CANADIAN TEMPORARY IMPORT SURCHARGES

Note by the Executive Secretary

When the import surcharges imposed by the Government of Canada on 24 June 1962 were examined by the Council on 11-12 July, a number of Members requested that a record of the statements that had been made should be distributed in order to assist the CONTRACTING PARTIES in their further examination of this question at the twentieth session. Accordingly, the following record has been prepared. This record should be read in conjunction with the minutes of the Council meeting - C/M/11.

Three copies of this document are being issued to the liaison officer of each contracting party, who is requested to pass on copies to his Government.

RECORD OF DISCUSSION IN COUNCIL

The representative of Canada said that, among the measures which his Government had taken to meet the emergency situation which had developed in Canada, those of particular concern to contracting parties were the import surcharges imposed on a large number of items included in Parts I and II of Canada's schedule of tariff concessions. Having described the deterioration in Canada's external financial and balance-of-payments situation (see background document provided by the IMF), the representative of Canada said that his Government had to take action without delay to meet the needs of the situation. Following the recent general election, the new Parliament could not legally be summoned until late in July and the pace of deterioration in Canada's gold and foreign exchange reserves was such that corrective action could not be delayed. Action by the Government had, therefore, to consist of measures for which enabling legislative authority already existed. The action taken to affect imports directly, namely the temporary application of import surcharges, was feasible on the basis of existing legislation but was circumscribed by the nature of that legislation. There were several reasons why the Government had not taken action in the form of import quotas and prohibitions instead of import surcharges; the most compelling reason was the absence of specific legislation for this purpose and of licensing machinery to administer such a system.

Having described the other temporary measures introduced under the programme announced on 24 June and the immediate steps taken by his Government to reinforce Canada's official holdings of gold and United States dollars (see pages 5 and 6 of document L/1805), the representative of Canada gave details of the temporary import surcharges which had been introduced. He said that the surcharges applied to a wide range of Canadian tariff items and affected about one half of total Canadian imports. The three Schedules contained in the Order-in-Council listed the tariff items covering goods on which the temporary import surcharge would be 15 per cent (Schedule A), 10 per cent (Schedule B) and 5 per cent (Schedule C). Goods not covered by the tariff items listed in these Schedules were free of any additional duty. The total duty assessed under the Order-in-Council could not exceed the general tariff rate. The surcharges
applied to goods imported into Canada from all countries, except the very few countries subject to the general tariff. As the surcharges were additional duties on top of existing rates of duty, it followed that the existing structure of tariff preferences was being retained. Describing the products affected by the temporary surcharges, the representative of Canada said that the group of products made subject to the 15 per cent surcharge covered about $150 million of annual imports at current levels, those made subject to the 10 per cent surcharge about $650 million and those made subject to the 5 per cent surcharge about $2,300 million. The group not subject to the temporary surcharges covered about $2,900 million of annual imports at current levels.

The representative of Canada strongly emphasized that the departures from the provisions of GATT which his Government had found necessary had been the minimum considered essential to deal with the situation, that the measures had been taken to meet an emergency and that they were temporary. It was his Government's intention to relax and remove the measures as rapidly as Canada's external financial circumstances allowed.

The representative of Canada suggested that members of the Council, in considering the procedures to be followed for dealing with this question, might find it useful to know his delegation's thinking on this subject. After careful consideration, his delegation had come to the view that in the light of a preliminary examination at the present Council meeting all contracting parties, whether or not represented in the Council, should be afforded an opportunity to study the matter prior to the twentieth session which was to be held fairly soon. The best procedure might be for the Council to carry out a preliminary examination at this stage and to recommend that, at the twentieth session, the CONTRACTING PARTIES as a whole should undertake a comprehensive examination and take whatever definitive action might be required in the circumstances that prevailed at that time. If this were done, it was to be hoped that the IMF would be able to provide at that time a further report on the Canadian financial situation. If such a procedure commended itself to the Council the Canadian delegation would co-operate fully at every stage. In the interim, Canada of course stood ready to consult with individual contracting parties with respect to the measures which had been taken which might affect their particular trading interests.

The representative of the International Monetary Fund said that members of the Council would note from the background document which the Fund had provided that, between 1 January and 24 June 1962 - the date on which Canada obtained financial assistance from the Fund and other sources - Canadian gold and foreign exchange reserves had fallen by approximately $1 billion or about 50 per cent. Several measures were announced on 24 June as an emergency programme to cope with this situation pending the formulation of longer-term measures. Among these were the import surcharges which the Council was now considering and the decrease in the duty-free allowance of Canadian tourists, both of which were designated as temporary. The Canadian Government estimated that these surcharges would have the direct effect of decreasing imports by some $200 million in a full year. The balance of payments would be further assisted, it was estimated, in an amount of about $100 million as a result of the decrease in the duty-free allowance of Canadian tourists. These measures did not go beyond the extent necessary to stop the serious decline in Canada's monetary reserves. The
Fund recognized that, in addition to their direct effect, the surcharges were expected to provide new revenue of $200 million in a full year and were thus also part of the Canadian Government's fiscal and monetary programme to improve the balance-of-payments position.

The representative of Japan said that, if the Council decided to confine itself to a preliminary examination of this question without reference to a waiver, his delegation would be prepared to support such a procedure, but would have to reserve Japan's position until the matter was further examined at the twentieth session. It was to be hoped that this further examination and bilateral consultations with Canada would help to remove some of the serious misgivings his Government had about the import surcharges introduced by Canada; his Government was deeply concerned about these surcharges, which would have a considerable effect on Japan's trade. The representative of Japan then drew the attention of the Council to certain considerations. First, Canada's balance-of-payments difficulties were due to capital transactions rather than trade factors and there must, therefore, be doubt as to the appropriateness of measures such as temporary import surcharges which might have the flavour of protectionism. Secondly, it should be noted that Japan was already exercising certain restraints on the export of cotton textile products under the Short-Term Arrangement regarding trade in cotton textiles; in the view of the Japanese delegation, it was quite unreasonable to impose additional restrictions on such exports in the form of import surcharges. In conclusion, the representative of Japan said it was very much to be regretted that a situation would arise where the measures introduced by Canada would remain without the cover of GATT. It was Japan's wish that bilateral consultations between Japan and Canada should take place at the earliest possible moment.

The representative of Italy, speaking on behalf of the member States of the European Economic Community, said that, while recognizing the difficulties at present facing the Canadian Government, the measures taken to remedy the situation were a matter for surprise and concern. It should be noted that a balance-of-payments deficit could be caused by factors which were not commercial in character and, when this was the case, measures such as those introduced by Canada would not be very effective in remedying the situation. On the strictly commercial plane, the import surcharges affected a limited number of products and imposed different percentage increases in duty. It was questionable whether such measures could really contribute to rectifying the balance-of-payments deficit and whether there was not the risk that, in certain cases, their only effect would be an increase in protection. An even more serious fact was that, as the import surcharges would not apply uniformly to the totality of Canada's import trade, the result would be unequal treatment as between different exporting countries. The representative of Italy went on to say that Article XII of GATT foresaw the possibility of recourse to measures other than quantitative restrictions in order to rectify an adverse balance-of-payments situation and, in fact, it was the Community's view that other measures could have been envisaged by Canada which would have been in conformity with the letter and spirit of GATT. In conclusion, the representative of Italy said that the Community proposed that the question should be included on the agenda of the twentieth session and it was the Community's firm hope that Canada would, at that time, no longer be applying measures which were contrary to GATT. In the meantime, in view of the importance and urgency of the measures, any contracting party should be considered free to invoke the procedures provided for in Article XXIII. In fact, it was the Community's view that the present discussion in the Council represented a consultation under paragraph 2 of Article XXII.
The representative of the United States stressed his Government's great interest in the stability of the Canadian economy and currency and pointed to the contribution made by his Government to the mobilization of financial support for Canada in its present difficulties. However, the representative of the United States continued, he had to express his Government's deep regret that an important trading nation like Canada had found it necessary, as part of its emergency programme, to adopt measures which were clearly in conflict with its GATT obligations. His delegation was confident that the Canadian Government would take the earliest possible action to remove the measures. The United States interest in this matter not only concerned the long-term effects on the integrity of the GATT but also the serious repercussions on United States trade. The representative of the United States said that his country was the principal supplier of a large number of the items affected by the surcharges, and he quoted figures to indicate the value of United States exports to Canada of some of these items. He went on to say that it was clear that the emergency programme was by no means solely related to the question of the current trade balance, which was only one aspect of the general financial problem. While it was not his delegation's intention to propose particular measures which might be adopted he would like to point out, purely as an example, that if one of the purposes was to raise revenue a tax applied equally to domestic products could achieve the same result, would have very much less effect on trade and could more easily be brought into line with GATT obligations. It was disturbing that there might be an element of protection in the surcharges. The United States took a serious view of the measures and this view would be even more serious were it not for the assurances given by the Canadian representatives that the surcharges were strictly temporary in character and that they resulted to a large extent from the limited legislative authority available to the Government at the time they were introduced. In concluding, the representative of the United States said that his delegation agreed that there should be a more thorough examination of the question at the twentieth session. It was to be hoped that, when the CONTRACTING PARTIES carried out their examination, it would be possible for Canada to discuss with them a programme which would permit the removal of the surcharges. The attitude which the United States would take at that time would depend on the existing circumstances.

The representative of Indonesia stressed the serious effects that measures taken by an important trading nation such as Canada could have on the exports of less-developed countries and on the prices of raw materials. A very small decline in the prices of its raw material exports could have a big effect on a less-developed country's export earnings. It was for consideration whether recent economic and financial developments, for example the decline in prices on the New York Stock Exchange and the balance-of-payments difficulties of Canada, did not point to the possibility of a world economic depression and it was the view of the Indonesian delegation that the GATT should study whether, in fact, there were indications of such a depression. These studies should be followed by recommendations which should be applied by the industrialized countries to prevent the worsening of the world economic situation. Committees I, II and III already existed and the CONTRACTING PARTIES should give consideration to the establishment of a fourth committee to undertake this task.
The representative of Brazil also expressed his Government's concern about the measures taken by Canada. Like the representative of Indonesia, he stressed the repercussions which measures taken by an important trading nation could have on the trade of other countries and in particular on the trade of less-developed countries. The delegation of Brazil agreed that the question should be referred to the CONTRACTING PARTIES for further examination at the twentieth session.

The representative of New Zealand said that, while recognizing the difficulties with which Canada was confronted, it was unfortunate that measures which affected trade had to be taken to rectify the deterioration in the financial situation. The introduction of temporary import surcharges was a matter of serious concern to New Zealand, over 50 per cent of whose exports to Canada were affected by the surcharges. There was particular reason for concern because of the difficulties in other fields which countries exporting temperate zone agricultural products were already experiencing. The representative of New Zealand enquired whether, when the time came for the elimination of the surcharges, the Government of Canada would remove them all at once or whether they would be removed on an item-by-item, selective basis. Like other delegations, the New Zealand delegation hoped that, as soon as there was the necessary parliamentary authority, Canada would be able to take measures more in keeping with the GATT.

The representative of the United Kingdom said that, as other representatives had pointed out, measures taken by an important industrial trading nation could have serious effects on the trade of other countries and in particular on the trade of less-developed countries. It was, therefore, of the greatest importance that, when there were difficulties of the sort with which Canada was confronted, prompt action should be taken to deal with them so that normal trading relations could be restored as soon as possible. The question of the imposition of temporary import surcharges by Canada had to be most carefully examined and the United Kingdom delegation agreed with other delegations that this examination should be carried out by the CONTRACTING PARTIES at the twentieth session. The representative of the United Kingdom went on to say that his delegation shared the concerns expressed about the possible protectionist implications of the surcharges. It was to be hoped that the measures would not lead to the displacement of imports by domestic production which was not really competitive and which would look to the continuation of this kind of protection. The main need was for a full assurance from Canada that the import surcharges were strictly temporary and that they would definitely be removed at the earliest possible date. At the meeting of the IMF which discussed this question, the representative of Canada has said that one year might be the longest period for which the surcharges would be needed. Contracting parties would welcome a similar assurance in the GATT that the maximum period the surcharges might be expected to continue would be one year and that, if effective long-term measures could be introduced, that period might be shorter. It was also to be hoped that, as had been accepted by the Canadian representative at the Fund meeting, there could be bilateral discussions with Canada concerning anomalies that arose from the use of differing percentages for the
surcharges. In conclusion, the United Kingdom representative referred, with particular reference to Hong Kong, to the question of the restraint on certain cotton textile exports which Canada had requested under the Short-Term Arrangement on cotton textiles; such restraint might, of course, be similarly requested under the Long-Term Arrangement if this came into force. Insofar as surcharges were imposed on cotton textile imports it was not to be expected that these imports would cause the kind of market disruption envisaged at the time the Arrangements on cotton textiles were negotiated when it was assumed that customs duties would not be increased. It was to be hoped that normally, since customs duties had been increased, it would not be necessary to invoke also alternative measures designed to deal with market disruption due to inadequate customs duties on low-cost competition. The representative of the United Kingdom said that some assurance on this point would be welcomed.

The representative of Denmark also regretted that Canada had not been able to find solutions to its problems through measures which were compatible with the GATT. Denmark's exports would be considerably affected by the import surcharges and his delegation shared the hope expressed by other delegations that Canada would be able, in the very near future, to take alternative action which was in conformity with the GATT, and that a programme to provide for such alternative action would be put forward by Canada at the twentieth session.

The representative of Switzerland said that numerous items of considerable importance to Switzerland's export trade were affected by the Canadian import surcharges. In fact, the surcharges applied to more than a quarter of Switzerland's export trade with Canada. As the trade balance between the two countries was already unfavourable to Switzerland his Government hoped that the introduction of the surcharges would not accentuate the present imbalance. His delegation supported the inclusion of this item on the agenda for the twentieth session but reserved the right to enter directly into consultation with Canada in the meantime.

The representative of Austria said that, in view of the importance attached by his Government to Austria's trade with Canada, Austria would wish to be included in any working party established to consider this question. In the meanwhile Austria reserved the right to request bilateral consultations with Canada.

The representative of Norway having expressed his Government's regret that Canada had found it necessary to introduce measures which were not in conformity with GATT, said there must be considerable doubt as to the effectiveness of import surcharges as a means of solving the difficulties faced by Canada. Although Norway's exports to Canada were modest, more than half would be affected by the surcharges. His delegation like others would stress the question of principle involved and the possibility of a precedent being established. It was important that Canada should take steps to remove the measures at the earliest possible opportunity.
The representative of Portugal expressed the surprise and disappointment of his delegation at the action which Canada had taken. The measures introduced by Canada affected almost all the advantages which Portugal had gained in the tariff negotiations with Canada prior to Portugal’s accession to GATT.

The representative of Australia drew attention to certain important facts which had to be taken into account in the consideration of the question before the Council. First, it was clear that there were many different factors in the situation with which Canada was confronted and that there was an inter-relationship between these factors. Secondly, there was the view held by the IMF that the measures taken by Canada did not go beyond the extent necessary to stop the serious decline in Canada's monetary reserves. Thirdly, there was the assurance given by the Canadian representative that the measures taken were of an emergency character and that they were strictly temporary. There were two grounds for concern which arose from the introduction of the import surcharges. One was the effect on the GATT and the other was the repercussions on trade. As far as Australia was concerned, 50 per cent of its export trade with Canada would be affected by the surcharges.

The representative of Sweden said that a rough estimate indicated that possibly well over three quarters of traditional Swedish exports to Canada would be affected by the surcharges. Apart from this fact the principle involved in this matter was of equal importance. The GATT did not permit the introduction of surcharges of this nature as a means of countering even a very temporary adverse balance-of-payments situation. No contracting party in the same stage of economic development or of the same importance to world trade as Canada had resorted to similar measures in the past. The Swedish Government took a serious view of this question both from the point of view of principle and the consequences for Sweden’s export trade. His Government welcomed the assurances given that the surcharges were temporary and that they would be removed as soon as possible. The Swedish delegation assumed that the Canadian Government would give every opportunity for consultation, including bilateral consultations, and they supported the proposal that discussion of this question should be renewed at the twentieth session of the CONTRACTING PARTIES.

The representative of Czechoslovakia said that, based on 1961 trade figures, it was estimated that nearly 82 per cent of Czechoslovakia's exports to Canada were affected by the surcharges. Differential import surcharges could have the same discriminatory effects as quantitative restrictions. It was Czechoslovakia's hope that the measures would not adversely affect the favourable development of trade between the two countries. Because of increasing imports from Canada, the present trade balance, was, in fact, very unfavourable to Czechoslovakia. Should Czechoslovakia's exports to Canada be considerably reduced as a result of the surcharges the situation might arise where his Government would have to take steps to reduce the imbalance.
The representative of Canada made the following comments on some of the points which had been raised during the discussion:

(1) It was surprising that some representatives seemed to see certain protectionist implications in words used by the Canadian Prime Minister in a television statement to the Canadian people when he said "...it can only be solved by an increase in our exports or by producing in Canada at competitive prices more of the commodities we are now importing." It could surely not reasonably be said that words of this kind gave hope or encouragement to protectionist interests in Canada.

(2) Doubt had been expressed as to whether the measures affecting imports were appropriate to the solution of Canada's present difficulties. The import surcharges were but one of the series of measures taken to deal with the emergency. While it was true, as some representatives had said, that the Canadian financial situation had been influenced by changes in capital inflows, underlying the situation was a persistent current account deficit of the order of one billion dollars annually. It was difficult to believe that any member of the Council considered that action to redress this deficit was not appropriate.

(3) He wished to emphasize as strongly as possible the importance of the longer-term measures now being planned, the objective of which would be to strengthen Canada's competitive position and thus bring about a lasting improvement in its fundamental balance-of-payments position. This was the basic concept of the Canadian Government's long-term approach to the problem and not solutions involving restrictive measures.

(4) The Canadian delegation fully recognized that restrictive measures on a continuing basis were not the best way to deal with balance-of-payments difficulties. However, when there was an emergency, action appropriate to the circumstances had to be taken promptly. He was not in a position to give a commitment that the maximum period the surcharges would last would be one year. It had not been clear from some of the comments that had been made whether, if the situation in October or November was such that direct action by the Canadian Government in connexion with the current account deficit was still required, the representatives concerned would prefer to see measures technically more in conformity with GATT even if these were equally restrictive. If it was the general view that such measures were in fact preferred, the Canadian delegation would like to know as soon as possible.

(5) As regards the effects of trade, it should be noted that it was estimated that the measures which had been taken would have the effect of decreasing imports into Canada by some $200 million in a full year. In the light of this figure, the surcharges were not creating in actual trade terms such repercussions as one or two representatives seemed to have suggested. It would be noted that a large number of items of interest to the trade of less-developed countries were exempted from the surcharges.
(6) The Government's intention was to relax surcharges as soon as circumstances permitted rather than to retain them all until it was judged safe to undertake their total removal. At the present time it was not possible to say exactly in what manner the relaxation would be carried out.

(7) Canada was certainly prepared to discuss sympathetically any anomalies that arose from the use of different rates of surcharge.

(8) As regards action in connexion with cotton textile imports from Hong Kong under the Short-Term Arrangement, it would appear that the question of the effect of the surcharges would not arise as the quantitative amount for imports of the two items subject to restraint had already been agreed upon. As regards the possibility of future requests for restraint, he was sure that Hong Kong would confirm that Canada had not been unreasonable in its requests and that it had only made such requests when there was a very large increase in imports and on the production of evidence of market disruption.

In conclusion, the representative of Canada said that all points that had been raised in the Council's discussion would be conveyed to the Canadian authorities.