lasting harmful effect on international trade.

Under this release Ceylon may, for a period of five years, require importers of certain chinaware and porcelain, before they can obtain a licence for importation, to purchase a determined quantity of the output of the new factory.

Secondly, the Government of Ceylon sought a release to impose restrictions on imports of petroleum products in order to induce the companies which distribute these products in Ceylon to invest capital in constructing a refinery. The companies had agreed to build the refinery and to market the output in Ceylon at prices not exceeding the landed cost of imported products if a guarantee could be given that, if necessary, importation would be restricted. Under this release the Government of Ceylon will be free, for a period of ten years, to restrict imports of motor gasoline, kerosene, aviation turbine fuel, gas oil, marine diesel fuel, furnace oil and heavy fuel oil. The refinery is to begin operations before the end of 1950.
(ii) Australian imports from Papua - New Guinea

In 1953 the CONTRACTING PARTIES granted Australia a waiver from the obligations of the no-new-preference rule in order to accord duty-free treatment for primary products of the Trust Territory of Papua - New Guinea except for items on which Australia had granted tariff concessions in her GATT schedule. At that time the Australian Government was not able to specify the products to which special treatment might be accorded but wished to have the right to allow free importation in order to encourage the investment of Australian capital in industries which showed promise of development. More recently the Australian Tariff Board surveyed the timber resources of the Territory and recommended that imports of timber from the Territory should be exempt from customs duty. The most-favoured-nation duties on some timber products, however, were bound against increase in the Australian schedule. In order to implement the Board's recommendation the Australian Government applied for a further release to cover certain unprocessed and partly processed timber products. Under the new waiver the Australian Government is free to establish a preferential duty-free regime for plywood, veneers and certain other timber products of Papua-New Guinea.

(iii) Italian imports from Libya

In 1952 the CONTRACTING PARTIES authorized the Government of Italy to admit free of duty certain quantities of products exported from the newly-established United Kingdom of Libya which, under the commercial arrangements existing prior to the Second World War, were largely dependent upon the Italian market. This was envisaged as a provisional measure to assist in the development of the Libyan economy until such time as Libyan products could compete economically in world markets. When the waiver expired at the end of 1955 the Government of Italy, on the proposal of Libya, requested an extension for a further three-year period. The CONTRACTING PARTIES found, upon examining the annual reports submitted by Italy and Libya on the development of their trade, that some progress had been made in finding markets for Libyan products in other countries. The waiver was prolonged with requested modifications, until the end of 1958.

**EUROPEAN COAL AND STEEL COMMUNITY**

In November 1952 the CONTRACTING PARTIES granted a waiver from the most-favoured-nation provisions of the Agreement to permit the member States of the European Coal and Steel Community - France, Germany, Italy, Belgium, Netherlands and Luxemburg - to establish a common market for coal and steel products. This waiver, the most important granted by the CONTRACTING PARTIES, shows that the General Agreement does not stand in the way of the closer integration of the economies of contracting parties and has sufficient flexibility to recognize and facilitate genuine integration and to provide dispensation for special customs treatment.
The common market for coal, iron ore and scrap was established in February 1953, for ordinary steel in May 1953 and for special steel in August 1954. Each year during the "transitional" period the CONTRACTING PARTIES received an annual report from these six governments on steps taken towards the full application of the Treaty establishing the Community. This affords the contracting parties which are specially interested, either as exporters or importers, in international trade in coal and steel an opportunity each year to discuss with representatives of the member States and of the High Authority of the Community the operation of the Treaty and questions of trade and prices. The third annual report was examined by the CONTRACTING PARTIES at their Tenth Session.

Towards the end of 1954 and during 1955 the Italian Government reduced the rates of duty on imports of coke and steel from other member States which, under the provisions of the Treaty, it was allowed to maintain temporarily as exceptions to the rule of the common market. This reduction in the duties applied by Italy for trade within the Community, while the harmonization of the tariffs of the member States had not been brought about, was a disappointment to some exporting countries such as Austria and Sweden. Further, it had been expected that the Community would enter into tariff negotiations with third countries in which the latter would have an opportunity to seek concessions on individual products from the member States. No such negotiations took place in 1955, but it is possible that some agreement will be reached during the 1956 Tariff Conference.

The increase in the consumption of scrap in 1955 made it necessary for the member States to import substantial quantities and to bring exports almost to a halt. This situation was also of special concern to Austria and Sweden which traditionally relied upon the member States for their supplies of scrap. The representative of the High Authority indicated that arrangements had been made for changes in production techniques which should reduce the pressure on the world market for scrap and enable the member States to resume exportation.

In examining the third report the CONTRACTING PARTIES paid special attention to the export prices for steel, coal and coke in the light of the provisions of the waiver that the Community would take account of the interests of third countries as consumers of coal and steel products and would ensure that equitable prices are charged by its producers in markets outside the Community. As in preceding years, it was found that steel products were offered to certain markets at lower prices than to other destinations. Moreover it appeared that there had been a substantial and continuous increase in export steel prices since the beginning of 1954. The circumstances of production and trade were examined, but it was not possible to determine clearly the criteria upon which equity of prices should be judged – whether the export prices charged by Community producers should be compared with prices within the Community or with the export prices of other producing countries.
The CONTRACTING PARTIES recommended that the High Authority should take account of the views put forward and endeavour to ensure that third countries would benefit from improvements in the conditions of production in the Community. As for coal and coke prices, the Danish delegation asked for additional information to enable the CONTRACTING PARTIES to make a more thorough examination at the next session.

This examination again demonstrated the value of the annual review in helping to clarify misunderstandings in third countries and to resolve differences of opinion.
SETTLEMENT OF DIFFERENCES

The Sessions of the CONTRACTING PARTIES continue to provide an opportunity for the settlement of differences between governments concerning their rights and obligations under the General Agreement. At the Tenth Session, some complaints were settled by direct consultation between the governments concerned and in some cases the governments against which the complaints were brought recognized that their measures or actions were in conflict with the provisions of the Agreement and undertook their withdrawal or modification. Thus it was not necessary, as it had been in some previous years, to appoint a panel to examine complaints.

Eleven complaint items appeared on the agenda of the Tenth Session. Five of these were settled and withdrawn from the agenda:

(i) Swedish Anti-dumping Duties. As reported in International Trade 1954 a panel appointed at the Ninth Session examined the complaint by Italy that Sweden's anti-dumping duties on imports of certain nylon stockings were applied in a manner which was inconsistent with the provisions of the General Agreement. The CONTRACTING PARTIES recommended that the Swedish Government should consider ways and means of improving the administration of the relevant decree. In July 1955 the decree which was the subject of complaint was abrogated.

(ii) German Discrimination in Coal Imports. At the Ninth Session the United States Government had stated that the Federal Republic of Germany was applying restrictions on imports of coal in a manner inconsistent with Germany's obligations under the General Agreement. Bilateral consultations were held and at the Tenth Session the United States withdrew the complaint.

(iii) United States Subsidy on Exports of Oranges. At the Eighth and Ninth Sessions the Governments of Italy and South Africa claimed that the subsidy granted by the United States Government on exports of oranges had an injurious effect on their trade. At the Tenth Session the two governments reported that they had consulted with the Government of the United States and that the complaint could be withdrawn.

(iv) Italian Turnover Tax. The Government of the United Kingdom complained that the Italian general turnover tax was applied to imported pharmaceutical products at a rate higher than that applied to like domestic products. During the Session consultations proceeded between the two Governments and before the Session closed the representative of Italy announced that the rate applied to imported products would be reduced. In compliance with this undertaking the rate of tax was reduced on 1 January 1956, and the Government of the United Kingdom has advised that the question has been settled.
Italian Duties on Cheese. The Danish Government reported that the Government of Italy had increased the tariff rates on certain types of cheese, which had been bound in negotiations with Denmark in 1951, in breach of the procedures laid down in the General Agreement for the modification of concessions. Towards the close of the Session, however, the Danish representative reported that further negotiations had taken place and an agreement had been reached providing for compensatory concessions by Italy; the complaint, therefore, could be considered as settled.

Two complaints are under discussion between the contracting parties concerned and may be brought forward again:

Italian Import Duty on Greek Cotton. The Government of Greece brought a complaint that Italy was applying its import duties on raw cotton in a manner which resulted in a discrimination against the Greek product. The Italian delegate stated that the question was being studied by his Government which hoped that a satisfactory solution would be reached.

Hawaiian Regulations affecting the Sale of Imported Eggs. The Government of Australia contended that a law passed by the legislature of the United States Territory of Hawaii, requiring retailers dealing in imported eggs to display a sign reading "We sell foreign eggs", was contrary to the provisions of the General Agreement requiring that imported products should be accorded treatment no less favourable than that accorded to like products of national origin. However, in view of the fact that this measure is under consideration in the courts, Australia did not press the complaint at the Tenth Session.

In three cases the countries against which the complaints were lodged have undertaken to abrogate or amend the relevant laws or regulations. These will be examined again at the Eleventh Session in the light of action taken by the governments concerned.

French Special Temporary Compensation Tax on Imports. The compensation tax on imports of certain products from all foreign sources, imposed by the Government of France in April 1954 when withdrawing quantitative restrictions from the trade of members of the OEEC, was found at the Ninth Session to have increased the incidence of some customs charges and of some preferences in excess of the rates or margins permitted. The French Government undertook to remove the tax as soon as possible, and the CONTRACTING PARTIES recommended that France should reduce the discrimination against the trade of contracting parties whose exports were still subject to quantitative restriction.
At the Tenth Session the CONTRACTING PARTIES found that the tax had been removed from some items and that on others the rate of tax had been reduced. They reaffirmed the views expressed in January 1955 and recorded their disappointment that progress in removing the tax had not been more rapid. The CONTRACTING PARTIES requested the French Government to proceed more rapidly with the removal of the tax and with the reduction of its discriminatory effects. The steps taken by the French Government towards this end are being kept under review.

(ix) French Stamp Tax on Imports. At the Ninth Session, the CONTRACTING PARTIES noted the increase in the French Stamp Tax from 1.7 to 2 per cent of the customs duties and accepted the explanation that the increase in the tax was required to defray costs incurred in the clearance of imported goods. But when the tax was increased to 3 per cent in August 1955, with the provision that the proceeds of the increase were to be applied to the budget for agricultural family allowances, the United States Government brought a complaint that this was inconsistent with the provisions of the Agreement that such supplementary charges should not exceed the cost of services rendered in connexion with importation. The representative of France acknowledged that the proceeds of the increase were intended for fiscal purposes and assured the CONTRACTING PARTIES that his Government was preparing a revision of the method of financing the family allowances and that the matter would be resolved as soon as possible.

(x) Brazilian Internal Taxes. In 1949 the CONTRACTING PARTIES found that a modification of certain internal taxes in Brazil, involving an increase in discrimination against imported products, was contrary to the provisions of the Agreement. The Brazilian Government accepted this finding and submitted an amendment of its tax laws to Congress, but thus far it has not been approved. At the Tenth Session the CONTRACTING PARTIES once more urged the Brazilian Government to bring the law in question into conformity with the Agreement.

The eleventh complaint was upheld by the CONTRACTING PARTIES and a measure of compensation was authorized:

(xi) United States Restrictions on Imports of Dairy Products. For some years the CONTRACTING PARTIES have had before them a complaint by several governments that the United States import restrictions on dairy products did not fall within the definition of those permitted under the Agreement. The CONTRACTING PARTIES recognized that these restrictions constituted an infringement of obligations and that a number of contracting parties had suffered a nullification or impairment of concessions which they had obtained from the United States. They considered that the circumstances justified the grant of authority to contracting parties whose interests had been injured to take compensatory action with respect to United States trade. In accordance with this general conclusion, the CONTRACTING PARTIES concurred in the request of the Government of the Netherlands for authority to impose a restriction on imports of wheat flour from the United States and this authority was renewed at the Tenth Session.
ACCESSION OF JAPAN

In February 1955 Japan entered into tariff negotiations with seventeen of the contracting parties with a view to acceding to the General Agreement. These negotiations, aimed at a mutually advantageous exchange of concessions in rates of customs duty, were successfully concluded in June and Japan became a contracting party in September 1955.

Although the terms of accession were approved unanimously, fourteen contracting parties felt that they could not apply the Agreement to Japan at the present time and, therefore, resorted to Article XXXV of the Agreement, which allows a contracting party to withhold its application from an acceding government with which it had not entered into tariff negotiations. This provision of the Agreement had been invoked on other occasions but never by so many in relation to one acceding country. This widespread invocation created a situation which was of concern to the CONTRACTING PARTIES as a whole and presented problems for those governments which apply the Agreement to Japan.

Thus far Japan has been according most-favoured-nation treatment to all contracting parties. Among the countries which invoked Article XXXV, some are granting most-favoured-nation treatment and, generally, are applying the Agreement to Japanese trade but explained their action as a precautionary measure lest a situation should arise in which they might feel compelled to take action inconsistent with the provisions of the Agreement. Some apply their most-favoured-nation rates of duty to Japanese goods but maintain quantitative import restrictions. Others are imposing rates of duty higher than those accorded to other countries.

At the Tenth Session Japan asked the CONTRACTING PARTIES to seek means of enabling the fourteen governments to accord to Japan its full rights as a contracting party. The representative of Japan discussed the situation with other delegations in the hope of agreeing upon satisfactory arrangements within the framework of the Agreement and consistent with its basic principles. It was clear, however, that more time would be required to find a solution. Japan is continuing to discuss this question with contracting parties concerned and the CONTRACTING PARTIES are keeping the situation under review.