Attached is a draft of Part II, of the abridged GATT Annual Report for 1957, describing recent activities of the CONTRACTING PARTIES.

Any comments on this draft should reach the secretariat not later than 8 September 1958.
PART II

ACTIVITIES OF THE CONTRACTING PARTIES

TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

During the period under review - June 1957 to June 1958 - the activities of the CONTRACTING PARTIES were dominated by several major developments in the trade field. Of greatest significance were the signature of the Rome Treaty establishing the European Economic Community and the continuation of negotiations looking towards a free-trade area comprising seventeen countries in Western Europe. The attention of the CONTRACTING PARTIES was also directed to recent trends in international trade which have led to difficulties for countries dependent upon the export of primary products and growing problems for the less-developed countries in maintaining and increasing their export proceeds in order to meet their priority import needs. The provisions of the Rome Treaty and trends in trade were the principal subjects discussed at the Twelfth Session in October-November 1957 and at a broadly representative meeting of Trade Ministers which was held during the Session. The CONTRACTING PARTIES set up a Panel of Experts to carry out a factual investigation of recent trends in, and prospects for, international trade to serve as a basis for further consideration of the issues involved. A third important activity in the period under review was a general round of consultations on the import restrictions still maintained by contracting parties for balance-of-payments reasons. Arrangements were also made for carrying out the review of import restrictions agreed upon in the review of the General Agreement in 1955. This review will be completed at the Thirteenth Session and thereafter the programme of annual consultations will begin in 1959.

The following paragraphs describe these activities of the CONTRACTING PARTIES and also other matters which were discussed at the Twelfth Session or which will come before the CONTRACTING PARTIES at their Thirteenth Session commencing in October 1958.

EUROPEAN ECONOMIC COMMUNITY

At the Eleventh Session in 1956 the Governments of Belgium, Luxemburg, the Netherlands, France, Germany and Italy (all contracting parties to GATT) informed the CONTRACTING PARTIES of their intention to establish an economic community with the aim of removing all obstacles to trade between their territories. Accordingly, the Rome Treaty, establishing the European Economic Community, was transmitted to the CONTRACTING PARTIES, soon after its signature in March 1957, and the CONTRACTING PARTIES made arrangements for an examination at their Twelfth Session of the provisions relating to tariffs, quantitative restrictions and other aspects of commercial policy. The purpose of this examination was to enquire whether the provisions of the Treaty
were consistent with the GATT provisions which allow contracting parties to depart from the rule of most-favoured-nation treatment when they establish a customs union or a free-trade area. The Member States of the Community declared their intention, in accordance with the provisions of the Rome Treaty, to observe their obligations under prior international conventions including the General Agreement. The examination was preceded by extensive preparations including questions and answers to clarify the principal issues.

During the Twelfth Session the implications of the Treaty and its relationship to the GATT were discussed at a meeting of Trade Ministers who recognized that the creation of the Economic Community would lead to new relationships in the economic and trade field. In order to further the common objective for the strengthening of trade relations between the Member States and the other parties to the General Agreement, the Ministers confirmed the desirability of establishing effective and continuing co-operation between the CONTRACTING PARTIES and the Community.

The GATT allows contracting parties to enter into agreements for the formation of customs unions even though their full establishment is spread over a period of some years. The six Member States of the Community claimed that the Rome Treaty and its transitional arrangements, running over twelve to fifteen years, was fully in conformity with the requirements of the GATT, but many other contracting parties had doubts on certain points. In particular, it was feared that, in practice, the implementation of the Treaty might transgress the rules of GATT and impede the attainment of its objectives by raising barriers to the trade of other contracting parties. Further, it was felt that on a number of important issues the provisions of the Treaty lacked details of action to be taken in the field of commercial policy and left much to the future decisions of the institutions of the Community. Thus, to many contracting parties, there did not appear to be any certainty that the Community, as it evolved, would comply fully with the relevant provisions of the General Agreement. In particular they were concerned that instead of contributing to the expansion of trade generally the establishment of the Community might result in additional obstacles to trade between the Member States and the other contracting parties.

Four main aspects of the Treaty were examined. The Member States submitted a specimen common tariff, but the list was not complete because on a certain number of items the common duties are still to be negotiated by the six Governments. The final common tariff, which is to be established by stages during the transitional period, will be submitted to the CONTRACTING PARTIES in 1959. Some of the rates of duty for the Community will be higher than those now in force in some of the Member countries, especially in Benelux, and where the latter have been bound against increase in GATT tariff negotiations a process of renegotiation will have to be undertaken with the contracting parties concerned.
More complicated questions arose on the subject of the use of quantitative import restrictions by the Member States and particularly as to the possibility of the Member States which have no balance-of-payments difficulties imposing import restrictions to aid another Member State which was in difficulties. Differences between the Members of the Community and certain contracting parties on this issue were not resolved, but it was agreed that any particular problems that might arise in the actual application of import restrictions by the individual Members of the Community would be examined in consultations under the provisions of the General Agreement.

Considerable attention was focused on the agricultural provisions of the Treaty which entrust the working out of a common agricultural policy to the institutions of the Community. Some of the major agricultural exporting countries - for whom the Member States are an important export market - were concerned lest the system of long-term contracts and minimum prices and, eventually, the common agricultural policy envisaged in the Treaty would lead to a managed market aimed at self-sufficiency with detrimental effects on their trade.

The fourth question which received particular attention at the Twelfth Session were the arrangements for the association of the overseas territories of France, Belgium and the Netherlands (and of certain trusteeship territories) with the European Economic Community. To a number of contracting parties these arrangements did not appear to conform with the requirements of the GATT for a free-trade area, but to constitute rather an extension of preferences which could well be contrary to the GATT rules. In any case some countries expressed deep concern that these arrangements were likely to have serious repercussions on their trade, particularly in the export of tropical products to the markets of the Member States in competition with the associated territories. The possible consequences of these arrangements for the trade of other contracting parties to GATT were examined in some detail in a working party in the early months of 1958. The present production, trade and consumption of twelve commodities - coffee, cocoa, tobacco, sugar, hard fibres, aluminium, etc., - and the prospects for the future under the proposed arrangements were studied, though for the most part definite conclusions could not be reached in view of many uncertainties, including, in some instances, the fact that the relevant duty rates of the common tariff have not yet been fixed.

In discussing these problems since the Twelfth Session it has been agreed to set aside legal and formal questions for the time being and to apply the established GATT procedures for consultations in examining specific problems which may arise in the application of the provisions of the Treaty. Contracting parties, when they feel that their interests are affected by the provisions of the Treaty or by their implementation, may enter into direct bilateral or multilateral consultations with the Member States. Since the Twelfth Session the principal institutions of the Community have been established and the first step in the elimination of the customs barriers between the Member States is due to be taken on 1 January 1959.
In their discussions of the Rome Treaty the contracting parties have had in mind the more extensive proposals for the formation of a free-trade area embracing the six Member States of the European Economic Community and the other eleven members of the Organisation for European Economic Co-operation. In the event that the negotiations for such a free-trade area mature the resulting treaty will also have to be examined in the light of the provisions of the General Agreement.

Under this same heading mention should be made of the European Coal and Steel Community. Under a waiver granted in 1952 to the six contracting parties which have now formed the European Economic Community an annual report has been submitted to the CONTRACTING PARTIES in each year of the transitional period during which the Member States were taking measures towards the establishment of a common market for coal and steel products. The Fifth Annual Report was examined at the Twelfth Session, and a Sixth Report, covering the last six months of the transitional period, was received by the Intersessional Committee in April 1958. The common market for coal and steel has now been established, the last stage being the removal of all remaining duties and restrictions on trade among the Member States and a harmonization of the duties on imports from third countries. The duties for steel products are not completely uniform since the "harmonization", as envisaged by the Member States of the Community, allows a certain variation in order to afford what is described as "geographical protection". The CONTRACTING PARTIES have congratulated the Member States on carrying to fulfilment this project of integration of an essential industry.

TRENDS IN INTERNATIONAL TRADE

Although the total value of merchandise entering international trade reached a record level in 1957, certain trends have appeared which have given rise to concern in some countries. It has been evident in recent years that the trade of the less-developed countries with the industrial countries is not developing as rapidly as the trade of the industrial countries among themselves. The decline in commodity prices—for industrial raw materials and for some food products—has reduced their export earnings; this and the simultaneous increase in the prices of manufactures have limited their capacity to maintain their imports of essential consumer goods and to meet the mounting cost of imports of the capital goods which they require to carry out their development programmes. Many of them have had large trade deficits and have felt compelled to intensify their restrictions on importation. Further, a limiting factor in world trade in foodstuffs is the policy of many industrial countries to apply quantitative restrictions on imports in order to protect their domestic agriculture and to implement their price-support policies. Accordingly, agricultural products have not fully shared in the liberalization of trade which has taken place in recent years. Price-support measures have led to increased production even in countries which have been traditional importers of agricultural products, and to an accumulation of surpluses for which outlets are sought in world markets in competition with the main
exporting countries. Finally, the economic recession in North America and the slower growth of activity in Europe have caused concern in many countries whose economies rely upon stability in the value and volume of their exports of primary products to world markets.

These trends in trade were discussed by the CONTRACTING PARTIES at their Twelfth Session. The contracting parties most seriously affected by these developments urged that means of ameliorating conditions should be sought, perhaps through some measure of international stabilization of prices. In order to be in a better position to deal with these problems at their forthcoming session, the CONTRACTING PARTIES called upon Professors Haberler of Harvard, Meade of Cambridge and Tinbergen of Rotterdam and Dr. Campos of Rio de Janeiro to study the recent trends in trade and the outlook for the future. This Panel of Experts has also examined, though without expressing views on the policies of governments, the protective measures for agriculture and the restricted markets for raw materials, which tend to limit and confine international trade in primary products, as well as the possibility of stabilizing demand for primary products in industrial countries and the price of individual commodities. This factual study should provide a valuable basis for the consideration of remedial action.

QUANTITATIVE IMPORT RESTRICTIONS

Consistently with the provisions of the General Agreement, there has been in recent years a considerable reduction in the use of quantitative import restrictions by contracting parties as their balance-of-payments situation has improved. Both the number of items subject to restriction and the severity of the restrictions have been greatly reduced. Twenty-six of the thirty-seven contracting parties, however, still maintain some degree of control over importation. The changes during 1957 in the restrictive measures in force are described in Part I of this report and, at their Thirteenth Session, the CONTRACTING PARTIES will complete a review of all the restrictions still maintained for balance-of-payments reasons.

In 1957 twenty of the contracting parties maintaining such restrictions engaged in a series of consultations with the CONTRACTING PARTIES on the nature of their balance-of-payments difficulties, alternative measures that might be available and the effects of the restrictions on the economies of other countries. The consultations provided opportunities both for the countries applying restrictions to explain their financial difficulties and for other countries to discuss with them the effects of the restrictions on their trade. This exchange of views helped to clarify the position of the various countries and led to a better understanding of each other's problems. As a result of these consultations some of the restrictions were removed and in some countries changes were made in the administration of the restrictions so as to reduce their harmful effects. In particular, a number of countries participating in the consultations announced a further liberalization of imports from the dollar area.
In the course of consulting with the Federal Republic of Germany the CONTRACTING PARTIES took note of the findings which had been made by the International Monetary Fund that the exchange position of the German Federal Republic no longer justified the maintenance of restrictions on imports. The German Government, thereupon, undertook to review its import policy and, subsequently, announced a programme for the liberalization of imports over a period of two years. When this situation was examined at the Twelfth Session many contracting parties expressed the view that the German Government should eliminate the restrictions or otherwise reconcile its position with the provisions of the General Agreement, and the German Government was requested to report in April 1958 on any further action it might then have taken. In April the German Government reported that the restrictions still in force affected some 18 per cent of imports, calculated on the basis of 1956 trade, 16 per cent of which were agricultural products, and that the restrictions on the import of certain foodstuffs were mandatorily required under four marketing laws which were in force in 1951 and which, consequently, were permissible under the GATT by virtue of the provisions of the Protocol under which Germany had acceded. This report was examined by the Intersessional Committee of the CONTRACTING PARTIES which adopted a resolution urging the German Government to reconsider the matter and to report further at the Thirteenth Session.

As noted in Part I the unfavourable developments in the world economic situation put strains on the external financial position of a number of countries. During the year several contracting parties — Finland, France, India in particular — found it necessary to intensify their import restrictions to meet adverse developments in their balances of payments. New Zealand took similar action at the beginning of 1958. As required by the provisions of the GATT all four of these countries consulted with the CONTRACTING PARTIES concerning their measures of intensification. This provided an opportunity for informing the contracting parties of their difficulties and for the hearing of representations by other countries about possible measures to alleviate the undesirable effects of the intensified restrictions.

The CONTRACTING PARTIES are required by the General Agreement to report each year on the discriminatory application of restrictions maintained for balance-of-payments reasons. The Eighth Annual Report on this subject, adopted at the Twelfth Session, shows that twenty-four contracting parties are still exercising some degree of discrimination between sources of supply. Generally, the imports of dollar and non-dollar origin are subject to different treatment and in some cases discrimination also exists between various non-dollar sources. The CONTRACTING PARTIES found that substantial progress had been made in reducing the degree of discrimination and that some of the countries which had contributed to this reduction had not experienced, as a result, any great increase in the inflow of dollar goods.
This seemed to indicate that governments should look more and more at their overall balance-of-payments position and rely, so far as possible, on non-discriminatory restrictions as the least damaging to their own and other economic interests. This Eighth Annual Report has been published in the Sixth Supplement to the Basic Instruments and Selected Documents.

In 1955, when reviewing and revising the General Agreement, the CONTRACTING PARTIES recognized that governments which attained an improved balance-of-payments position and were no longer entitled to apply restrictions on financial grounds were nevertheless likely to encounter difficulties in removing restrictions within a short time. Industries or branches of agriculture which had enjoyed protection under such restrictions might have a difficult task of readjustment. Accordingly, it was thought desirable to provide some facility for the gradual removal of restrictions in "hard-core" cases but on the understanding that requests for authority to maintain restrictions temporarily would be put forward by the end of 1957. At the Twelfth Session the CONTRACTING PARTIES extended this time-limit until the end of 1958. One contracting party - Belgium - has availed itself of these facilities and at the Twelfth Session, the CONTRACTING PARTIES discussed a report by Belgium on the progress made towards the removal of the remaining restrictions.

On all matters involving questions of balances of payments and monetary reserves, the CONTRACTING PARTIES are required by the General Agreement to consult with the International Monetary Fund and to accept its determinations on certain specified points. In dealing with the matters referred to in the preceding paragraphs the CONTRACTING PARTIES instituted consultations with the Fund. They received documentary assistance from the Fund and its representatives participated in the discussions at the meetings of the CONTRACTING PARTIES.

**SETTLEMENT OF DIFFERENCES**

The sessions of the CONTRACTING PARTIES provide a forum for the discussion of differences between governments concerning the nullification or impairment of benefits they should derive from membership in GATT. In the first instance, such differences should be the subject of bilateral consultations between the governments concerned, but when no satisfactory settlement is reached the complainant can bring its case before the CONTRACTING PARTIES for consideration and, if necessary, a Panel for Conciliation is appointed to examine the complaint. During the past year four complaints were brought before the CONTRACTING PARTIES.

In April 1957 Denmark brought to the Intersessional Committee a complaint concerning the export of subsidized eggs from the United Kingdom. The representative of Denmark stated that the subsidies granted by the United Kingdom to egg producers had led to greatly increased production with the result that, first, Danish exporters had lost their traditional market in the United Kingdom
and, secondly, the resulting surplus of eggs in the United Kingdom was being exported at a subsidized price to markets on the Continent, especially in Western Germany where Danish exporters had turned for an outlet to replace the lost market in the United Kingdom. The CONTRACTING PARTIES were asked to examine this situation in the light of the provisions of the GATT relating to subsidies: the subsidization was causing serious prejudice to Danish interests and was resulting in the United Kingdom acquiring more than an "equitable share" of the export trade; it was also suggested that the situation would warrant the application of countervailing duties. The Danish complaint was supported by the representatives of Belgium, the Netherlands, Sweden and the Federal Republic of Germany. The Intersessional Committee recommended that bilateral discussions between Denmark and the United Kingdom should be continued, but appointed a panel to examine the complaint if no satisfactory settlement should result. After further discussions the United Kingdom Government prohibited the export of eggs except under licence and announced that licences would be granted only for export to certain countries. In September 1957, the Danish Government reported that the discussions had been successfully concluded and that they were satisfied with the measures taken by the United Kingdom.

At the Twelfth Session the United Kingdom brought forward complaints concerning discriminatory measures, in France and Italy, affecting imported agricultural machinery. The French Government was granting a cash subsidy to agricultural producers for the purchase of farm machinery, but only for articles of domestic manufacture. The French Government recognized that this practice was contrary to the requirements of the GATT, that imported products should not be accorded treatment less favourable than that accorded to like products of national origin in respect of laws affecting sale or purchase, and undertook to remove the discrimination. The Italian Government was granting loans on specially favourable terms for the purchase of agricultural machinery provided it was of local manufacture. The discussions between the United Kingdom and Italy had not resulted in a satisfactory settlement and the CONTRACTING PARTIES appointed a Panel which examined the case in July 1958. At their next Session the CONTRACTING PARTIES will consider the Panel's report which suggests that it be recommended to the Italian Government that the discrimination be eliminated.

At a meeting of the Intersessional Committee in April 1958 the Government of Australia asked for consideration of the assistance given by the French Government to exports of wheat and flour. Australia claimed that the export subsidies, granted since 1953, resulted in France obtaining more than an "equitable share" of the world market and were particularly damaging to Australian interests in markets where Australia had been the principal and traditional supplier, especially in South-East Asia. Australia had engaged in bilateral consultations with the French Government since 1956, but no satisfactory settlement had been obtained and, therefore, she wished to bring a complaint of nullification and impairment of GATT benefits. The French Government claimed that the so-called export subsidy was in fact a price
equalization system which was not contrary to the provisions of the GATT. The Intersessional Committee appointed a Panel to examine this complaint. After a first meeting of the Panel, it was agreed that bilateral consultations should continue.

OTHER QUESTIONS

Among the numerous other questions brought before the CONTRACTING PARTIES the following should receive special mention.

With few exceptions, contracting parties have applied the Agreement to territories for which they have international responsibility, but when any such territory acquires full autonomy in the conduct of its external commercial relations, it is afforded, under sponsorship of the formerly responsible government, an opportunity to become a contracting party in its own right and henceforth assumes responsibility for fulfilling its obligations under the Agreement. Under this arrangement Ghana and the Federation of Malaya joined the ranks of the contracting parties in October 1957.

Ordinarily accession to the General Agreement is achieved by means of a process of negotiation aimed at the reduction of tariff barriers. At the present time the Government of Switzerland is engaged in such negotiations with some fifteen contracting parties. If these negotiations lead to mutually satisfactory results, Switzerland may be expected to accede provisionally before the end of 1958. The arrangement made with the Government of Switzerland provides for "provisional" accession and participation in the work of the CONTRACTING PARTIES for a minimum period of two years during which there will be consultations to find solutions, compatible with the basic principles of GATT, for the problems arising from certain laws which require the Government of Switzerland to impose quantitative restrictions on imports of agricultural products in circumstances not provided for in the General Agreement.

At the present time negotiations are also in progress in connexion with tariff adjustments by several contracting parties. The arrangements under which Brazil is negotiating a new schedule of concessions following upon the entry into force of a new customs tariff in 1957, were described in International Trade 1956. Most of these negotiations have been concluded and when all have been completed a new Brazilian schedule will be annexed to the GATT. The New Zealand tariff is also undergoing revision and a waiver granted by the CONTRACTING PARTIES will enable the revised rates to be made effective without awaiting the completion of the re-negotiation of the concessions in the GATT Schedule on items for which increased rates of duty are to be applied. And the Government of Cuba will shortly re-negotiate the concessions in its GATT Schedule following the entry into force of a new tariff based upon the Brussels Nomenclature.
At the Twelfth Session a waiver was granted to France and Germany in connexion with their trade with the Saar. Under the Franco-German Treaty of 27 October 1956, the Saar has been detached from France and incorporated in the Federal Republic of Germany. But during a transitional period, which will end not later than 31 December 1959, it will continue to form a part of a customs union with France; thereafter the Saar will be part of the customs territory of the Federal Republic. To facilitate this transition and in order to enable the Saar to maintain close economic relations with both countries after the end of the transition period, the CONTRACTING PARTIES agreed to allow France and Germany to accord special treatment to the trade of the Saar as an exception to the most-favoured-nation rule of GATT.

A problem of international trade receiving increasing attention in recent years is that of dumping and subsidization. When a domestic industry is injured or threatened with injury by the importation of competing goods at prices below the domestic price in the country of export or below their cost of production, or when export is aided by subsidies, GATT permits the imposition of special duties. Some twenty contracting parties to GATT have legislation which provides for the imposition of anti-dumping or countervailing duties, but only eight have made use of these provisions. The imposition of an anti-dumping duty by Sweden on imported nylon stockings from Italy gave rise to a complaint which was examined by the CONTRACTING PARTIES in 1955.

The administrative problems encountered by Sweden in applying this duty, and the anti-dumping duties applied by other countries to Swedish exports, led the Government of Sweden to propose that the CONTRACTING PARTIES should review the legislative provisions and procedures of contracting parties. The relevant laws and regulations were transmitted and, subsequently, in consultation with exports of the governments concerned, these were analyzed by the secretariat. Several governments have submitted proposals for further studies.

The principal amendments to the text of the General Agreement, drawn up by the CONTRACTING PARTIES in 1955, entered into force in October 1957 and have been accepted by all but five of the contracting parties. These concern the use of quantitative restrictions, the grant of export subsidies and the activities of State-trading enterprises.

1 See International Trade, 1954, and Basic Instruments and Selected Documents, Third Supplement.

2 The secretariat's analysis has been published under the title Anti-dumping and Countervailing Duties (Sales No. GATT/1958-2).
Contracting parties which impose quantitative restrictions on importation in order to safeguard their balances of payments and monetary reserves are now required to consult periodically with the CONTRACTING PARTIES. The first set of annual consultations - covering the majority of contracting parties which impose restrictions - will be held in 1959. For less-developed countries, however, the conditions laid down in the GATT governing the use of restrictions for balance-of-payments reasons are somewhat more lenient and the consultations with these countries will be held in alternate years commencing in 1960. As mentioned above, all such restrictions will be reviewed in 1958.

In the extended provisions of the Agreement concerning subsidies, the contracting parties recognize that subsidies on exports may harmfully affect the trade of other countries and that subsidies to assist the export of primary products should be avoided and in any event should not be applied in such a way as to acquire an increased share of world trade in the product concerned. On the other hand, subsidies on the export of processed products are to be abolished as from a date yet to be determined and meanwhile their scope is not to be extended. The operation of the subsidy provisions of the Agreement will be reviewed for the first time at the Thirteenth Session. Subsidies and other measures providing incentives to exporters are described in Part I of this Report.

The application to State-trading enterprises of the GATT rules which were devised to apply to trade conducted by private enterprise - as is generally the case in all but one of the parties to GATT - is another aspect of world trading relationships which was reconsidered during the review of the Agreement. The revised text provides opportunities for negotiations and consultations between governments on the trading activities of State enterprises and of private undertakings enjoying exclusive or special privileges. In addition, information on the activities of such enterprises will be transmitted annually to the CONTRACTING PARTIES.

Other amendments to the text of the Agreement have not yet entered into force as they deal principally with organizational arrangements relating to the establishment of the Organization for Trade Co-operation. When the Organization has been established, it will be possible for other countries to be associated with its work on all commercial policy questions within its jurisdiction though not in its principal task of administering the General Agreement on Tariffs and Trade.