UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
PREPARATORY COMMITTEE
OF THE
INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT

Verbatim Report

of the
SIXTH MEETING

of
COMMITTEE II

hold in
The Hoare Memorial Hall,
Church House, Westminster, S.W.1.,
on
Thursday, 31st October, 1946
at
3.0 p.m.

CHAIRMAN: DR. H. C. COOMBS (Australia)

(From the Shorthand Notes of
W.B. GURNEY, SONS & FUNNELL,
58, Victoria Street,
Westminster, S.W.1.)
THE CHAIRMAN: When we concluded last night we were discussing the section of the agenda dealing with State Trading. I think most of the delegations that wished to speak had spoken, and I was about to call upon the United States delegate to reply to some of the points which have been raised. Does any delegate wish to add anything to what was said yesterday before the United States delegate replies?

MR AUGENTHALER (Czechoslovakia): Mr Chairman, Gentlemen: We have seen from the preceding debates that there exist in many countries State monopolies or State trading enterprises of very different kinds. Some of these monopolies are of very long standing, others were introduced in recent years. The reasons why these monopolies or State enterprises have been introduced are manifold and depend on the political, social, economic and, I should say, even philosophical, considerations prevailing in different countries. Some monopolies represent just a form of imposing and collecting indirect taxes on sale and consumption of the product concerned. Some trade organisations have been introduced as social institutions, that is to say, to protect the socially needy public from price fluctuations and violent changes in real income, or to protect the small producer from disastrous competition. Others have been introduced for security reasons, such as, for example, in Czechoslovakia explosives, and yet others as a protection of health or morals, or even for religious reasons. This is only a rough and very general enumeration of the reasons why many State enterprises and institutions of this kind have been introduced.

We must also bear in mind the fact that many States which have extremely varying structures as regards economic and social institutions are not represented at this meeting, though they probably would be greatly concerned with what we are doing here.
Now if we try to subject the economies of the various sorts of State enterprises to some controls, it would mean that we are to some extent examining not only the economic policy of the individuals of the particular States (and, as you know, opinions in that field may differ very largely) but it would also mean subjecting to discussion the general policies of those States. In our opinion, it would exceed the scope of the proposed International Trade Organisation. On the other hand, we are fully aware of the fact that it is of general interest for international trade that member countries should give assurances as to the handling of their monopolies and State trade organisations, and we agree entirely with the principle that in the first part of Article 26 of the proposed Charter "such enterprises shall, in making their external purchases or sales of any product, be influenced solely by commercial considerations such as price, quality, marketability, transportation and terms of purchase or sale".

We suggest that if the broad principle were put in the Charter as a basic principle, no further detailed provisions would be necessary at all. We presume that there is some general clause of the Charter, I think in Article 50, line 4, which makes it possible for any member if he feels that some other member is not acting in accordance with the spirit of the Charter, to bring his case before the International Trade Organisation. If we disregard this way, the most normal way to discuss this matter is, of course, in the usual diplomatic way. We would suggest, therefore, as I have already said, that the Charter should contain only this basic principle as is contained in the first part of Article 26, and that the rest of this article and the whole of Articles 27 and 28 should be left out. There would be, in accordance with past experience, always the possibility that at some later date this basic principle could be completed with some more detailed particulars, possibly even with a special agreement.

As far as Czechoslovakia is concerned, we have a State monopoly in the truest sense, only on tobacco, salt, explosives, raw spirit and saccharine. All these individual monopolies are really an internal indirect
tax on consumption, and the revenue represents a considerable proportion of the income of the Czechoslovak State budget. I think it is hardly possible that in all these cases we could make these monopolies an object of negotiations concerning the price for which the individual product is sold to the consumers, because it would mean that we would negotiate with other members of the I.T.O. the margin and incidence of the tax we impose on these products, and it seems difficult to imagine, for instance, that salt imported from Germany would be sold to consumers for other prices than salt from Austria, etc. Besides, these negotiations would be somehow superfluous because it is quite natural that the monopolies are interested in a high revenue and apply to their purchases and sales purely commercial principles.

As far as Czechoslovakia's State-owned industrial enterprises are concerned (they represent about 70 per cent of the production capacity of Czechoslovakia's industry), these are neither State monopolies of individual products, nor should I classify them as State trading enterprises in the sense of the Charter. These nationalised enterprises work in the same manner as enterprises of other sorts, and according to the law, they have to conduct their business on purely commercial lines. The control of the State shows itself only in the appointment of the management and also in the provisions that by the end of each commercial year the State examines the financial result of the conduct of business. Purely commercial principles govern the yield of these various industrial branches and they have to pay taxes as any other enterprise. They have also to compete not only among themselves, but also with non-nationalised industries. To put their purchases and sales under controls as envisaged in Articles 26, 27 and 28, would mean just the same as controlling such purchases and sales of private enterprises of other member countries. It seems that it would mean putting the State enterprises on a footing of inferiority towards private enterprises.

THE CHAIRMAN: Are there any further comments on this subject of State trading? If not, I will ask the United States Delegate whether he wishes to replies.
to any of the proposals or comments raised in the speeches of the various
deleagtes.

MR HAWKINS (U.S.A.): Mr Chairman, I should like to comment very briefly on
the statement just made by the Delegate of Czechoslovakia. As I understood
his suggestion, it is that State trading operations be governed only by the
 provision in Article 26 which requires that the country engaging in State
trading operations buy from the foreign country where it can place its
orders to best advantage; in other words, the rule of commercial
considerations. I would suggest that if there are to be obligations
assumed with respect to State trading at all analogous to those which would
be assumed with respect to trading by private enterprise, something more
than that is needed. If the obligations on State traders were the same as
those proposed by the Delegate of Czechoslovakia, and only those, the only
obligation would be the granting of most-favoured-nation treatment.
Countries would be free to raise duties to any desired extent, provided
only that they were not discriminatory. That is, I think, the analogy
to the proposal of the Delegate of Czechoslovakia. In our thinking on the
subject, we felt that there should be some commitments by State trading
countries analogous to the duty reductions and reduction of other trade
barriers by other countries, and that is the purpose of Articles 27 and 28.

Now I do not pretend for a moment that we have found the final
solution in the draft that we have presented. It is a very difficult
subject to deal with. It is a new field. We have no long history in
tradition and experience for dealing with it. Therefore, for the moment,
I would be content to point out the need for some provisions — some
obligations by State trading countries analogous to those undertaken by
other countries in reducing duties and other trade barriers.

Mr Chairman, I would like to try to answer some of the questions
raised yesterday, and comment on some of them.

The United Kingdom Delegate made a suggestion with reference to
Article 26. He suggested that provisions requiring that purchases by
State trading organisations be made where they can be made to best advantage should not apply to services. The reason for his view was that the Charter should deal only with the treatment of goods. We would be inclined to agree with that, and would be agreeable to deleting services from that Article. Another question raised by some Delegates -- I think the Chinese and Norwegian Delegates -- had to do with the varying prices for imports from different sources. In other words, they raised the question whether the payment of different prices for imports of a product from different supplying countries is inconsistent with the provisions of State trading. The answer is that, in our view, there is no inconsistency. It is quite natural that prices should vary in that way as the State producer seeks to get his supplies from the cheapest source; the cheapest source may be at one time one country and at another time another; or conceivably at the same time, approximately.

The United Kingdom Delegate indicated that he favours the use of landed prices rather than the price at which goods are offered, in determining the margin between purchase and resale prices under Article 27.
The reason for the suggestion is that landed prices can be more easily ascertained. We would agree with the suggestion. He also pointed out that it is not administratively feasible to compute the margins between purchase and re-sale prices on the basis of individual consignments. His point is that the re-sale price would be uniform, whereas prices paid to foreign suppliers would vary for different consignments of a product. For those reasons, he suggested using an average of prices. This would not be precluded, we think, by our draft. I should think, however, that the period taken for such averages should not be too long; it ought to be such as to reflect price changes.

There was at least one question raised regarding the last sentence of Article 27. The view was expressed that the obligation is to satisfy the full domestic demand at prices charged under maximum margins should be qualified where there are systems of rationing and price control. I believe that question was raised by the United Kingdom Delegate and also by the Canadian Delegate. We would agree with the suggestion. That is assuming, of course, that the like domestic product is subject to rationing and price control. I might point out, in that connection, that the obligation to supply the full domestic demand is specifically subject to the same qualifications as apply to quantitative restrictions; in other words, the exceptions set forth in Articles 19 and 20. To illustrate: where the balance of payments exception is involved, the obligation to supply the full domestic demand would not apply.

I believe the Canadian Delegate also enquired specifically whether exports could be restricted by a state trading organisation when there is local rationing or price control. I think the answer is that, whatever provisions were agreed upon in connection with quantitative restrictions, they would apply, and we indicated the other day that we thought there might be some basis for making a change in those particular provisions.

The Delegate for Chile enquired whether an export monopoly could charge the different prices in different markets. That is more or less obvious & a previous question which I have just commented on. The answer, though, specifically would be: If this is done for commercial reasons — such, for
example, as meeting local competitive conditions. We think that entirely consistent with the proviso; in other words, I think I am merely agreeing with the proposition as the Chilean Delegate put it.

The Delegate for India raised a question regarding long-term contracts. The question, as I understood it, was whether long-term bulk purchase contracts are consistent with the commercial considerations principle in Article 26. This is the kind of question which presents some difficulties and differences in viewpoint. I will give you our viewpoint. The answer to the question seems to depend on, first, the amount purchased and, secondly, on the length of the contract. As to the amount purchased, if the contract were for the purchase of all or a major part of the purchasing country's needs for, say, a year, we would consider it open to question. Our reason is that, even though prices in the supplying country were generally lower than those prevailing elsewhere, some suppliers in other countries who were able to meet those prices would be excluded from the market. Now, as to the length of the contract, if the contract for any quantity of a product were made to run for, say, 5 or 10 years and, as might well happen, the position of other suppliers should improve -- the competitive position -- so that they could sell on a competitive basis, they would, nevertheless, be excluded from the market. The rule laid down is the rule of commercial considerations -- buying where you can buy to the best advantage, which means that suppliers should who are in a competitive position / be able to participate in the market.

The Canadian and Australian Delegates, as I understood them, felt that the global purchase provisions in Article 28 should be deleted. That Article relates to commitments which might be made by a country having a complete monopoly of foreign trade. The Article provides that such a country might agree to purchase from all countries goods to an agreed aggregate value, the country concerned being free to determine the kind of goods and the sources from which obtained, subject only to the obligation laid down in Article 26 to buy in the best market. I understand that the suggestion for eliminating the Article is based on doubt as to its practicability of application. We recognise the difficulty.
However, we would be reluctant to delete the Article until there is opportunity to discuss it with the country principally concerned. As I said in commenting on the remarks of the Delegate of Czechoslovakia, some sort of provision seems desirable. We feel that some provision must be found that will permit participation by the country with a complete monopoly of foreign trade. As I said, we recognise fully the difficulty of applying the Article, but we do think it could be worked out. In brief, we feel that the Article should be retained as a basis for discussion with the Soviet Union when there is opportunity.

There were two or three other questions which I am having difficulty with. They are related to monopolies which sounded, from the discussion, as though they were more in the nature of control boards than monopolies in the sense used in the section on state trading. There were certain questions raised by the Delegates of the Netherlands, South Africa and China about the consistency of the operation of certain monopolies, as they call them, with the state trading provisions. As I said, from the discussion, these bodies sounded more like control boards than agencies purchasing and selling directly for the Government. I suggest, Mr Chairman, that I be given an opportunity to discuss the matter with the representatives of those three countries to get a clear picture of what the operation is, and then I should be glad to comment on them in this Committee or the Sub-Committee or both, as the Committee may desire.

That is all I have to say.
THE CHAIRMAN: Does anyone wish to raise any further question or comment arising out of the replies of the United States? On this question, then, gentlemen, it does seem to me that the main problem facing the Committee is that of how far it is possible for us to lay down general rules covering the conduct of trade where state trading organisations are participating parties in view of the fact that this is a class of transaction with which our experience is relatively limited. There seems to be fairly general agreement that it would be unwise for us to reach any very definite conclusions at any rate in relation to the rules which should relate to trading with countries whose foreign trade is a complete monopoly. A number of delegates have suggested that the clauses contained in the draft charter relating to trade with countries whose foreign trade is a complete monopoly might be deleted. The United States, on the other hand, have suggested that they might be left there not in the sense that they were approved but that they should be left as a basis for negotiation with countries that might be directly concerned. It does seem to me to be wise that we should not seek to lay down rules for the conduct of trade of a kind with which none of the countries present have any direct experience, and, whatever the outcome whether the draft Articles included might be retained at this stage might be a matter to which our Drafting Committee should give attention; but it does seem to me to be the sense of the meeting that the contents, whatever may be left there for the time being, should be regarded as primarily for the purpose of negotiation and discussion with countries that might be primarily concerned.

I feel that the remaining questions are also of a related kind, that is, that there is some uncertainty as to how far we can go in laying down rules of conduct for a type of trade...
with which many of us at any rate are unfamiliar. The types and varieties of state trading enterprises are clearly various and, furthermore, the purposes for which those state trading enterprises have been established are themselves varied and very different in character. Attention, for instance, has been drawn to the complication which is introduced when a state trading monopoly is established primarily for the purpose of the collection of taxation. Another complication is that to which Mr Hawkins just referred, where a species, at any rate, of state trading enterprise comparable with a sort of board of control over a particular industry is established primarily for the purpose of maintaining stability of prices over a period of time for local primary producers. That element of uncertainty as to the appropriate rule, in the light of variation in the purposes for which state trading enterprise has been established with a monopoly, runs through a number of the problems that have been raised by individual delegates. I feel that the reply of the United States delegate has clarified many of the problems associated with the more familiar types of state trading enterprise, and I do not doubt that our Drafting Committee will be able to reach fairly satisfactory conclusions on most of the points raised. We do suggest, however, that they bear in mind that this is possibly an expanding field and one in which we are not as familiar as we are with the more traditional types of commercial transaction, and that therefore there is something in the Czechoslovakian point that we should hesitate to go beyond laying down fairly broad principles except in relation to enterprises with which countries are fairly familiar. For the rest, it might be sufficient to establish those principles with the clear understanding that progressively, as the activities of these enterprises become more clearly
known and their purposes more clearly discernible, more clearly defined rules of procedure and behaviour might be worked out as a matter of negotiation progressively.

I do not think it is necessary for me to touch in this summary on the individual points raised by a number of delegates. The bulk of them, I believe, have been clarified fairly satisfactorily by the United States delegate, and I think we might conveniently at this stage refer this matter to a Drafting Committee. For your consideration, I suggest that we might refer the matter to a Drafting Committee consisting of the delegates from Czechoslovakia, the United Kingdom, the United States, New Zealand and China, with the understanding that the particular problem relating to the activities of marketing boards - which are perhaps not completely state monopolies - might be examined in the first instance by a smaller Committee consisting of the United States, the Netherlands and South Africa. I shall be glad of comments by delegates on that suggestion. I take it, then, that it is agreed that we refer the question of state trading to a Drafting Committee consisting of the delegations of Czechoslovakia, the United Kingdom, the United States, New Zealand and China, with the understanding that the activities of marketing boards might be referred in the first instance to a smaller Committee consisting of the United States, the Netherlands and South Africa.

MR DEUTSCH (Canada): Mr Chairman, just to clarify matters perhaps for the Drafting Committee, the answers which the United States delegate has given to the points raised by the Canadian delegation and the willingness he expressed to make certain adjustments are perfectly satisfactory to us for our present purposes.

THE CHAIRMAN: Does any other delegate wish to add anything to
the discussion on state trading? I propose, then, that we leave the matter of state trading and go to the next item on our agenda, "Emergency Provisions, Consultation, Nullification or Impairment."

MR SHACKLE (U.K.): Mr Chairman, I note that the Journal for today suggests that after discussing State Trading we might proceed to the relations with non-members. I think that on the strength of that it is quite possible that certain delegations (it certainly applies to the United Kingdom delegation) may have studied up the subject of relations with non-members with some care with a view to a discussion, whereas, on the other hand, they may be caught somewhat unexpectedly if we proceed to discuss the emergency provisions. Would you like to consider that?

THE CHAIRMAN: I am in the hands of the Committee in this matter. We did receive a request from one of the other Committees that we should, at a fairly early stage in our discussions, consider this difficult problem of relations with non-members. I did not propose to bring it forward immediately because I was hopeful we would be able to devote some time to it tomorrow, but, if the Committee would prefer to discuss it now, then that is quite acceptable to me. Would delegates indicate which course they would prefer to follow?

DR SPEEKENBRINK (Netherlands): The reason why the Committee on Procedure asked for this question to be given some priority is that, when discussing the most favoured nation clause of Article 8 and the exceptions thereto, we found ourselves confronted with the question of open conventions and others, and they have a direct bearing on Article 31; so in order that we can proceed with an early discussion of Article it would be helpful if this Committee dealt with the problem at this time.
THE CHAIRMAN: Is it agreeable to the Committee, then, that we proceed now to a consideration of Section H, "Relations with non-members"? . . . May I take it that that is agreed? Would the United States delegate care to indicate the views of his delegation underlying these proposals?

MR HAWKINS (USA): Mr Chairman, Article 31, in its essence is very simple and not new. Over the past ten or fifteen years or more there has been a great deal of discussion of the possibility of multilateral agreements. The view has usually been, on the part of those who have considered the problem, that some stipulation along the lines of Article 31 of this draft is desirable, if not essential, to the success of open-end multilateral agreements: in other words, if a number of countries get together, accord benefits to each other, and provide that all those who will accord the same benefits may join, there is an incentive to join which would not exist if the benefits could be had without joining. Some of you may recall that a convention was once formulated providing that no country would invoke the most favoured nation clause in its bilateral agreements in order to obtain the benefits of such a multilateral convention. The convention which I have mentioned referred to genuinely open end agreements, that is to say, agreements among a group of countries so drawn that other countries could accede. The benefits of it would be denied only to those who could accede and chose not to. That is the principle. It is not new to this charter. It is as old as the discussion of multilateral agreements. On the other hand, a provision of this kind in a charter of this kind does present problems of great difficulty and importance. It would be a rather serious matter for some countries in effect to cover their commercial relations with non-members.
I fully recognize the difficulty that is presented. Just as a suggestion for consideration, and not representing any firm view on my part, I would suggest that the Committee might adopt this general line of action with respect to this article. It might consider the formulation of it, keeping it in draft, but not adopting it until the whole Charter goes before the World Trade Conference, to be considered there. At that time it will be possible to see more clearly what the scope of the membership of the Organization is going to be. Obviously if every country in the world joins the Organization you will have no problem.

THE CHAIRMAN: The question is open for discussion. The Delegate for the Netherlands.

MR SPEEKSENBINK (Netherlands): Mr Chairman, I have listened with interest to what Mr Hawkins just said, but I would like at this stage to draw your attention to one special difficulty. As I understand it, we will have our tariff negotiations in March of next year. The results of those tariff negotiations should be incorporated in a protocol as far as I understand it and that protocol should come into effect at once or, in any case, presumably before the World Conference is held or has reached definite conclusions. I think that we are in the middle of the problem and that the suggestion of Mr Hawkins will not save us from these difficulties; so that I would appreciate his views on this point.

THE CHAIRMAN: Does any other Delegate wish to speak on this matter?

MR MCKINNON (Canada): I think in the light of the remarks just made by Mr Hawkins, on behalf of the United States delegation, that we would prefer to leave it in that position. His remarks have the effect of diverting attention for the present from the rather precise formulation of Article 31 and throwing it back into more general wording and the terms of Article 2 on Membership. It is our view that the suggestions he has just made are very practical and sensible ones.

THE CHAIRMAN: If I could attempt to clarify this position, I understand that Mr Hawkins's suggestion amounts to this, that when the Charter and the
protocol are submitted to the World Trade Conference of the United Nations late next year we hope that the benefits will be extended, temporarily at any rate, to all the United Nations. There will be a period during which they will be given time to pay their membership fee in the form of the conclusion of multilateral tariff reductions; but until the period during which that payment can be made they will be entitled to the benefits of membership, and that therefore the problem of determining the nature of the relationships of members with non-members is not really an urgent one, and that we can therefore leave it for determination until we know more clearly how wide membership is likely to be and what the proportion of countries will be who remain outside the Organization. I think it is clear that the whole of this question does turn very largely on that fact. As Mr Hawkins has pointed out, if all countries are members then there is no problem. If Mr Hawkins's suggestion is adopted the question is whether it is wise to leave the suggested relations with non-members in the form in which they at present exist in Article 31, recognizing that that is purely provisional, that it will not affect any countries at any rate which participate in the United Nations Conference next year, and that, therefore, we will have time by then to assess more precisely the nature of the problems and the relations of members with non-members. Would that express the position, Mr Hawkins?

MR VIDELA (Chile): Mr Chairman, this morning in another Committee was raised the important question of the denunciation of conventions in force. I do not wonder if we need to take that difficulty into consideration, because we cannot say that we are members until we have ratified the future convention, and we cannot say that we waive our obligations to non-members until we have denounced them. I only mention this question because this morning I had to intervene in the debate as the Chairman of the Technical Committee. Thank you.

THE CHAIRMAN: Are there any comments to be offered upon that point, Mr Hawkins?

MR HAWKINS (USA): Mr Chairman, I could not hear very well.
THE CHAIRMAN: I take the Chilean delegate's point to be that a number of countries have commitments towards other countries who may or may not be members, and if we as a result of our negotiations in April of next year conclude certain bilateral arrangements which are generalized to the countries here represented, certain countries at any rate would be obliged by existing commitments to extend those further to other countries which may or may not be countries which attend the United Nations Conference in September.

MR HAWKINS (USA): I think that the answer to that question, and possibly also to the inquiry of Mr Speekenbrink, is that you carry on your negotiations next spring and generalize, pending a decision. You see, under this draft the application of the article would be put off for a year and we shall be merely extending that. I think that would take care of the suggestion of the Chilean delegate, because you would not be immediately faced with the problem of terminating agreements with non-members. As I said, even under this draft, if this were adopted, you would have a year; but if it were not adopted but merely held in abeyance for consideration by the World Conference, any negotiations that took place could take place on the assumption of the generalization and wait the decision of the Conference before action was taken with respect to agreements with non-members.

MR AUGENTHALER (Czechoslovakia) (Interpretation): Mr Chairman, for a change I will speak in French, to give some work to some of the other interpreters. I believe that we have already expressed our point of view concerning this passage in the documents which were submitted to the Committee, and from our point of view we see no objection to the first paragraph, that is to say, that no member State should seek advantages to the detriment of other members. There we are in perfect agreement with the proposals of the United States; but as far as concerns our position, it is more or less as follows. The countries represented here are about 30 or 35 per cent. of our foreign trade; some 65 per cent. of our foreign trade is conducted with nations which are not present here,
and so we do not know, and we have no hint, of whether some of them may or may not become members of the Organization. If that were to happen - and we do not desire it, because we would be most happy if all nations became members of the future Organization - but supposing that one or other country did not become a member, I do not see how Czechoslovakia, a small country, could put itself in the situation of being in economic and commercial conflict with that country, that is to say, denounce existing commercial treaties and so on. On the other hand, I suppose that the Charter which we are drafting and the Organization which must arise from the completion of our task ought in themselves to offer such advantages to countries which are not present here that it would lead them to become members. I do not know whether this is a threat that we see in Article 31, and whether it might not have that effect, or possibly a contrary effect. Therefore, we believe that if a document is to result from our work here, a document which ought to be submitted as our common opinion, it would be useful that that passage, which contains, if I may so call it, some kind of sanctions, should not be included in it. Thank you, Gentlemen.

THE CHAIRMAN: Thank you.
It seems to us, Mr. Chairman, that firstly matters have gone a rather far simply to withdraw the Article which appears in the draft; after all, this draft has been published to the world. It rather seems to us that to leave it out at this stage might rather suggest doubts about our possible success. If we suggest doubts, perhaps our success would be so much the less likely. It does seem to us that the problem falls to some extent into two parts: first of all, the general obligations of the convention, and secondly the tariff part of the proposed arrangements. As to the general part, that is perhaps less urgent; one can go ahead on the general assumption, for the present, that those countries who are willing to undertake the obligation will get the benefits. As regards the tariff side, the problem may present itself rather sooner. It may be that we should do well to leave over a decision on the tariff side of the matter until we have had our tariff negotiations next year; but it seems rather doubtful if that side of the problem can be left over much longer after that. On thinking over this question before hand, it seemed to us that there are really three possible alternative courses in this matter: the first possibility is a definite requirement that the advantages of the agreement should be withheld from countries that do not adhere to it. That would, of course, have the logical consequences which are set out in the American draft of Article 31, such as for existing obligations (most-favoured-nations obligations) which Members have towards non-Members should be terminated either by agreement or, if there is not agreement, then after the prescribed period of notice of unilateral termination has been given. It is difficult to see how, under those conditions, under the conditions foreseen in Article 31, any Member country could have any sort of convention or commercial relations or agreement with a non-Member. That obviously might give rise, under certain circumstances, to serious difficulties. The second alternative would be that it might be left to Member countries individually to decide whether, and how far, they should extend any of the advantages of the
agreement to any non-members. The object of that is obvious, I should think, that it would largely remove the incentive for non-members to join.

There is also the further objection that it would open up a risk that non-members, especially if they were economically strong and important countries, might be put in the position of forcing upon a certain member trade agreements of a kind which would discriminate against other members, and that clearly would involve a risk of breaking up the organisation.

The third possibility is that the right of members to conclude trading agreements with non-members should be dependent upon the organisation's approving each proposed agreement, applying to it some such tests as: whether it would or would not tend to injure the interests of other members. One realises that this particular course would place a difficult discretion on the organisation. It might often be hard to say whether a particular agreement was liable to have injurious effects on other members or not. Also, to some extent, that middle course would weaken the incentive for non-member countries to join the organisation. Nevertheless, it seems as if, in certain circumstances, it might turn out to be a prudent compromise. As has already been suggested here, we may do well to defer a decision between the various possible alternative courses until a later stage in our discussions. The question arises, however, of what kind of draft, if any, is to be contemplated as resulting from this stage of our discussions. It rather seems to me that we might perhaps do well to put in alternatives. You might have as the first alternative an article of the type of the present article 31 of the United States draft. The second alternative would be on the lines of the compromise course which I have mentioned, namely, that it could be free for members to make agreements with non-member countries, subject to the organisation's approval. Obviously, there are grounds on which the first alternative may be defended, that it is equitable, that it provides the maximum incentive. On the other hand, it may, from a technical point of view, be disadvantageous to put it forward along, because it might be considered by some countries not here represented that we were seeking, in some sense, to
present them with a fait accompli, and that would not be helpful to the prospects of securing ultimate wide membership. So I think that possibly we might think of putting forward as a basis for further consideration a compromise which would involve approval by the Organisation.

There is one last point: I think we need to be clear in our minds as regards the conception of "non-membership", and what the term "non-members" means. I suggest that no country ought to be regarded as a non-member or to be subjected to any consequent disadvantages or disabilities unless and until it has had a reasonable opportunity of adhering to the agreement. In other words, all countries ought to have the opportunity to adhere. No country should, for any reason or on any ground, be denied the opportunity to adhere; and it is not until a country has had the opportunity to adhere and has either refused it or has given reasonable grounds for the belief that it does not mean to take advantage of the opportunity -- it is not until then, I say, that any action ought to be taken by the Members, on the assumption that that particular country is to be regarded as a non-member. Thank you,

Mr Chairman.

MR LOKANATHAN (India): Mr Chairman, our view on this subject is that the balance of advantage lies in postponing consideration of this question. I do not think it would be of much help to have various alternative drafts, because the whole question of the relationship between Members and non-members can really be decided only after we have had the International Trade Conference, and after all the Articles are drafted to the satisfaction of the Member countries. We do not know yet whether even the countries which are now participating in the Conference will be in a position to accept, and become Members of the International Trade Organisation; and that can only be known when we have had the final stage. I think it is also necessary for us to note that, as the United Kingdom Delegate once pointed out, the elimination of quantitative trade
controls is not only necessary in the interests of world trade, but in the interests of one's own trade. So, similarly, my point is that the reduction of tariffs, the removal of restrictions and so on, are desirable in themselves for various countries, without any regard to the question whether they are Members or non-Members. Therefore, that being so, that is one of the important reasons why, irrespective of the attitude of non-Members, we have to do certain things if they are good in themselves. I quite grant that in a matter of trade there are mutualities of advantages, if we give something in order to get something. There are other difficulties which have already been pointed out by several Delegates, and we in India have similar difficulties. If we have, for instance, to give the most-favoured-nations treatment to countries which join the International Organisation, but are compelled to deny it to others, with whom we are in intimate trade relationship, merely because they are non-Members, we shall be placed in an extremely awkward position. There are several reasons why at this stage we should not pursue consideration of this Article but just defer it. The Drafting Committee must simply say that Article 31 has been noted, but consideration is deferred, to be taken up whenever necessary. Therefore, all that we have got to indicate now is that the matter relating to the relation with non-Members is being taken up, but it will be considered at the appropriate time. Thank you.

MR STEYN (South Africa): Mr Chairman, in supporting the statement already made by the United Kingdom Delegate, I would just like to say that we, as a Delegation, feel that membership should be open to all countries, and that there should, therefore, be no question of an ineligible non-Member. Thank you very much.

THE CHAIRMAN: Are there any other Delegations who wish to put forward their views? Gentlemen, it seems fairly well agreed that it is impossible at this meeting of the committee at least to finalise the question of the relationship between Members and non-Members. Consistent with that generally agreed view, there are, therefore, a number of approaches. One is that we might leave Article 31 substantially in its present form, on the understanding that the whole question
will be subsequently reviewed. That has the advantage, or disadvantage, according to the point of view, that it would indicate presumably that this Committee was of the opinion that, given a favourable outcome to the question of what countries were to be Members, there are embodied the sort of provisions which we felt to be reasonable, and whether we have actually agreed to that or not, I feel that that is a likely conclusion to be drawn. Consequently, it is necessary to consider the other two alternatives: the one put forward by the United Kingdom Delegation, in which they suggest that there should be prepared, in addition to Article 31, an alternative form of provisions which would set out a sort of compromise arrangement which would recognise the necessity for members to have contractual trade relationships with non-Members, and make the nature of those relationships, insofar as they are embodied in contracts, subject to the approval of the Organisation itself. There may, of course, be other possible alternatives also.

The third suggestion, which the Delegate for India put forward, was that no provisions should be included at this stage relating to the relationships between Members and non-Members, but that the whole question, without any indication of alternative views, should be held over until a later conference. These are fairly difficult questions and, subject to the wish of Delegates to consider them further at this stage, I think it might be worth while if the relevant three alternative approaches were considered, in the first instance, by a drafting committee which could report back to us.
I suggest that such a Drafting Committee might consist of the United Kingdom, the United States, Czecho-Slovakia, the Netherlands and India.

MR DEUTSCH (Canada): Mr Chairman, do you think it is possible for us to arrive at some decision today rather than to create another committee? We are really finding it physically very difficult to run the various Committees that we have now. In supporting very strongly, as we did, the suggestion of the United States Delegate that consideration of the matter, should stand over for another place and time, we had hoped that probably the present draft of Article 31 would not go forward. We had come with very substantial suggestions and amendments to propose in connection with that draft. On the other hand, it may be equally inappropriate, in our view, to send forward a draft with a blank numbered 31. Therefore, there might be something to be said for the United Kingdom suggestion of at least sending alternative drafts if we can arrive at alternative drafts without the creation of too many sub-committees and too great a length of time spent upon a subject which we seem to be generally agreed should stand over for further consideration at another time.

THE CHAIRMAN: Might I suggest that we adjourn for tea and resume at five o'clock? During tea, the countries that I mentioned might confer, with a view to our concluding this matter by agreement when we re-assemble. We will adjourn for tea and re-assemble at five o'clock, and might I ask Delegates to be prompt in returning to their places at five o'clock?
THE CHAIRMAN: Gentlemen, during the tea interval there has been some consultation between the executive and certain of the delegations and it has been suggested, in relation to the difficult problem concerning the relations with non-members, that we might ask the United Kingdom delegates to prepare for the consideration of this full Committee a draft report on this question which would review the issues involved and I gather would come to the general conclusion about which we were all agreed, that it was undesirable to reach a final decision on this matter until perhaps at least the bilateral tariff negotiations were complete and possibly until the full United Nations Conference had assembled. That draft report would be prepared by the United Kingdom delegation after consultation with other delegations and would come back to this full Committee for consideration. If that arrangement is acceptable to the members of the Committee I would ask the United Kingdom delegate whether he is prepared to undertake this onerous task. Is that agreeable to the Committee? Is that all right with you?

MR HELMORE (U.K.): Mr Chairman, we shall be happy to try to assist the Committee in that way.

THE CHAIRMAN: Gentlemen, instead of going on now to the section of the agenda dealing with "Emergency Provisions, Consultation, Nullification or Impairment", it has been suggested to me that some of these matters are rather technical and it is a long time since a lot of us have read the relevant Articles of the charter, and that therefore it might be wise for us to revert back at this stage to a matter of more general policy with which we omitted to deal, and that is the question of subsidies. This, of course, is closely related with our discussion of other forms of protective devices such as tariffs and quantitative restrictions. It
has also some very close affiliation with the subject matter of Committee IV, which deals with inter-governmental commodity arrangements. I think it would be of value to us here to commence the discussion on this matter now. If that is agreeable to the Committee, I will ask the delegate for the United States again to commence by outlining the point of view underlying the proposals put forward by the experts of his Government.

MR HAWKINS (USA): Mr Chairman, our proposals on subsidies are found in Section E, and there is one Article on the subject which covers the field. In the first place, there would be a general obligation on the part of members to report to the Trade Organisation on all types of subsidy that it may be employing and to discuss with other interested members the possibility of limiting the subsidisation. In general, direct subsidies to producers would not be prohibited, and that obligation to consult is not to be regarded as a prohibition on them. The reason for placing the obligation on a member employing direct subsidies is that there may be some cases in which the use of subsidies would cause particular hardship to some other countries; for example, if a direct subsidy permitted by the Charter were used to such an extent as to replace or seriously reduce the market for the product normally imported from abroad, that would be a proper subject for consultation between the parties. The main point, however, is that direct subsidies would be permitted, that is, subsidies to producers.

Export subsidies we consider to be in a different and special category. The main rule as regards export subsidies is that they would be prohibited. An export subsidy would include any system which results in an export price lower than the domestic. Now, there are exceptions covering those rules. The exceptions relate to situations in which a product is or
is likely to become in burdensome world surplus. When such situations arise there would be consultation among the members. The purpose of the consultation would be to see if consumption could not be increased or if the problem could not be met by reducing inefficient production; or the object of the consultation might ultimately be to see whether a commodity agreement could not be worked out.

Now, if all these measures failed, so that the problem was not gotten under control, the obligations regarding subsidies would cease to apply. The idea there is that a country or countries afflicted with a serious surplus problem who have tried to find some international solution of it might be forced back on to such measures as they could have recourse to, which might be to use export subsidies.

The remainder of that Article deals with the limitations on the use of export subsidies in such circumstances, the obligation being that if, in the conditions stated, export subsidies are used by any country, they will not be used to increase the share of the trade which that country had in a previous representative period.
Then there are provisions which, as you see, are intended to help to
define and decide what that representative period would be. One of the
main features of the proposal regarding subsidies is that the direct
subsidies to producers are permitted as long as those countries are
able to use that method, which depends less upon trade restrictions.
In our opinion, the use of a subsidy is preferable to an import restriction or tariff. From the standpoint of the country using it, the
effect of the subsidy is to keep prices down and keep demand up. Industry or producers would benefit very largely from a larger market at
home, and the subsidy would enable them to get a share of it. Subsidies
as we see them are expansionist rather than contractionist measures.
Now, you will note that a good deal of that Article relates to matters
with which Committee IV is concerned, and the subject matter of this
Article is closely tied up with the question of the commodity agreement
which is now being discussed in the Committee. I would suggest, Mr
Chairman, for your consideration, that, in view of that fact, the
appropriate way to deal with this subject would be to create a joint
committee of Committees II and IV to deal with it.

MR McCarthy (Australia): Mr Chairman, it appears to us that the object
of this Article is to consider subsidies as applied or as alternatives
to import tariffs and as applied to primary products particularly, but
also to products which are in surplus supply. It is fairly easy to
consider them as substitutes for import tariffs, and it would seem that
it is proposed by the United States that such subsidies be considered
legitimate and that they are less harmful than high import tariffs, and
if they do not appeal to the Organization as being harmful, that they
be allowed to remain. That is fairly clear and understandable; but when
we come to the application of these subsidy principles as laid down here
to primary products and, in particular, primary products which have export
surpluses, the Australian delegation has considerable difficulty in re-
conciling itself to accepting them, or, to put it in another way, clearly
but to understand them, the principle seems to be that if subsidies are given
direct to producers they are admissible, subject to the condition that they might be discussed with the Organization. It then goes on to differentiate between those production subsidies, as they are termed, and subsidies which are given on exports — and export subsidies are defined as subsidies where an actual payment is made on export, but also where because of some national machinery that a country has adopted, the home consumption price is higher than the world price or the export price, and it is not clear that any distinction is made at all between what might be described as dumping, where the prices at which the products are exported are less than the world price, and cases where the products are sold at the world price but sold on the home market at a higher price. The plain fact is that many of the schemes that have been adopted by countries with export surpluses provide for this process of having a higher price than the export price, and in effect the incidence of those subsidies is precisely the same as if they were production subsidies. It is only a matter of technique. I could describe certain of them, but I would make that point, that some of the methods which are followed, such as excise and bounty principles, mean that the price of some products is higher on the home market than on the oversea market, and because of that they come under the category of export subsidies in this document, and because of that, too, they are under question. We feel that there should be some change made so that the criterion will be not whether the home price is higher than the oversea price, but the effect of the subsidy, whatever be its character on the international market. The great objections to subsidies on primary products, whether they be by export or by production bounty, are that they stimulate production either in an exporting country or in an importing country and they glut the world’s market by so doing. To try to make it clearer still, our view is that it does not matter at all what form of assistance is given to a primary producer by price support as long as his surplus is not stimulated to a degree that it injures the world market. If a country decided that it would give
support either by export or by production subsidies and at the same
time suppose that it limited production to avoid stimulation, we
consider that ought to be legitimate, and we consider where an export
subsidy is paid, accompanied by limitation of production, it is much
less harmful than a subsidy described as a production subsidy which
makes no provision for production control. A lot of the difficulties
that have been caused to primary products in the past are due to sub­
sidies on the part of importing countries. They have engaged in
highly uneconomic production and by doing so they have narrowed their
imports, they have narrowed the net world import demand, and by doing
that they have caused gluts. Now, the machinery laid down here would
exempt importing countries entirely from any disciplinary measures by
the Organization; they cannot have export subsidies because they have
got no exports, so that, whatever their subsidies are, they are pro­
duction subsidies, and they are only liable to be called upon to engage
in a friendly talk on the subject. Exporting countries, however, have
been divided into two categories: Production payers of production sub­
sidies and payers of export subsidies. The latter category are obliged
to undergo stricter discipline from the Organization. Our statement
is therefore that we see no great distinction between production sub­
sidies and export subsidies, but they have the same net effect of
giving price support. That price support, whatever be the form it
takes, is harmful if it stimulates production economically to such a
degree that it injures the world market. We therefore say that the dis­
tinction that is made between the subsidies paid by importing countries
and those paid by exporting countries is not equitable because the
uneconomic production in an importing country might be very much higher
than - and we believe it has been in many countries - the uneconomic
production or the stimulated production in an exporting country. We,
therefore, wish to put forward these points for consideration by this
Committee. I have said enough, and Mr Hawkins also indicated this, to
show that the relationship of subsidies with primary products is such
that it is very close to the work of the Intergovernmental Commodity Agreements. I think that the greatest cure for all these subsidies in their various forms as applied to both exporting and importing countries, is a commodity agreement. When a country finds that it is necessary to interfere with the ordinary flow of international trade in any form or to any degree, that then is I think a confession by that country that commodity agreements are called for. Put in another way, that if any regulation at all is required in respect of all important primary products which have a big international market, whether it be by subsidy or by tariff or by any other form of support, that is a very good reason for regulation under a commodity agreement. Where you do have a commodity agreement the countries affected, both export and import, come together and iron out all these problems that are associated with that particular product, whether it be tariffs or subsidies - and again I say subsidies in any form, because there are very many different forms and some of them seem to be more strongly criticized than others - but whatever form they take, I repeat it is all a question of the economic effect they have on the production of the product. They support the price that is received for that product; and the question is whether that support brings about injury to the international market or whether it does not. If it does not bring about injury it cannot be questioned - in fact, there are reasons why it should be continued. But if it does bring about injury it should come under question, whatever form it takes. I would agree with Mr Hawkins's suggestion, that this question be considered by the Committee dealing with Intergovernmental Commodity Agreements, because I believe that if the objectives of that particular section are successful, or are successfully achieved then we will not have very much trouble with the subsidy question, but if they are not I can foresee a good deal of difficulty with this subsidy question, because some countries have built certain techniques, whether they be good or bad, but which are very firmly imbedded in the economics of some of their products, and in dealing with those we should seek to decide whether they are doing any harm or not before seeking to remove them.
THE CHAIRMAN: Is there any further discussion on this point?

MR RODRIGUES (Brazil): Mr Chairman, the Brazilian Delegation wants to declare that, concerning this question of subsidies, we think that we need to follow a different policy from the policy contained in the draft Charter of the United States, especially in regard to paragraph 7 of Article 25. In short, we think that it is very difficult for a country which depends heavily on the exportation of some products to draw a clear line between export subsidies and production subsidies. We feel, as we have tried to explain through our suggestions presented at this Conference, that the best way is to avoid granting new or additional subsidies on exports and to try to eliminate the existing ones within a short period, because the policy of subsidies -- even in the production subsidies -- can create great difficulties for some countries which are not able to face the competition of countries better organised, especially in the financial field. At the same time we should like to point out that some countries which are not really interested in the inter-governmental commodity arrangements, can, by fighting these commodity arrangements, later on take advantage of this. Therefore, the Brazilian Delegation wishes to state at this stage in our discussions the view that we are strongly against any kind of subsidies, even subsidies relating to the production of any commodity.

MR VIDELA (Chile): Mr Chairman, the Chilean Delegation accepts in general the general principle laid down here in these Articles. Nevertheless, I have some doubt regarding the definition, I should say, of what are called "subsidies", when they refer to a price "lower than the comparable price chargeable for the like product to buyers in the domestic market". When I call attention to this wording, I have in mind the distance of my country, and the peculiar market we have for such commodities as, for example, wool. Our overall production of wool is entirely in the South of Chile in Magallanes, and we find that it will be very difficult to sell our output of wool from the south of Chile at lower prices than the domestic market in the centre of Chile. I think this difficulty
must receive an explanation. I think actually we are competing on a fairplay basis, but on the work price, not based on the domestic market price. I would like to hear an explanation in connection with this matter, Mr Chairman.

MR FRESQUET (Cuba): Mr Chairman, I only want to express that the position of the Cuban Delegation concerning this matter is entirely the same as the position expressed by the Delegate of Australia. Thank you.

MR McCARTHY (Australia): Shall I answer that point, Mr Chairman?

THE CHAIRMAN: Yes.

MR McCARTHY (Australia): The case I had in mind was where, taking an example, say Chile produce butter, and there is a world market for butter, which might be 100/- per cwt., and an arrangement is made with the support of the government for agreements between the shippers of the butter and the central organisation under which it is agreed that butter sold within the country is 120/- per cwt. and then a pool is made and the 100/- butter and the 120/- butter are mingled in the pool and what is called an equalised payment between export and local consumption is paid out to all producers. That could be a production subsidy; it is paid to producers; and they get a price which, assuming, in the instance I have given, that export and home consumption are equal, would give a return of 110/-, which means that a sum of 10/- per cwt for export is paid out to producers; that is called an export subsidy because the rate at which the home consumers pay for their butter is higher than the international market price; but the international market is not affected in any way. It is quite possible it does happen (it has happened in the case of Australia) that the production of Australia on the international market is receding, whilst this subsidy is being paid; and it does mean really that, rather than having an injurious effect, it can be associated with two things: either a receding export because of seasonal conditions, or a fixed export due to the fact that the country is afraid that its measures will stimulate production and it puts a limit on production and thus a limit on exports.
THE CHAIRMAN: Does that clarify the position?

MR FRESQUET (Cuba): Yes, but as we are a very distant country, 10,000 miles from the market where we used to sell most of our commodities, I would like to have that also clarified. We cannot take for a basis the domestic price; we have to compete with prices in the world market, and sometimes we may need to give some support to our exports in order to pay the difference. We have that handicap on freight.

MR MCCARTHY (Australia): That is another point. You can have a straight-out export subsidy, which means that instead of relating the subsidy to the whole of your output, as in the case I described in relation to butter, you can just pay out so much a cwt. on your exports. That, of course, has a different effect. If you paid a straight-out subsidy, such as you suggest, and the effect of that was to lift your home consumption up to export parity, that is, the export parity based on the world price plus the subsidy, then, of course, that is one thing that could happen. The other thing would be to pay the subsidy on export, but so arrange it that the benefit of the export subsidy would be distributed over the whole of your market, both domestic and overseas, which would give all your producers 2d. That illustrates the different forms an export subsidy can take; but the point I was trying to make was that a subsidy which might be export in form has exactly the same incidence as a production subsidy.

THE CHAIRMAN: Is there any further discussion on this point?

MR DEUTSCH (Canada): Mr Chairman, this question of subsidies is a very complicated one, and we have a choice between two sets of figures. Both types of subsidies, the producer's subsidy and the export subsidy, may be very harmful to international trade. I believe there is much force in Mr McCarthy's argument. However, the harm that is possible to international trade as a whole, taking into account both trade in manufactured goods and trade in primary products, -- we believe that the harm inherent in the use of export subsidies is greater than the limitation
the producer subsidies would produce, for the simple reason that if a
country must subsidise the total output as compared to subsidising only
the export part, the likelihood of the use of subsidies will be less in
general if the whole output has to be subsidised rather than simply the
export output. Therefore our choice between these two difficulties is
the same as that taken by the drafters of the American charter, and on

the whole we feel that the limitation to export subsidies is preferable.
MR LOKANATHAN (India): Mr Chairman, I should like, first of all, to say a word upon subsidies payable in respect of manufactured goods, and then revert to the question of subsidies on agricultural products. Our attitude to subsidies is that they are an effective method of creating production. In some cases, we regard it as a superior form of creating production, because we know what the cost of production is, and that is a great advantage. On the other hand, we are alive to the fact that poorer countries have not the same means to use that method in preference to tariffs, because although the incidence of subsidies as compared with the incidence of tariffs may be the same -- a point referred to by the United Kingdom Delegate -- there is a very real difference in the way in which both can operate. The Finance Member can certainly operate by use of tariffs whereas he would be hard put to it to operate by way of paying direct subsidies. Therefore, the technique is as important as the actual incidence and we, therefore, consider subsidies to be very important, but their use is limited by the fact that some countries are poor and others are rich. On the whole, we are in favour of production subsidies. The distinction between production subsidies and export subsidies is a real distinction, although I grant the position taken by the Australian Delegate that in some cases both may have similar effects. But, in the case of under-developed countries which have established new industries, there is very little chance of those products coming into the world trade and, therefore, they are not likely to cause any international reactions or to inflict any harm upon international trade, whereas export subsidies as such are likely to bring about international disharmony. For that reason, we agree with the Canadian Delegate's view that the export subsidies are not so desirable.

When we turn our attention to the subsidies on agricultural products, the considerations are here somewhat different. Actually, when rich countries resort to the use of subsidies, whether domestic or export subsidies, the effect upon poorer countries, agricultural countries, has been very unfortunate. India has suffered under that, and in respect of some products India has suffered because she has not been able to compete in the world market in respect of certain goods which, in certain other countries,
have been subsidised. Actually, the method of subsidisation is a very important thing. If the United States, for instance, wants to subsidise raw cotton, I think the best way is not to give subsidies on the total amount of production of cotton or the total amount exported. The real basis for subsidisation is not that you should give a certain amount of money to particular products; it is rather that the people who are the growers of cotton should be given a certain income. Therefore, the whole approach to the question of maintaining the income in purchasing power of the primary producer should be, in the case of rich countries, from the point of view of the fiscal machinery — that is to say, the tax system in that country should be so managed that certain benefits should be rendered and transfers of income should be made by means of taxation from the rich to the poorer classes who are in agriculture. On the other hand, if they are going to give subsidies of various kinds in respect of products which have also to be grown by the poorer countries and have to be exported, then the competition between the two countries is so unequal and unfair that the poorer countries have a definite case against it. Therefore, with regard to export subsidies of agricultural products, I do not think we could accept the position and, if it is done, it should be done in a different way which will not produce this undesirable effect.

THE CHAIRMAN: Is there any further discussion on this matter?

MR SHACKLE (United Kingdom): I should like to associate myself with the remarks which have been made by the Canadian Delegate and also the Indian Delegate in regard to the more dangerous and objectionable nature of export subsidies as compared with domestic subsidies. When I say "domestic", I should say general production subsidies. We feel, as the Canadian Delegate remarked, that the mere fact that the whole production is subsidised under the latter method is in itself some safeguard. For the rest, the type of subsidies which we feel to be particularly objectionable is where a country makes use of export subsidies in order to secure for itself a larger share of the world market for a product.
than it could otherwise obtain and, having done so, proceeds to use that as a means of securing a commodity agreement which perpetuates for it a larger share of the world market than on its economic position it would be entitled to. That is the type of subsidy which we feel it particularly desirable and necessary to rule out.

MR TUNG (China): Mr Chairman, the Chinese Delegation are generally in accord with the provisions in Article 26 on subsidies; that is to say, we feel that member nations should not unduly resort to subsidies as a means to promote export trade; but we think there is an exception in the case of preferential markets. We think it is only fair for an exporting country to give a certain amount of subsidy to their products going to such preferential markets. In connection with the topic of duties in Article 11, paragraph 2, which is to be discussed by this technical sub-committee, the Chinese Delegation have proposed a certain amendment, and I would like to read that amendment. It is as follows: "In the event of preferential treatment being accorded by a country to certain countries to the exclusion of other member countries, no countervailing duty shall be imposed upon the products imported from such other member countries against subsidies which are granted by the latter to such products as compensation for covering the preferential margin."

MR SPEEKENBRINK (Netherlands): Mr Chairman, I hesitate to add further examples to the many we have already had, but there are a few special points I would like to make on which I would ask the guidance of Mr Hawkins before defining our attitude with regard to export subsidies. One point is this -- and it is only a small point it may be. At a later date, when the currencies have been established, this will not be a difficulty any longer, but we find it difficult sometimes to trade with countries who have not established their exchange up till now on a higher level. Private persons can try to get a solution for this problem by selling at high prices and buying at high prices, but often you find that they cannot find the right partners. So a possible solution for that is that the Government itself, which is doing it with agricultural products already, should levy a duty
when exporting to that country -- let me say not in the form of a duty, but, when you ask for a licence, you have to pay a certain amount of money and use that money again when buying commodities from that country. It seems to me that, when we have export subsidies, in the spirit of the Charter, we should not be allowed to levy a duty on exports, as I have just mentioned, and we would have here a kind of import subsidy instead. The same thing, putting it in another way, is that you have not our monopolist system which I mentioned yesterday on agricultural products. We try to find an average price for the produce in our country for certain agricultural commodities. We do not discriminate with regard to importing countries, but if, for instance, the average price is 110 guilders, and the import price should be about 85 guilders, then we would when giving a licence ask the importer to pay 35 guilders to the common front and that we use again as a production subsidy for the maintenance of agriculture. This system, as I said yesterday, has been functioning already for about 15 years, but sometimes one has difficulty with it, and also the country which Mr Hawkins represents has sometimes spoken of raising countervailing duties. I think the whole matter of subsidies is a little one-sided. You can give a production subsidy; you can give an export subsidy, but, when you try to have a real regular development of your market, following the trend of world prices, you are prevented from doing so by the different stipulations of the Charter. As we have already agreed that I should discuss this with Mr Hawkins, I just raised the point here, because I felt I could not refrain from mentioning it at this moment.

Those are all the remarks I have to make, thank you.

MR McCARTHY (Australia): Before Mr Hawkins speaks, might I say one word. I would like him to consider this example: A country introduces what it describes as a stabilisation scheme for its own country. It decides that it shall fix a home consumption price of, say, 120s. for butter, and the object in doing that is to avoid the fluctuations that take place, brought about by the international market moving up and down. It is found that at times the export price is 120s. -- sometimes it is 110s.; sometimes it is 121s., and sometimes it is 119s. It is moving up and down all
the time. Is that country to find itself questioned because it has an export subsidy when the external price is 118s. and then it has got that for about a fortnight and it stops because the international price has gone up to 120s., or above it, or is it to abandon what is a very sound proposition -- that of stabilising its own home market and avoiding in its home market the bad effect of the fluctuations of an external market? It could happen that it would have to abandon its scheme and it would find itself coming under this provision one week and dropping out from it another. Now that is an export subsidy within the meaning of this paragraph.

MR JOHNSEN (New Zealand): Mr Chairman, I wanted to refer to the question which has just been mentioned by the Australian Delegate. We have, as a matter of fact, submitted a paper, No. 23, covering this particular question, with a view to ensuring that a guaranteed price scheme, such as that operated in New Zealand at the moment with respect to dairy products, is not ruled out by any charter that might be decided upon. As Mr McCarthy mentioned, the producers of dairy products are guaranteed a price determined in relation to costs of production and other factors affecting the producers' position. Any amount received in excess of the guaranteed price is retained in a fund entirely for the benefit of the industry and on which the particular industry might draw in the event of its being faced with difficulty such as from a fall in overseas prices. Such a scheme may be operated by an industry with or without Government sponsorship.
It can probably be likened to the action taken by a corporation to build up a general reserve for use in special circumstances. The necessity to give producers, particularly in a country like New Zealand, which relies so much on exports of a few primary products for its economic stability, some measure of stability, will, it is felt, be generally appreciated. Apparent also will, I think, be the advantage of such a scheme to world trade as a whole, since the effect of any reduction in overseas demand for such primary products is through such a scheme cushioned, thereby keeping up the spending power of the producers and maintaining a demand for consumer goods which it is necessary to import. In considering whether there is any measure of stabilisation through such a procedure we agree with what has been said by the Australian delegate, that you cannot look at it over a short period. Prices fluctuate not only as between shipments but also from season to season, and we think that the only basis on which it can be considered is over a reasonable period of years. I might say that in respect of the guaranteed prices for butter, I think that since 1938 there has been a continual credit which has accumulated in the account. We were hopeful, therefore, that the suggestion which we have made and which, I think, is self-explanatory, will be given careful consideration.

THE CHAIRMAN: Is there any further discussion of this matter? If not, I shall ask the delegate for the United States to reply to the points raised.

MR HAWKINS (USA): Mr Chairman, I am afraid that I am unable offhand to cover adequately the questions raised by Mr McCarthy. I think that the questions that he has put are pertinent. I do think they need consideration. The question raised by Mr Speekenbrink, as I understood it, was the question whether, if they have an average price in the
domestic market of 100 and an import price of 55 and require the importer to pay 15, and the funds so acquired are used to subsidise domestic producers, there is then any conflict with these provisions. Is that correct?

DR SPEEKENBRINK (Netherlands): Yes.

MR HAWKINS (USA): I think the question there is the extent to which the interests of suppliers of the market may be involved by that operation. If domestic production were built up to a point where it would exclude imports from other countries, I think it would be definitely open to objection. I think it would come under the general provision in the first paragraph of the subsidy section and would require consultation with the country that might be injured. There is one other point on which I would like to comment. The United Kingdom delegate referred to the use of export subsidies by a country as a club in order to force the negotiation of a commodity agreement and to obtain in the commodity agreement a larger share of the market than it was entitled to. We did foresee the possibility of such abuse, and the provision in section c. of Article 25.3 is intended to put a limit on that. Whether it effectively does so might possibly be argued, but the point is recognised and an attempt is made to deal with it.

THE CHAIRMAN: Thank you. It seems that there is a fairly clear line of demarcation in this subject matter. With regard to the use of the subsidies as an alternative form of protection to the use of import duties or quantitative restrictions, I gather that there is fairly general agreement that the use of subsidies as a general rule is a desirable form of protection compared with the other two — subject to the limitation which has been made, particularly by the delegate for India, that in the case of governments with limited governmental income there may be limitations on
the degree to which they can rely upon this form of protection; and also that in relation to the use of subsidies for stimulating or protecting the production of manufactured goods there is a fairly reasonable distinction to be drawn between general subsidies and subsidies on exports, in that the latter form of subsidies—those which are payable only on exports—are definitely more likely to be harmful of the interests of other countries than subsidies payable on all production. However, enough has been said by a number of countries to indicate that there are special problems relating to the use of subsidies in connection with primary production, particularly where they are used for the purpose of stabilising the incomes of producers of primary production in exporting countries; and it has been pointed out here, I feel with some justice, that the question of the use of subsidies as a means to stability in the incomes of primary producers, particularly in exporting countries, is very closely allied with the subject matter which is being dealt with by Committee IV, on Inter-governmental Commodity Arrangements. It has been pointed out here that the nature of the subsidy—whether it is general or whether it is payable only on exports—is not necessarily a fair criterion for judging whether the subsidy is legitimate in the sense that it imposes any great burden on the economies of other countries. It may be, therefore, necessary to seek some other criterion, such as the effect of the payment of the subsidy on the world market.

It seems, therefore, that it would be desirable for the further work of this Committee to divide the subject matter, as Mr Hawkins suggested, into two parts. One would seek to set out the views of the Committee, which appear to be fairly generally agreed, in relation to the use of subsidies as a means of protection for the production of manufactured
commodities; but, in so far as the question of subsidies, either general or export, affects primary products, there is need to reconsider the matter together with those people who are examining the problem of primary production from the point of view of Inter-Governmental Commodity Arrangements. I suggest, therefore, for your consideration that we ask the United States, the United Kingdom and India to confer and prepare a brief outline report for the Committee in relation to the use of subsidies in relation to manufactured products. Secondly, that you authorise me to approach the Chairman of Committee IV with a view to setting up a Joint Sub-Committee to consider the use of subsidies, both general and export, in relation to primary products. I have anticipated your approval to the extent of asking the Chairman of Committee IV whether he is agreeable to that procedure, and he has expressed, subject to your agreement, his willingness to do so. If that is agreeable to the Committee I would suggest that you leave for the moment to me and the Chairman of Committee IV the preliminary selection of the delegates who might be associated with that work, subject to their names being submitted to you tomorrow for your concurrence. Is there any comment on these suggestions?

MR PRESQUET (Cuba): Mr Chairman, I propose that the delegate for Australia should be included in that small group of countries.

THE CHAIRMAN: Thank you. Are there any other comments or suggestions? If not, we re-assemble tomorrow at 3 o'clock.

We are now approaching, I think, somewhere near finality in regard to our preliminary survey of our work. There remains for consideration in full Committee only two groups of items, items D, G and J of the provisional agenda, dealing with "Exchange Control", "Emergency Provisions, Consultation, Nullification or Impairment," and "Territorial
Application"; and also discussion of quantitative restrictions in so far as balance of payments provisions are concerned. It is, I think, desirable that the balance of payments provisions and those relating to exchange control should be dealt with together. It should not, I feel, take us very long to deal with emergency provisions and territorial application, since they are largely routine matters. I would suggest, therefore, subject to your concurrence, that we seek tomorrow to dispose of emergency provisions and territorial application, and also at least to make a start upon a consideration of quantitative restrictions and exchange control in so far as they affect the balance of payments. I know that some countries are anxious to leave this difficult matter of the balance of payments as long as possible, but I think you will agree with me that it is desirable that we should complete our preliminary examination of this matter before the end of the week, otherwise we are going to be lagging very badly behind the other Committees; and, whilst I think it is inevitable that we will be the determining factor in fixing the concluding date of the Conference, I am reluctant that we should lag too far behind; so, with your concurrence, I will ask that you come prepared tomorrow to discuss emergency provisions and territorial application, and also at least to commence discussion of the item of the agenda dealing with quantitative restrictions as affecting balance of payments and exchange control.

We stand adjourned, then, until 3 p.m. tomorrow.

The meeting rose at 6.15 p.m.