SUMMARY RECORD OF THE TWELFTH MEETING

Held at the Palais des Nations, Geneva, on Wednesday, 6 November 1957, at 2.30 p.m.

Chairman: Mr. L.K. JHA (India)

Subjects discussed: 1. Treaty establishing the European Atomic Energy Community
2. Trends and Developments in Commodity Trade (continued)

1. Treaty establishing the European Atomic Energy Community

The CHAIRMAN invited the CONTRACTING PARTIES to consider the Treaty establishing the European Atomic Energy Community which had been signed by the Six Governments at the same time as the Treaty establishing the European Economic Community. The Chairman of the Interim Committee for the Common Market and Euratom had advised the Executive Secretary that the provisions of the Euratom Treaty affecting trade were intended only to ensure an accelerated application of the customs union rules of the Economic Community Treaty to the products covered by the common nuclear market (cf. Chapter IX of the Treaty), but that he would be prepared during the Twelfth Session to give any explanations of those provisions in relation to the General Agreement that might be desired.

The Chairman suggested there was at least one question which might be examined: Article 198 of the Euratom Treaty provided that the Treaty should apply to "the European territories of Member States" to "the non-European territories within their jurisdiction" and to "the European territories for whose foreign relations a Member State is responsible", but no list of the territories was given and, therefore, it was not clear whether the territorial application of the Euratom Treaty was exactly the same as that of the Economic Community Treaty. That and any other questions that contracting parties might wish to raise with regard to the trade provisions of the Treaty might be referred to the Committee that had already been established to examine the provisions of the European Community Treaty.

Mr. HOOGWATER (Kingdom of the Netherlands), speaking on behalf of the Six Member States, said he would have no objection to the Euratom Treaty being referred to the Committee on the EEC Treaty. He emphasized, however, that the only matter covered by the Treaty which was really of concern to GATT was the common market for nuclear products, and the Treaty merely provided for more rapid implementation
than in the case of products covered by the EEC Treaty. In reply to the question
to which the Chairman had referred, he said that the territorial application of
the Euratom Treaty might possibly not correspond exactly to that of the EEC Treaty,
at least for the time being, because some Community countries for which other
countries were responsible in matters of external relations might not agree to
become part of the Atomic Energy Community.

Mr. de SCHACHT (Interim Committee for the Common Market and Euratom) confirmed
Mr. Hoogwater's statement concerning the territorial application, and said he would
not object to the Euratom Treaty being referred to the Committee.

Mr. SANDERS (United Kingdom) thought that, as the Netherlands representative
had said, the Euratom Treaty would not give rise to lengthy discussion by the
CONTRACTING PARTIES; it would nevertheless be useful to refer the matter to the
Committee in order that contracting parties might obtain clarification of some
points.

Mr. ADAIR (United States) also supported the Chairman's proposal.

The CONTRACTING PARTIES agreed to refer the Euratom Treaty to the Committee
for consideration of the provisions relating to trade and territorial application.

2. Trends and Developments in Commodity Trade (continued) (L/713)

The CHAIRMAN recalled that at an earlier meeting (SR.12/6), pursuant to the
Resolution of 17 November 1956, Sir Edwin McCarthy had presented a report (L/713)
in his capacity as the CONTRACTING PARTIES' nominee as Chairman of the Interim
Co-ordinating Committee for International Commodity Arrangements. As reported in
the communiqué issued at the end of the Ministerial Meeting, numerous references
had been made by Ministers to problems of commodity trade, and the CONTRACTING
PARTIES might now resume that discussion.

Mr. MAKATITA (Indonesia) read a statement on behalf of the Indonesian Minister
for Trade. The question of commodity trade and in particular the stabilization of
commodity prices was of paramount importance to many contracting parties, and
especially to the economically underdeveloped countries. Many international bodies
paid continuous attention to this subject, within the framework of both the United
Nations and the Food and Agriculture Organization, but a full discussion of the
stabilization of commodity prices on the technical level of GATT would be highly
desirable, and the problem should continue to be studied until such time as a
satisfactory solution was found. The Indonesian Government therefore hoped that
Sir Edwin McCarthy's report would receive the full attention it deserved.

Mr. Makatita then commented on Sir Edwin McCarthy's report, which had referred
to the various steps that had been taken to provide greater stability for commodity
trade. It could clearly be seen that the problem was still a long way from being
solved. It was a matter for regret that no international agreement on rubber had
yet been concluded, although the question was before the International Rubber Study
Group, and also that the country which was the largest tin consumer did not
participate in the International Tin Agreement. With regard to the Tin Agreement it was not yet certain whether this buffer-stock type of agreement really met the objectives set out in the preamble. It provided that, in order to maintain prices within certain limits, a buffer stock should be established to which contributions would be made by the producing-country participants; during the United Nations Tin Conference in 1953, it had proposed that consuming countries should also contribute, but that proposal had not been accepted and consequently the full burden of maintaining prices still fell on the producing countries, which were mostly underdeveloped, while voting in the Tin Council was on a 50-50 basis between producers and consumers. Sir Edwin McCarthy's report made it clear that most commodity agreements were actually operating under conditions of world surplus, and the near future would show whether or not the buffer-stock type of agreement could be successful. He hoped the CONTRACTING PARTIES would give full attention to the question of stabilizing tin prices in the interest of the expansion of world trade and of the maintenance of equilibrium between supply and demand. Although there was currently a production surplus, it could be foreseen that the contrary phenomena might prevail in a very few years time.

Mr. SZARF (Food and Agriculture Organization) said that the FAO Committee on Commodity Problems kept under continuous review the world commodity situation and developments affecting individual commodities. In the past two years, the Committee had set up specialized commodity groups for intergovernmental consultations on particular commodities. Four such groups were now in existence as well as a special panel on dairy products. Participation in these groups was open, subject to FAO rules, to all governments interested in the production, consumption and trade of the commodity concerned, and a wide range of problems was considered. The Consultative Sub-Committee on the Economic Aspects of Rice had commenced its work in November 1956 and had considered measures to encourage and stabilize production, consumption and trade in rice as an essential condition for reducing fluctuations; the Sub-Committee was to study further the technical characteristics of supply and demand which limited the type of stabilization measures suitable for that commodity. The Group on Grains had approved a programme of work which included regular appraisal of the world grain situation and short-term outlook, examination of trends in production, consumption, stocks, prices and trade, as well as an analysis of national grain policies and their international effects; as a first step a study was being made of the causes of the current disequilibrium in supply and demand and the accumulation of surpluses. The Cocoa Study Group had held its second session, at which it had discussed technical problems of production and consumption, such as quality, grading, substitutes and methods of increasing consumption, and had made recommendations for improving statistical data. The main subject considered, however, had been the possibility of devising a way to impose agreed limits on cocoa price movements, and the Group had appointed a Working Party on Price Stabilization to study the question and make proposals. The Group on Coconut and Coconut Products had been set up to study major economic problems which it was considered could only be solved through intergovernmental consultation and co-operation. It would hold its first meeting very shortly and would discuss the many economic aspects of production, consumption and trade. In addition to the work undertaken in the study groups on individual commodities, an Expert Working Party had prepared a comparative analysis of various agricultural support measures, which would be considered by the FAO Conference which had just opened.
Mr. VALAIDAO (Brazil) said that the remarks of the Indonesian representative were of great interest to Brazil, as a country heavily dependent on exports of primary products. The Decision adopted by the CONTRACTING PARTIES at the Eleventh Session was a significant step forward in dealing with commodity problems, since it recognized inter alia that the instability of commodity prices could cause serious balance-of-payments difficulties for the primary producing countries.

The report before the CONTRACTING PARTIES contained much factual information which was of great value; however, it also contained certain considerations and conclusions which in his view not only went beyond the terms of reference of the CONTRACTING PARTIES' nominee as Chairman of ICCICA, but also exceeded those laid down for ICCICA by the UN Economic and Social Council. Another United Nations body, the Commission on International Commodity Trade, had studied the problem predominantly with reference to the effects of price fluctuations on world commodity markets, and the work of that and other international organs should be taken into account. International commodity agreements were perhaps one means of easing the situation, but they did not remedy the basic causes. Any report reviewing the commodity situation should, in his view, take into account the fact that the bargaining power of the industrialized and the non-industrialized countries varied greatly; it should also examine such aspects as the elasticity of demand for primary products, as well as the effects that the establishment of the European Common Market might be expected to have on the pattern of production, consumption and trade of coffee and other individual commodities. The additional information which he had suggested would make the report a more complete study and would be in line with the spirit of the CONTRACTING PARTIES' Decision of 17 November 1956.

The CHAIRMAN pointed out that the report was not intended to represent the views of ICCICA, but had been submitted by that Committee's Chairman in his personal capacity as the CONTRACTING PARTIES' nominee to serve as a basis for the discussion now taking place.

Dr. WESTERMAN (Australia) drew attention to the reference in the Chairman's address at the opening of the Twelfth Session to the declining share of non-industrial countries in world trade. He referred also to the figures he had quoted from International Trade 1956 in his speech in an earlier plenary meeting. These showed that non-industrial countries had incurred a $1,200 million deficit in their trade in 1956 compared with a break-even in 1954 and sizeable surpluses in pre-war years.

The Chairman of ICCICA was to be congratulated on his report. The section dealing with the effects of fluctuations in commodity prices on balances of payments was of particular interest. The important connexion between price variations and instability in international trade could be illustrated by the effects on the balance-of-payments position of non-industrialized countries of recent fluctuations in the prices of their principal exports. He had taken twelve commodities and had related price changes in the past six months or so to an average annual volume of exports of each commodity. The total loss had been estimated at around $1,200 million - or approximately the total trade deficit of
non-industrialized countries in 1956. From October 1956 to October 1957 the price of wool had declined by about 6 cents per lb; if applied to a year's exports this meant a loss to wool exporting countries of $180 million. The price of coffee had fallen 2 cents in the past six months; a fall of one cent per lb. in the price of coffee involves a loss of $45 million per year for coffee exporting countries so that the loss over the last six months was at the rate of $90 million per year. Using price falls in the last six months the annual loss of income on the various products examined would be: wheat $210 million, rice $60 million, sugar $300 million, cocoa $24 million, rubber $40 million, copper $150 million, lead $35 million and zinc $40 million. Tobacco had risen by about one cent per lb. over the six months and this had represented a gain of $15 million on the basis of the average yearly volume of exports. Whilst he had not been able to check the absolute accuracy of all of his calculations the conclusion was unquestionable - a very small change in price could mean a very large improvement or deterioration in the balance-of-payments position of certain countries. The recent trend appeared to be in the direction of falling prices and, unless this trend could be reversed, there would be serious implications for the non-industrialized countries. In the absence of any other constructive action in the field of commercial policy, the gulf which separates industrialized and un-industrialized countries could only be bridged by restrictive import licensing policies by all the un-industrialized countries. Australia, for example had been forced to impose curbs of nearly $100 million on imports in the year 1956/57. No doubt governments of industrialized countries would claim in the forthcoming consultations that these restrictions had entailed hardship for their industries. There could be no doubt that there would be some hardship for particular industries in particular countries, but these were very minor compared with the effects of fluctuations in prices on the economies of non-industrialized countries. The Australian delegation had no panacea for all this and did not consider that commodity agreements were the only or necessarily the correct solution. It did seem, however, that the initiative was with the producing countries, as they would be the first and probably the heaviest losers if their terms of trade deteriorated.

In the matter of the stability of commodity prices, his delegation believed that the GATT was the appropriate forum for discussion of trade policy problems in the field of commodity trade. He was grateful to the Chairman of ICCICA for his report, not only for what it contained, but also for the thought-provoking aspect of his comments, and he welcomed the idea that the future issues of the ICCICA Report would also coincide with GATT sessions.

His delegation wished to reaffirm that his Government was prepared to support any generally acceptable proposal for commodity agreements which were likely to lead directly or indirectly to the promotion of stability in international commodity trade, and which did not remove a government's right to a final decision whether or not proposals affecting a particular commodity were acceptable. He believed that it was in the light of the circumstances of each
commodity that decisions should be taken rather than in the circumstances of any general application of principles or a standardized approach. Sometimes, as the Chairman of ICCICA had pointed out, the particular technique used in a commodity agreement had not been adequate to cope with the nature and circumstances of the commodity. He would repeat that the initiative was with the producing countries. Australia was prepared as a producer or as a consumer to consider any proposal for a commodity agreement on the terms he had explained in an effort to overcome the problems of instability in commodity prices. There had been disagreement as to the need for a commodity agreement in many cases; rubber was an example. The formulation of an agreement, especially as regards the prices to be fixed had often proved difficult; wheat was an example. In some cases there had been a lack of adequate support by all the important producers and consumers. The International Wheat Agreements again offered a suitable example.

Mr. KISHI (Japan) was in agreement with the observation made by the Chairman of ICCICA in his report about the necessity of international action in order to stabilize the prices of primary commodities. He shared the view expressed by the representative of Indonesia that special attention should be paid to that part of the Report which stated that some of the existing international agreements, those for wheat and sugar in particular, had not been found quite effective. As the report pointed out, the technique of buffer stocks, as followed in the Tin Agreement, would no doubt be effective, but in his view such a technique could only be applied to a limited number of commodities. If the CONTRACTING PARTIES were to act in accordance with the Resolution adopted at the Eleventh Session, his delegation deemed it necessary to study the various techniques very carefully in the light of what had been achieved by the existing international agreements and with due regard to the interests of the importing countries.

Mr. GARCIA OLDINI (Chile) said that he had some suggestions to make regarding the report which might contribute to the usefulness of future reports and he wished to see the problem of the underdeveloped countries considered in an equitable and practicable manner. It was essential that a document of such importance should be distributed sufficiently in advance of the Session to enable the competent authorities of each contracting party to consider it and give the necessary instructions to delegations, and he hoped that this would be done in future. The report quoted the Resolution of the CONTRACTING PARTIES of 17 November 1956, and went on to consider the usefulness of commodity agreements, but he did not think it went far enough. As the Brazilian representative had pointed out, the conclusion of commodity agreements was not a complete solution to the problem. The Chairman of ICCICA might usefully study the work undertaken in the framework of the United Nations Commission on International Commodity Trade, as it was essential to consider the problem in all its aspects and not to limit consideration to commodity agreements.
Reference was made in the report to the copper situation which directly involved the Resolution of the CONTRACTING PARTIES. The fall in the price of copper made it impossible for two producing countries to maintain equilibrium in their balance of payments. As he had already had occasion to point out, any consideration of quantitative restrictions imposed for balance-of-payments reasons must take into account the international factors which had contributed to the deterioration in the balance-of-payments position of the countries concerned. If the Chairman of ICCICA continued to emphasize the importance of considering those two problems together, there might be a radical change for the better in the GATT consultations under Articles XIII and XIV. Still, with regard to copper, the report said that it might be necessary further to curtail production until present excess stocks were used up; such action would, however, create another even more serious situation—that of unemployment, with all its attendant dangers. Some countries had understood that, and the policy of full employment was the result. The report went on to state that ICCICA had decided to draw attention to the copper situation and to invite government representatives to decide whether action was not called for, but there was no indication of the type or scope of the measures envisaged. It was essential to find a solution for the problem as a whole if it was to be solved at all. The movements of copper prices in recent years would be more useful if they were related to purchasing power.

Mr. Oldini hoped that the next report by the Chairman of ICCICA would take his suggestions into account. He felt that the Resolution of the CONTRACTING PARTIES provided great possibilities for action on a wide basis on the problems of international commodity trade.

Mr. ELSTON (Federation of Rhodesia and Nyasaland) said that his country, as a producer of copper and chrome, was acutely aware of the difficulties which price fluctuations on world commodity markets could cause. In his report, Sir Edwin McCarthy stated that ICCICA had suggested that the United Nations should arrange consultations between copper producing and consuming countries in order to examine the problem of the low level of prices for that commodity. His Government fully supported the proposal to try to achieve price stabilization through joint action. In their view, the problem for copper and other products resulted in part from the domestic policies of some countries which developed production at costs that were not consistent with reasonable price levels; the remedy would be to allow some uneconomic producers to go out of existence by withdrawing the artificial protection and subsidy measures at present applied.

Mr. PHILIP (France) recalled that it was at the initiative of the French delegation that the CONTRACTING PARTIES adopted at their previous Session the Resolution of 17 November 1956 under the terms of which they decided that the CONTRACTING PARTIES would review annually the trends and developments in commodity trade upon the basis of the Report of the CONTRACTING PARTIES nominee as Chairman of ICCICA and in which they agreed that it was appropriate for the CONTRACTING PARTIES to enter into consultations on problems arising in trade in
primary products. Moreover, when as a result of such consultations the CONTRACTING PARTIES were of the opinion that an international joint action would usefully contribute to the solution of the problem they would make arrangements, having regard to the competence of the United Nations and of other international organizations concerned, for an intergovernmental meeting.

He was grateful to the Chairman of ICCICA for having drawn attention to the grave difficulties which the countries producing certain primary commodities were facing as a result of the serious decline in prices. He was thankful to the representative of FAO for the useful information he had given on the activities of FAO on the problems relating to the disposal of surpluses. After having studied the report of the Chairman of ICCICA and the Annual Report of the GATT secretariat on international trade, he felt extremely concerned about the present tendency for the prices of primary products to fall, which if not arrested would, in his view, lead to considerable difficulties for the underdeveloped countries in the financing of their economic development programmes because of the close relationship which the aggregate developmental expenditure bore to the overall export earnings. For example, Brazil was dependent for nearly three-quarters of its exports on sales of coffee, cocoa and cotton, and hence the world prices for these commodities determined to a large extent the disposable funds for investment necessary to accelerate the pace of its industrial development.

Referring to the measures undertaken in the under-developed countries of Africa, for whose economic welfare France was responsible, he was glad to note that the Chairman's Report had indicated that the effect of seasonal and long-term fluctuations in supply on producer's income had in part been moderated by the regulation of domestic prices to producers by the West African marketing boards. Solutions in the field of commodity prices could not be found through the operation of free market forces. Attempts should be made to organize and stabilize commodity markets by such regulatory methods as fixing the prices paid to producers through marketing boards. Yet limited measures which aimed at stabilizing prices on a regional or limited basis were insufficient and the interest of all lay in stabilizing world prices. His Government had on different occasions supported the measures which aimed at achieving stability. It was still too early to arrive at a definite judgment on the success of the Tin Agreement which had been in existence for only fifteen months, although one could not fail to notice the difference in the behaviour of tin prices on the one hand and of other non-ferrous metals, like copper, lead and zinc, on the other. Whatever the shortcomings of international commodity agreements, they nevertheless had rendered some good results, and his delegation thought it would be useful to extend such agreements to cover as many more commodities as possible.

The French delegation to the International Rubber Study group had proposed a scheme which could serve as a basis for an agreement. His Government had also taken active part in the recent conference on cocoa and had supported the suggestion made by ICCICA for convening a special meeting under the aegis of the United Nations for examining the problems of copper and other non-ferrous metals.
He was in agreement with the representative of Chile that the methods and techniques hitherto used had been insufficient and that a problem of a general character had now arisen which would necessitate broad international measures as soon as possible.

Mr. Philip then turned to the discussions which had taken place in the Committee on the Rome Treaty, where certain apprehensions were expressed by some countries that in future they might lose their position in the market of the Six. He would take an opportunity for replying to these misgivings in full at a later stage but it seemed to him that, whatever the merits of discussing hypothetical problems which would arise in future, it was far more important to deal constructively with the present real problems. The current trends in the prices of primary commodities were disturbing and had created extremely serious problems for the under-developed countries, and if the present trend continued, it would have grave repercussions, as the Australian representative had indicated, even on the exports from the industrial countries. If no agreement could be reached quickly on a general line of action, there was the possibility that these tendencies would lead to a general economic crisis from which all would suffer.

Given the gravity of the situation arising from the decline in prices, and having discussed paragraph 1 of the Resolution of 17 November 1956, he enquired if some thought should not be given to the provisions of paragraph 4 and in any case to look for the application of paragraph 3. As regards paragraph 4, he would not propose its immediate application; in the calling of an intergovernmental meeting the competence of the United Nations and other interested international organizations would have to be taken into account. However, during the course of the present Session, consultations on problems of trade arising from primary commodities could be set afoot pursuant to the provisions of paragraph 3 of the Resolution. He suggested that a special working party be designated to define the problems and the difficulties involved, and he hoped that this working party could evolve some constructive propositions on the lines of those indicated by the representative of Chile. He thought the problem facing primary products was not one of seeking agreements which would aim at restraining production in order to achieve an equilibrium of price, but a sustained and co-ordinated effort should be made to find ways to increase the consumption of a certain number of these commodities. Mr. Philip believed that it would be very useful if there could be a greater collaboration between the Chairman of ICCICA and the Commission on International Commodity Trade of the Economic and Social Council with a view to preparing a more comprehensive report next year. The French delegation would wish a special group to be established soon to go into the commodity problems in all their ramifications.

Mr. SWAMINATHAN (India) said he shared the views expressed by the representatives of Indonesia and Australia. As an exporter of primary products his Government attached great importance to the problem of stability of commodity prices. In view of the adverse impact which the fluctuations in prices had on the level of economic activity, his Government sympathized with the efforts which had been made to stabilize commodity trade. He wished to thank the Chairman of ICCICA for a very valuable report and assured the CONTRACTING PARTIES of his Government's co-operation in furthering the objectives of their Resolution which, in his view, was a very significant contribution to the problem.
Sir Edwin McCARTHY (Chairman of ICCICA) said that, since ICCICA's review of commodity problems had been undertaken in April 1957, his personal report to the CONTRACTING PARTIES only attempted to bring the account up to date, without aiming at covering the whole ground. In future, the reports of ICCICA would appear in late September, close to the Session of the CONTRACTING PARTIES, and the next report would review the major trends in international commodity trade over the last ten years.

As regards the subject matter of the reports to the CONTRACTING PARTIES by their nominee, he said that no very clear terms of reference had been laid down and, in the absence of any precedents, he had some doubt as to what ought to have been done. However, the members of ICCICA were in agreement with him that the problem of fluctuations in prices deserved some attention. Moreover, the commodities which were covered served as illustrations for certain points which he had wished to elaborate from the point of view of fluctuations in commodity prices. Another question which seemed to him to be very important related to whether the Chairman should give his views on the subject matter which ICCICA dealt with; for instance, if they dealt with commodity agreements and found that they were defective in their operation should the Chairman report that to the CONTRACTING PARTIES? He also wondered whether, if ICCICA had taken steps to request the Economic and Social Council to call a meeting of the producers and consumers of a commodity, they should give the reasons which led them to recommend this action.

He further enquired whether the CONTRACTING PARTIES wished to know about the existing commodity agreements and other arrangements relating to commodity trade. There were some commodities in respect of which no agreements existed and copper was an outstanding example. He had pointed out in his report that the position of copper in world markets was serious and ICCICA had decided that it should bring this to the attention of the copper-producing and consuming countries, through the Secretary-General of the United Nations, with the suggestion that representative of governments should meet and decide whether action was called for. He thought he would be exceeding his terms of reference if he were to recommend specific measures. He was not sure whether any report on the lines contemplated by the representative of Chile was within the terms of reference or the authority of the Chairman.

In view of the importance of certain products to the export earnings of particular countries, serious balance-of-payments difficulties arose whenever prices suffered a marked decline. This problem had received considerable attention in ICCICA. In the case of cocoa, for example, they had pointed to the problems involved, and it had been decided by the governments concerned to set up a group under FAO to deal with these problems. ICCICA could not institute any basic action and could only call the attention of governments to grave developments in the field of commodity trade. In his view, international commodity agreements were not a panacea for dealing with all commodities; they suited some commodities but not others. On the other hand, people who did not approve of commodity agreements in principle were as wrong as those who thought
that international commodity agreements were the only solution for dealing with all commodities.

He then turned to the problem of buffer stocks which had been raised by the representative of Indonesia. In his view, the major question was the problem of financing and who should bear the cost. If a buffer stock could provide protection against fluctuations in commodity prices then the total cost of maintaining such a buffer stock was infinitesimal compared to the total loss which would result from the failure to maintain the price at a stable level. He referred to wheat prices which had remained relatively firm due to timely action on the part of the three producing countries which had built up buffer stocks. The question of the size of the buffer stock was also an important one and he thought that it should be big enough to deal with short-term fluctuations, but if the long-term prospects for a commodity were not bright then, of course, there was little possibility of arresting a declining trend and in that case a buffer stock could not provide an adequate solution to deal with the problem.

In conclusion, Sir Edwin McCarthy thought that it might be useful, in future, for the CONTRACTING PARTIES to give the Chairman of ICCICA, whoever he might be, more precise terms of reference, and he did not think that any harm would result if he were given some leeway for venturing certain opinions while commenting on the international commodity situation.

The CHAIRMAN stated that this discussion would be continued at the next meeting.

The meeting adjourned at 5.30 p.m.