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GENERAL AGREEMENT ON TARIFFS AND TRADE

Intersessional Committee

SUMMARY RECORD

of the Meetings held at the Palais des Nations, Geneva, on 2 and 3 February 1953.

Chairman: Mr. Johan MELANDER (Norway)

Subjects discussed: 1. Adoption of Agenda
2. Accession of Japan

1. ADOPTION OF AGENDA (IC/W/7)

In opening the meeting of the Intersessional Committee, the CHAIRMAN referred to the two subjects on the Agenda, namely, the Accession of Japan and Pakistan Licence Fee and Duties on Exports of Jute, and mentioned that he would wish to raise another question as an item of Other Business. He proposed, however, that at this first meeting the Committee should proceed with the discussion of the Accession of Japan and should take up any questions arising in connection with the adoption of the Agenda at a subsequent meeting. This was agreed.

2. ACCESSION OF JAPAN (L/70)

The CHAIRMAN stated that the principle task before the Committee arose from the decision of the CONTRACTING PARTIES at their Seventh Session calling for a more detailed examination of the matters involved in the Japanese application for an opportunity to enter into tariff negotiations with a view to acceding to the General Agreement; this matter should be dealt with in the light of the discussions which had taken place during the Seventh Session. He suggested that, in the first instance, the Committee should devote attention to general problems arising in connection with this application and proceed at a later stage to an examination of technical issues.

Mr. SANDERS (United Kingdom) noted that it had been made clear in the discussion at the Seventh Session that the Japanese application raised special problems requiring both time for study by governments and careful

consideration by the CONTRACTING PARTIES. Since then the United Kingdom had examined the problem in a spirit of sincere and earnest desire to find a solution and it was their hope that the discussions of the Committee would lead to one generally acceptable, but the difficulties to which they had called the attention of the CONTRACTING PARTIES still presented themselves to their minds. He suggested that the first task of the Committee should be the closer examination of these problems and their implications.

At the Seventh Session the United Kingdom representative had referred to the difficulties which had arisen before the War. He thought it would not be disputed by anyone that before the War Japanese exports had sometimes had a violent and disruptive effect which had exceeded the limits of normal competition. He realised those were difficult times for all trading countries. The intensity of Japanese competition was accentuated by such commercial malpractices as dumping, copying of designs, etc. But, in the opinion of his delegation, these were not a major element of the problem. The main reason why Japanese competition was more violent and disruptive than that of any country of comparable size and importance in world trade lay in the flexibility provided by an ample labour force whose standards differed radically from any other country of a similarly advanced degree of industrialisation.

There had been changes since before the War. The United Kingdom Government were aware of a change of outlook in Japan; they realized that the Japanese Government had a legislative and administrative programme aimed at preventing a recurrence of these prewar difficulties and they appreciated the sincerity of purpose inspiring the actions of the Japanese Government in this field. They recognised that Japan would need to develop her export trade in order to acquire the food and raw materials necessary to maintain a reasonable standard of living for her people. It was also recognised that other countries would face increasing competition from Japan in many markets involving gradual changes in the pattern of international trade in which an industry ih one country might have to yield to the stronger competitive position of its Japanese counterpart. The United Kingdom could not and did not wish to seek to insulate itself from such developments.

There was however a difference between progressive changes in the pattern of international trade and the violent and disruptive effects of a sharp intensification of competition in a particular market, at a particular time and in a particular product. Although there had been important developments since before the War, there still remained actually or potentially a large difference, in respect of labour costs between the economic structure of Japan and that of other countries of equal importance in international trade. He suggested that this difference would persist, though perhaps in a diminishing degree, for some years to come. It was the margin of flexibility provided by this factor which could, in the hands of irresponsible traders or under the pressure of circumstances, again

give rise, at some future time, to the disruptive competition that had been experienced before the War. The effect which such developments might have on the trade and production of a particular commodity in the short term might be quite disproportionate to the relative efficiencies of the industries of the exporting countries over a longer period. Such fears might in the event prove unwarranted, but the fact that these fears existed and the pressures which they might engender were factors which governments had to take into account.

The widespread trading interests of the United Kingdom had been affected more, perhaps, than those of any other country by what had happened before the War. This had left disagreeable memories. It was, however, to the wider implications for the General Agreement that the contracting parties should direct their most careful attention. The first and most immediate danger was that if the existing contracting parties assumed the obligations of the Agreement towards Japan without being able to point to some ultimate safeguard, governments might be reluctant to make further reductions in tariffs. The second risk was that if at some future time Japanese competition should assume the more violent and disruptive forms previously experienced, the action countries would feel obliged to take to protect themselves would lead to a general unravelling of tariff commitments and a general raising of trade barriers, contrary to the aims of the General Agreement.

To find a solution which met all the requirements of the situation and which did not entail its own problems might well be no easy matter, but he hoped that a way would be found to a positive and acceptable solution.

Mr. CORSE (United States) said that the views of his delegation were on record and that the tone for the further consideration of the problem had been set by the pronouncements in the Decision of 14 October 1952 on Japanese Application which had been adopted by the CONTRACTING PARTIES at their Seventh Session. He shared the view of the United Kingdom that negotiations for the accession of Japan were desirable and would contribute to the proper conduct of international trade. He believed that, in principle, the accession of any country should be on the basis of equality with other contracting parties. However, he was aware of the concern of some governments that Japanese competition could have adverse effects on some of their industries and he expressed willingness to explore possible solutions to meet these difficulties. The best course was to bring the problem forward and discuss it frankly in accordance with the usual practice of the CONTRACTING PARTIES. It was the hope of his delegation that the Intersessional Committee would agree at this meeting on recommendations which would enable the CONTRACTING PARTIES to proceed with arrangements for tariff negotiations with Japan.

Mr. RATTIGAN (Australia) stated that there were important problems arising from the difficulties of prewar competition. His Government was aware of the need for Japan to trade and of the steps that the Japanese Government had taken with a view to avoiding a recurrence of prewar practices. But the present position was not a good guide to what might happen in the future. Economic conditions since the War had been abnormal in Japan, more so than in other countries. Factors such as the Occupation, the effects of the Korean war and the pressures of world currency problems made it difficult to estimate future trends. The internal measures taken by Japan were quite new to Japanese economic life. There was no tradition of strong trade unionisim or of collective bargaining nor was there a minimum wage system such as could be found in Australia or highly industrialized countries other than Japan. Therefore, in difficult economic circumstances the pressure of industrialists for reductions in wages might be much more successful in Japan than in Australia or in countries which were the main overseas suppliers to the Australian market. While conditions of production in Japan remained liable to rapid changes, there were serious dangers for Australia and for Australian markets. The acceptance of most-favoured-nation obligations without adequate safeguards might ultimately lead, in case of a vigorous revival of Japanese competition, to a general raising of tariff barriers. He recalled that industrialists and trade unions had vivid memories of the past and - should Japan be allowed to accede to the Agreement without adequate safeguards - the result might be to give added strength to pressure groups opposed to the General Agreement and thus endanger the continuance of its application by their governments. The Committee would need to give earnest consideration to these problems.

Mr. SINGH (India) said that the problem which the Committee would have to consider had already been stated by the delegates of the United Kingdom, the United States and Australia. This problem should be studied in the light of the new Export Trading Law and the export control regulations of Japan. Fears of a revival of Japanese competition undoubtedly existed and constructive steps should be taken by the Committee to allay these fears. He added, however, that in formulating safeguards the Committee should bear in mind that they should not conflict with the basic principles of the General Agreement. His delegation did not favour piece-meal tariff negotiations and would urge the Committee to make recommendations to expedite the accession of Japan.

M. LECUYER (France) said that while the Executive Secretary's note (L/70) provided valuable data, it did not contain all the necessary information since the Japanese answers had not completely satisfied his delegation. They would need additional information; specifically he pointed to the information on prices as furnished by the Japanese Government (W.7/50/Add.3). While he found the prices of Japanese goods correct as quoted, he found considerable discrepancies between the prices of French goods in reality and those quoted in the Japanese submission. In some cases the price discrepancies appear to amount to 100%. He suggested that

he could take up this and other allied matters with the Japanese observers. He hoped some difficulties about the comparative level of prices could be removed in these private conversations with the Japanese observers, but he had to point out that the differences in price had considerable importance with regard to future trends. In cases of great divergence not even high duties would avail. Nor could quantitative restrictions be relied upon as a permanent means of defence. As for the substance of the matter, M. Lecuyer felt that the CONTRACTING PARTIES were faced with a difficult problem. It should be possible, however, to find a solution which would both enable Japan to accede to the General Agreement and give present contracting parties safeguards which are necessary to them.

Mr. AHMAD (Pakistan) said that his delegation supported the application of Japan. The question of Japanese prices had been raised as one that created difficulties for certain contracting parties in regard to Japan's accession. In this connection he would point out that in the case of under-developed countries such as his own, it was sometimes only at the lower Japanese prices that the goods could be bought at all. In his opinion a greater uniformity of prices would not be achieved until there was a greater uniformity in the standard of living of the various parts of the world. While appreciating the difficulties of certain other contracting parties he personally felt that some of those difficulties could only be solved by Japan becoming a contracting party. He was in favour of the fullest possible consideration being given to allay the apprehensions of certain contracting parties, but hoped that when this had been done it would be possible for Japan to accede with full and equal rights and urged that early steps be taken to that end.

Mr. COUILLARD (Canada) said that he attached considerable importance to the matters which had made necessary the present discussion. These were of great importance to many contracting parties and to the General Agreement itself. But accession to the Agreement was also important for Japan and he recognized the motives prompting Japan's application. He therefore hoped that a generally acceptable formula could be found. He thought the most appropriate procedure would be to submit to a careful study the details of the matters involved. In his view, only after this had been done could the Committee address itself to the conditions and timing of Japan's accession. The Canadian Delegation would then express its opinion.

Mr. ROCQUE DA MOTTA (Brazil) said that his delegation was fully conscious of the difficulties mentioned by some members and hoped to be able to support any solution which would emerge from the Committee's work for the accession of Japan. His Government, however, would have to examine the solution before reaching a final decision.

Mr. CISNEROS (Cuba) stated that his Government did not have any objection to Japan's accession. Whether Cuba would be able to participate in tariff negotiations with Japan within the framework of the General Agreement was a matter to be determined in informal discussions between

representatives of the two Governments at the appropriate time. Referring to the request of some members for safeguards against a recurrence of severe Japanese competition, it was his personal view that acceptance implied abandoning the path which had been followed hitherto and a recognition that the Agreement did not offer adequate guarantees. Moreover that it would be very difficult to devise a formula of safeguards that would take account of all possible dangers. Should such a formula be found, he entertained doubts that it could be acceptable for Japan both on economic and political grounds. He believed that an examination of the Agreement with a view to finding if its provisions were adequate for dealing with malpractices such as dumping, etc. would be more appropriate as a first step than to engage in a long discussion on the nature of the safeguards to be established. In view of Japan's importance in international trade he did not favour the method of piece-meal negotiation and suggested that a special session for negotiations with all the contracting parties present, might be a better solution.

M. QUERTON (Belgium) said that there seemed to be general agreement to have Japan accede to the General Agreement. At the same time fears existed of a recurrence of prewar practices. In his view it was very desirable to find a solution to the problem as otherwise there would be risk of a general increase in duties, tending to defeat the objectives of the General Agreement.

Dr. TREU (Austria) said that although the volume of trade of his country with Japan was small, in comparison with that of very many other contracting parties, his Government, nevertheless, was greatly interested in finding a solution for the problem. Austrian legislation in the field of commercial policy differentiated in principle between countries which were contracting parties and those which were not; his country could not therefore accord GATT rates to Japan, unless the latter became a contracting party. Despite the importance of this problem, however, it appeared that - as pointed out by the representative of France, some Japanese prices were found to be from 50 per cent to 100 per cent below those of comparable products originating in other countries. It was doubtful whether the difficulties could be overcome by tariff increases and whether it might not be appropriate to devise some appropriate technique such as increased resort to tariff quotas. The Japanese problem was also important since the assured life of the concessions negotiated at Geneva, Annecy and Torquay ended this year, and the attitude of governments to a prolongation would be considerably influenced by the way in which the Committee handled Japan's application. He suggested that the Intersessional Committee, or a sub-group of the Committee, make a thorough examination of the consequences on the General Agreement of the actions that might be taken here. A prompt solution would be welcomed by governments. As to procedure, he suggested that the Committee investigate the extent to which the General Agreement took care of the practices which, owing to prewar experience, had given rise to the fears expressed by several representatives. This investigation could, he felt, dispose of the major part of these fears.

Mr. HAGIWARA (Japan) thanked the Chairman and members of the Committee for the consideration they were giving to the Japanese application. He assured the French delegate that his delegation was quite willing to furnish the additional information on prices requested by him. It was obvious that it had been easier for them to collect the prices of Japanese goods, than those of French goods.

As for the fears which had been expressed he would recall without repeating them, the remarks he had made at the Seventh Session, to the effect that the profound changes in their economy since before the War, made any revival of prewar forms of competition impossible. The fears were hypothetical; competition today was of a normal and sound character. The present degree of competition was certainly not such as could arouse any fears. But as the representative of the United Kingdom had said, fears existed and the situation had to be faced. His Government was prepared to examine the conclusions which the CONTRACTING PARTIES might reach at the end of their deliberations; he expressed the hope however that these conclusions would conform with the General Agreement and not provide the possibility for discrimination against Japanese goods.

Referring to the timing of the negotiations he hoped that the Committee to which this matter had been referred by the CONTRACTING PARTIES would now be in a position to fix dates for the various stages leading to accession.

The CHAIRMAN, suggested that the Committee adjourn and that the discussion of the Japanese problem be resumed after he had had an opportunity for informal discussions with various members.

The Committee agreed with this suggestion.