THIRD COMMITTEE: COMMERCIAL POLICY

SUMMARY RECORD OF THE SIXTEENTH MEETING (IIIb)

Held at the Capitol, Havana, Cuba,
Saturday, 20 December 1947 at 10.30 a.m.

Chairman: Mr. L. D. WILGESS (Canada)

1. ARTICLE 20 - General Elimination of Quantitative Restrictions
   (First Reading)

CONTINUATION OF DISCUSSION OF PROPOSED AMENDMENTS AND GENEVA DRAFT NOTES
   (Document E/CONF.2/C.3/14)

Mr. COREA (Ceylon) restated the purpose of his amendment to Article 20, which was a matter of vital concern to Ceylon and to all other countries in a like position. It should be considered in the light of the amendment suggested to Article 21, which would permit quantitative restrictions to be imposed for a limited period in order to further economic development if other protective measures were inadequate. He appealed for a realistic approach to the Articles of the Draft Charter relating to the economic development of under-developed countries. Certain preferences were admitted because, however evil they were, their immediate removal would cause excessive dislocation; the same reasoning should be applied to quantitative restrictions even if they were condemned in principle. But quantitative restrictions were not to be so condemned; their use led to increased employment, production and demand and, even if world trade in the particular product concerned was diminished, then Chapter VI provided adequate means of dealing with such over-production. The volume of world trade in all products was dependent not on the extent of the use of quantitative restrictions, but on altogether different factors.

He did not agree with the representative of Belgium that economic development was to be regarded as an evolutionary process; the handicap of the under-developed countries was too great. Article 21 paragraph 3 had been introduced to deal with the case of New Zealand and should be extended to cover countries whose domestic policies might be different from New Zealand's, since Article 13 as at present drafted was inadequate for this purpose. It was essential for some provision to be made to ensure the /limited use of
limited use of quantitative restrictions for the purpose of economic
development in countries like Ceylon.

Mr. MacCARTHY (Ireland) was also of the opinion that a distinction
should be drawn between the so-called under-developed and the industrialized
countries, nor could he agree that industrial and economic development was
a process of evolution. Paragraph 2 of Article I of the Charter pledged
all nations to foster and assist industrial and general economic development;
this applied to those countries in an early stage of industrial development,
such as Ireland, where the development of productive capacity could not be
achieved merely by the use of tariffs, which were not satisfactory in all
cases. Of all forms of protection imposed to assist industrial development
in Ireland, quantitative restrictions were the least used. Nevertheless, it
was important to have the right to use that form of protection when the
need arose. He felt that some amendment to Article 20 was necessary if the
aims of the Draft Charter were to be achieved, and submitted that a more
reasonable and realistic approach should be made to the problems of small
countries.

Mr. STULI (Switzerland) pointed out that the amendment submitted by
his delegation referred to Section F of Chapter IV and would be dealt with
at the appropriate stage.

He compared the condemnation of quantitative restrictions and exchange
control to the verdict of a jury which had declared the former guilty while
allowing certain extenuating circumstances in the case of the latter. Any
impartial tribunal would judge that exchange control was just as dangerous
as quantitative restrictions; both the accused should receive equal treatment.
Had Switzerland not applied quantitative restrictions in 1934 against a
certain powerful northern neighbour, it would have been deprived of adequate
means of defending her national industries at a very vital period. At that
time customs tariffs were bound; Switzerland was pledged to most-favoured-
nation treatment; small countries dared not use preferential tariffs. A
similar situation might arise in the future, and Switzerland could not
afford to be deprived of adequate means of defence. Although it was right
to condemn quantitative restrictions under normal conditions, normal times
were still far distant. There was no absolute truth in these matters
and the Committee should beware of making a limited condemnation of one
form of restriction and too strong a condemnation of the other.

Mr. BRILLO (Argentina) said that the economy of his country was very
dependent on exports and imports and as a result had learnt the necessity
of expanding their manufacturing production. That necessity had been
increased by the closing of markets during the war. It was also
indispensable to ration monetary reserves in order to ensure that sufficient
/capital goods
capital goods be imported. Argentina was now capable of producing goods previously imported. He cited figures showing that the expansion of Argentine industry, which now surpassed agriculture and livestock in importance, had coincided with an increased participation in world trade.

The free conduct of a sound economic policy should not be limited; the Argentine amendment was submitted to allow the use of quantitative restrictions by under-developed countries to create, maintain or increase production of manufactured goods.

Mr. KHAN (Pakistan) stated that the processing of domestic raw materials to provide full employment was a natural aspiration of every country whose economy was primarily agricultural. Elimination of quantitative restrictions, however desirable as an ideal, would do fatal damage to such aspirations. He hoped it would be possible to meet the desires of those countries who sought recognition of the right to use quantitative restrictions to stimulate their economic development.

He called attention to the use in the Draft Charter of different words to convey the same meaning, e.g.: "product", "commodities" and "merchandise"; consideration should be given to this detail.

Mr. BURGESS (United Kingdom) stated that there was general agreement that quantitative restrictions were dangerous, although necessary in some cases; they should only be imposed in those cases and under the safeguards provided in the Draft Charter. The conflict between the aim of full and productive employment on the one hand and the reduction of tariffs and elimination of quantitative restrictions on the other was recognized by the Charter in Articles 13 and 21. If it was determined that the use of quantitative restrictions was in some instances the best form of protection for a new industry, provision should be made to ensure that it was used solely for that purpose: the United Kingdom would co-operate to that end.

But it was arguable whether quantitative restrictions were desirable for encouraging economic development. Many countries had developed their industries under tariffs and the terms of the Charter were more favourable than those of bilateral agreements since they provided for a country's release from its obligations. It was doubtful if the price to consumers under quantitative restrictions would be lower than under tariffs and there was always a temptation, once quantitative restrictions had been imposed, to extend them indefinitely. Finally, if a country could prove its case under Article 13, paragraph 4 (b), the ITO had no power to refuse release from the obligations of Chapter IV: the United Kingdom was, however, prepared to support any clarification of Article 13.

/Mr. WOLD (Norway)
Mr. WOLD (Norway) said that the most efficient industries in Norway had prospered without protective devices; indeed, the development of some had been retarded by the use of quantitative restrictions by other countries. The appropriateness of quantitative restrictions in certain circumstances was already recognized in Chapter III: Article 20 in its present form was valuable and sufficient.

Mr. CAMPOS (Brazil) stated he reserved the position of the delegation of Brazil on the amendments to Article 20 pending the outcome of deliberations on Articles 13, 75 and 81.

Mr. LA ROSA (Italy) felt it was too early to decide whether QR might or might not be the best form of protection for nascent industries. The ITO must be a dynamic force, studying and harmonizing all views in an atmosphere of mutual confidence and realism.

Mr. ADARKAR (India) supported the purpose of the amendments proposed by Argentina, Ceylon and Chile though he did not accept their form. In Geneva it was recognized that quantitative restrictions should be used only in exceptional circumstances and with the prior approval of ITO. Acceptance of that condition, however, depended upon the degree of confidence felt for the ITO; at the moment the defence of particular interests seemed to be precluding an adequate objectivity of judgment.

If quantitative restrictions were allowed for balance of payments difficulties, they should, in spite of the danger of corrupt administrative practices, also be allowed for the economic development particularly of food products, for which neither tariffs nor subsidies were practicable. Quantitative restrictions would not be applied to reduce imports so much as to regulate the flow of imports - a necessary part of any plan for stabilizing agriculture. In certain cases quantitative restrictions minimized the burden to the consumer. A pooling system could be worked out where domestic production was small, so that the price to the consumer would be an average of domestic and foreign costs, although it was doubtful if the Charter permitted such a practice. Quantitative restrictions were also necessary for the protection of certain key industries which must be developed regardless of cost. The legality of quantitative restrictions for economic development should be explicitly recognized in the Charter.

Mr. TRABONLSI (Syria) stated that some solution not detrimental to world trade must be found for the protection of new industries. Tariffs and subsidies had increased prices and weighed on national budgets. Quantitative restrictions arbitrarily imposed, often for political reasons, had yielded nefarious results, but some amendment to Article 20 should be made in order to permit their use for economic development.

/Mr. ATAMAN (Turkey)
Mr. ATAMAN (Turkey) said that protection by tariffs could be surmounted by the large industrialized countries and also placed the burden on the consumer; quantitative restrictions for economic development should be permissible.

Mr. PEARY (Canada) did not agree that the Charter represented the narrow views of a group bent on protection of their positions. Rather, it created a wholesome environment which could result in the maximization of production, of employment and international trade. It was not easy to draw a distinction between "developed" and "under-developed" countries, yet it had been said that quantitative restrictions should be allowed for under-developed countries only. The ITO would in practice find it difficult to deny any country the right to impose quantitative restrictions for development. Further, if protection was employed to encourage the production of a high-cost basic industry, there was a danger that costs would be increased throughout the economy and that further protective measures would be taken.

As it stood now, however, Chapter III provided a working arrangement with a minimum of friction. The Charter was therefore taking the only realistic course.

Mr. BURGESS (United Kingdom) pointed out that his remarks as to the dangers of quantitative restrictions were based on its tendency to lead to ever-increasing restrictions on imports, even when a country was acting in good faith. But he agreed that quantitative restrictions did also bring the serious danger of administrative corruption - which was an added reason for using quantitative restrictions only in very special cases.

Mr. NARAGHI (Iran) stated that during fifteen years of quantitative restrictions Iranian imports had increased five-fold; therefore, they could not be considered an obstacle to international trade. The fact that the Draft Charter allowed quantitative restrictions only for balance of payments purposes merely showed that the countries on the Preparatory Commission were not faced with the problem of development. Too much time would be consumed if a developing country had to obtain prior approval under Article 13. He supported the Chilean amendment.

The CHAIRMAN observed that the discussion would be continued at the next meeting, Tuesday morning, with the following speakers: Chile, Finland, Guatemala and Mexico.

The meeting rose at 1.45 p.m.