

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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SUMMARY RECORD OF THE EIGHTH MEETING

Held at the Palais des Nations, Geneva
on Wednesday, 15 October 1952 at 3 p.m.

Chairman: Mr. Johan MELANDER (Norway)

- Subjects discussed:
1. Sultanas - United States Export Subsidy
 2. Application by Ceylon for Release under Article XVIII
 3. Imposition of Import Taxes on Items under Schedule XXV (Greece).

1. Sultanas - United States Export Subsidy (L/39 and L/45)

Mr. PAPATSONIS (Greece) said that his government hoped to be able to discuss the question of the export subsidy on sultanas with the United States during the bilateral discussions to be held on dried figs. He referred to the explanation of the damage caused by this subsidy (L/39). Greece had only a limited number of exportable commodities with which to obtain the greater part of the foreign exchange necessary to pay for imports, which comprised three-quarters of the total of products consumed in the country. When his country, then, lost one after another of its traditional markets as a result of measures taken by a stronger power it caused them grave anxiety. Furthermore, the various measures taken by the United States were contradictory. On the one hand, they underwent considerable sacrifices to restore the Greek economy while, at the same time, they destroyed their own efforts by action which affected the most sensitive sector, where thousands of agricultural producers had expected an improvement in their lot as a result of more advantageous marketing of their products. Such an attitude was difficult to understand.

It was for these reasons that his government took the opportunity of informing the CONTRACTING PARTIES of certain problems which caused them concern. Mr. Papatsonis felt confident that the United States would discuss this matter with them in a spirit of understanding. He would report the results of the conversations to the CONTRACTING PARTIES before the close of the Session.

Mr. ISIK (Turkey) said that the subsidy affected Turkey as well. Sultanas were an important item in Turkey's trade but exports had declined as a result of the low price asked for the United States product and competition was made impossible. The loss of foreign markets seriously affected the

internal market and both had resulted in damage to the position of the growers and a sharp decline in the area devoted to this crop. Turkey received assistance from the United States but it was essential that it should develop by its own efforts the economy of the country. This was directly dependent on the capacity to export. He hoped that the United States, in the desire to assist its own producers, would also take into account the effects elsewhere of a subsidy such as this one. His government hoped that the subsidy would be removed or revised.

Mr. ISBISTER (Canada) said the technique of export subsidies was increasingly resorted to, but it was a practice frequently detrimental and one that caused distortions in the pattern of trade. The Agreement said little on the subject of exports. Hence it was important, when such measures were drawn to the attention of the CONTRACTING PARTIES, to lay more than usual stress on the provisions for consultation.

Mr. TONKIN (Australia) referred to the modification by the United States of the duty on dried figs and said he had noted with pleasure their willingness to discuss the measure with the interested parties. The items presently under discussion was of interest also to Australia as an exporter of dried fruits, and whose producers had been affected by the United States subsidy. Mr. Tonkin pointed out that United States producers were in a particularly strong position as a very small percentage of their products was exported. The greater part was sold on the home market presumably at a profit. Producers in other countries had to rely almost entirely on exports. Although less seriously affected than Greece and Turkey, Australia nevertheless suffered from the effects of the subsidy which forced down the prices of the product, thus causing injury to the producers and reducing the possibilities of gaining export income. Mr. Tonkin inquired whether the United States Government had given consideration to other measures which might eliminate the need for a subsidy or reduce it substantially, for example, a changeover within the industry. He also asked whether the United States was prepared to discuss the matter with the interested parties, a discussion which might occur under Article XVI.

Mr. DI NOIA (Italy) said that the policy of granting export subsidies was dangerous because of the element of uncertainty which was thereby introduced into trade relations. Certain subsidies reduced the possibility of entering the American market, which was dangerous in view of its importance. Some subsidies, however, had damaging effects in other countries and caused a dislocation of trade in general. He cited as a case in point, the United States export subsidy on citrus fruits and juices which had recently been abolished. Had there been no import controls in Europe, the subsidy would have permitted American producers to export citrus fruits to Italy's traditional markets with serious repercussions on the production of South Italy. Furthermore, Italy would have been deprived of considerable income and as a result have been unable to buy essential products and raw materials from other Western European countries.

Dr. SVEC (Czechoslovakia) said he would have wished to comment both on the earlier question concerning the escape clause and on this item. However, as the CONTRACTING PARTIES at their last Session, by joint action taken by the

majority, had allowed the United States to suspend, not only Articles XIX and XVI, but all the provisions of GATT in respect of Czechoslovakia, he would refrain from reiterating the criticisms which his delegation had expressed in previous years.

Dr. BOTHA (South Africa) associated himself with the remarks of previous speakers. South Africa, as an exporter of dried fruits, was also affected by the subsidy. It seemed unnecessary on the part of the United States to subsidise the export of agricultural products. Under any circumstances it was almost impossible for other countries to enter the United States market, and as a result of this subsidy they were prevented from entering other markets.

Mr. VERNON (United States) said that the particular item under discussion focussed attention on the larger problem, which faced all countries and one which contracting parties might in time have to consider, of reconciling their domestic agricultural policy with their trade policy in general. The subsidy programme for sultanas had been in effect intermittently over a period of years with a varying rate of subsidy. In 1953 the subsidy would amount to $2\frac{1}{2}$ cents on a product which sold at 10 cents a pound. One-fourth of the United States crop traditionally was sold abroad. After the War, his country had to face the problem of the use by many governments of quantitative restrictions against imports from hard-currency countries. In an effort to maintain the traditional trade in sultanas, they had made it possible to offer the product at 25 per cent below the usual price. The result had been to maintain the exports and the acreage devoted to this crop at about the pre-war level. Mr. Vernon thought it premature to decide on steps that might be taken by the United States Government in order to meet the difficulty this action had caused other countries. He was however prepared to discuss the matter, as required under Article XVI, with the countries concerned and to consider the possibility of limiting the subsidy.

Mr. LECKIE (United Kingdom) was gratified by the cooperative spirit of the United States reply although it did not seem that any practical results would be achieved in the near future. The General Agreement was particularly weak in the subsidy provisions and the only remedy provided was consultation. He had therefore been interested in the remarks by the United States delegate concerning the general implications of the question. The United Kingdom Government had been from the beginning in favour of strict control by the ITO over export subsidies and the Havana Charter contained reasonable provisions on this point. When the time came for the balance of the Agreement to be reviewed, his Government would strongly insist on securing further and stronger provisions than those presently contained in Article XVI.

Mr. VERNON (United States) emphasized that his remarks had referred only to the general problem which faced most countries of reconciling their agricultural with their general trade policies.

The CHAIRMAN considered that Greece and Turkey had maintained that their interests had been seriously prejudiced by the subsidy in question. Article XVI provided that consultations should occur in such circumstances and the United States had agreed to consult. This question concerned all contracting

parties and he requested that the results of the consultations should be communicated to the CONTRACTING PARTIES. Article XVI laid down no prohibition on the use of subsidies even where damage could be demonstrated. The debate had shown, however, that this method of protection had harmful effects and caused the development of an arbitrary pattern of trade. Since the Agreement itself contained no specific obligations on this matter, it was important that the parties should enter into consultations in a constructive and helpful manner.

Mr. VERNON (United States) said that his Government was prepared to consult and welcomed the opportunity to do so. He questioned however whether any basis for a determination by the CONTRACTING PARTIES that the interests of Greece and Turkey had been seriously damaged had been provided. A formal determination of that nature under Article XVI would require a much more extensive factual basis. He agreed of course that their interests had been affected and that the subsidy in question was of concern to them.

The CHAIRMAN said that, since the United States was prepared to consult, and in view of the provisions on consultation contained in Article XXII, it was not necessary for the CONTRACTING PARTIES to make a determination of serious injury under Article XVI unless so requested.

2. Article XVIII - Ceylon Application (L/35 and Add.1)

Mr. KOEIMEYER (Ceylon) said that at the Third Session the Ceylon Government had obtained the approval of the CONTRACTING PARTIES for the putting into operation of the Industrial Products Act No. 18 which was designed to facilitate the sale of local industrial products by regulating the importation of like industrial commodities from abroad. His Government now sought the concurrence of the CONTRACTING PARTIES for extending the operation of the Act to cover the following eight items: towels and towelling, rubber footwear, cotton barians, paints, varnish, French polish, dried fish and tortoise-shell ware. He drew attention to the principles of Article XVIII:1 and stressed that his Government in seeking to extend the operation of the Act was influenced not only by the urgent necessity of affording protection to the local industries but also by a determination to use a form of protection that would minimise restriction of international trade. Information based on the questionnaire contained in Annex C of the Intersessional Procedures (Basic Instruments and Selected Documents, page 103) had been forwarded to the secretariat. Mr. Koelmeyer proposed that the matter be referred to a working party for study and report.

Mr. LECKIE (United Kingdom) said that the CONTRACTING PARTIES must scrutinize carefully all applications under Article XVIII lest it should prove too easy a means of escape from the Agreement. His Government had some doubts regarding the effectiveness of the Industrial Products Act in assisting the development of local industries, and was particularly interested in finding out whether it was the intention of the Ceylon Government to remedy certain deficiencies in the Act. Presumably the information to be supplied would answer the question and would also make it possible to determine under which

provisions of Article XVIII the releases were to be sought, for what specified period and under what safeguards.

The Article provided that under certain circumstances, negotiations should take place between the applicant contracting party and contracting parties affected by the proposed measures. The United Kingdom might wish to claim to be materially affected by the measure as applied to rubber footwear, paints, varnish and French polish. On the first of these the United Kingdom exports had already been adversely affected. Furthermore, his Government was concerned about the possible effect of restrictions on dried fish on the economy of certain neighbouring islands which had a traditional trade with Ceylon and which were the responsibility of the United Kingdom.

Mr. SINGH (India) supported the establishment of a working party and said that India was also interested in certain of the items listed.

Mr. HEWITT (Australia) said that because Article XVIII required prior approval for the imposition of restrictions, intersessional procedures had been evolved. Apparently in one case a measure had been put into force at a time when the CONTRACTING PARTIES were in Session and another had come into force even earlier in 1951. He wondered why no application had been made at that time.

Mr. SOUZA (Brazil) supported the establishment of a working party.

Mr. KOEIMEYER (Ceylon) said that three items had been brought under regulation before application had been made to the CONTRACTING PARTIES. He had no information as to why and suggested that the matter might be raised in the working party.

The CHAIRMAN proposed the establishment of a working party with the following membership and terms of reference:

Membership:

Chairman: to be appointed by the Working Party

Australia
Canada
Chile
Cuba

Denmark
France
India
Netherlands

Pakistan
Turkey
United Kingdom
United States

Terms of Reference:

To examine the application of Ceylon for release under Article XVIII and to report thereon to the CONTRACTING PARTIES.

He referred to paragraph 10 of Article XVIII which provided that the CONTRACTING PARTIES must advise the applicant contracting party as early as possible, and normally within fifteen days, of the date by which it would be notified whether or not it was released of the relevant obligation. The working party should address itself first to this matter and report to the CONTRACTING PARTIES.

3. Imposition of Import Taxes on Items in Schedule XXV (Greece)

M. LECUYER (France) referred to the Greek reply (L/47) to the statement by the French Government (L/26) and noted that the tax to which the original communication referred was no longer in effect. He regretted, however, that it appeared that the new tax imposed by the Greek Government was still in contravention of the Agreement. The Greek note stated that this tax was concerned solely with foreign exchange. This seemed doubtful since the tax was applied to purchases in any currency, whether hard or soft, and varied between 50 per cent and 200 per cent. The time of collection of the tax was not relevant - it was at any time a supplement to the customs duty which had been bound. This measure would constitute a dangerous precedent for any country with a depreciating currency. M. Lecuyer referred to the difference in price for refrigerators between what would be the sales price under normal economic conditions and the price at which refrigerators were actually sold in Greece (viz. L/47, page 3). Such a difference would be occasioned more by the existence of import restrictions which generally resulted, as was well known, in exceptional benefits for importers. Furthermore, the French Government was informed that the tax was used to facilitate the export of certain Greek products. The CONTRACTING PARTIES had already deplored the use of export subsidies. M. Lecuyer suggested that a Working Party be established to consider this highly complicated matter.

Mr. DI NOIA (Italy) supported the French statement. This measure appeared to be a clear contravention of Article III since the tax applied only to imported products and, furthermore, resulted in an increased duty on items which were bound in the Annecy and Torquay Protocols. The Greek delegation had justified the taxes on the grounds of the depreciation of the drachma. This was difficult to understand since the taxes varied for different products. It was possible that the variation was for reasons of protection. Furthermore, by means of the tax, the State confiscated some of the importers' profits. This would be better accomplished by direct tax on their incomes and had no bearing on the devaluation of the drachma. Finally, the difference in the price of imported and domestic goods was caused more by the policy of restriction than by the devaluation of the Greek currency. Italy was aware of the financial difficulties which were behind these measures but he hoped that the Greek Government would take into account the damage that this measure could cause to commercial relations between Italy and Greece. He supported the establishment of a working party to consider the matter.

Mr. LECKIE (United Kingdom) said that his country was also concerned by the Greek measures, which appeared to be a breach of the obligations Greece had assumed, insofar as the additional import taxes applied to goods whose duty was bound under the Agreement. He hoped that it would be possible for Greece to meet its admitted difficulties by methods which would not conflict with the Agreement. He proposed that the matter be referred to the Panel on Complaints.

Mr. HAGEMANN (Germany) said that the interests of his Government were also damaged by the import taxes. Germany understood the situation which had obliged the Greek Government to try to establish an equilibrium between the levels of prices on the Greek market and on the world market and also realised

that this was impossible by means of direct taxes. His Government, quite apart from the general legal principle involved, had simply requested, during bilateral negotiations, the elimination or reduction of the tax in certain cases where it was prohibitive to German exports. These discussions had not, as yet, achieved any result. He associated himself with the remarks made by the French delegate on the substance of the question and supported the reference of the matter to a working party.

M. le GHAIT (Belgium) said that his Government was also affected and supported the establishment of a working party.

Mr. PAPATSONIS (Greece) said that his Government had been surprised by the action of the French Government in bringing before the CONTRACTING PARTIES the question of the contributions which Greece had been obliged to impose. The French complaint, however, was based on the understanding that a surtax on imports was involved, which would have the same effect as an arbitrary increase in the duties; this was not the case. Moreover, the taxes to which the French note (L/26) referred had been abolished on 31 December 1951.

The Greek Government in order to remove any possible misunderstanding of this measure wished to state that the contributions which replaced the tax repealed in December 1951, and which were based on different principles and contained no discrimination, were exclusively a monetary measure forced upon his country as a result of the exceptional situation of the drachma. During the last fifteen months, a continuous and disquieting depreciation of the effective value of Greek currency had diminished its purchasing power by over half while the cost of living index continued to rise. On the other hand, Greece was obliged to maintain an apparent stability, expressed by artificial parities in relation to the dollar, the pound sterling and other strong currencies. This situation created a series of disturbances in the economic and financial structure of the country. The only reasonable remedy would be the adoption of an official and explicit devaluation of the drachma to the level of its effective depreciation. His Government had often thought of doing this but since such action came within the established international monetary order it did not, unfortunately, have the right to take the initiative in the matter. Other agents must intervene, and be consulted and approve, namely the International Monetary Fund and the experts of the American Economic Mission in Greece. Experts of the Fund had been in contact with the Government and with Greek monetary institutions. It was they, in agreement with their colleagues in the American Mission, who advised against a devaluation which would threaten uncontrolled inflation. It was also they who had advised the use of indirect measures, for the moment at any rate, such as the "tax" which, admittedly, disguised very badly and transparently the real depreciation for which they were supposed to be a substitute. He assured the CONTRACTING PARTIES, that measures of this character could not last very long. His Government fully recognised their inadequate character and the fact that such action was inevitably followed by official devaluation. This had happened in October 1947, when Greece faced the same situation and had to institute a system of vouchers to compensate for a similar depreciation of the drachma. This surcharge on the purchase of exchange was abolished in May 1951, when Greece took advantage of the re-adaptation of the relationship between the dollar and the pound sterling adopted by the United Kingdom.

That surtax amounted to 200 per cent over the official parity and although Greece became a contracting party in 1949, no contracting party complained of that measure which was, nonetheless, identical to the system of "taxes" now imposed.

In the case that the CONTRACTING PARTIES could not agree that the tax was only an indispensable measure of a monetary nature, and did not constitute an infraction of Greek commitments, Mr. Papatsonis proposed that a working party be established to consider the matter further and that a representative of the International Monetary Fund should take part in such a working party. Among its terms of reference, the Greek delegation requested that a general examination of the monetary situation and policy in Greece be included. His Government would be ready to undertake any measure that was recommended to relieve the weak situation. Such an examination could take place during the present Session or, if consultations were initiated between the Fund and the Greek Government, after the Session.

Mr. Papatsonis emphasized how deplorable was the situation of Greece in the monetary domain. Although a member of the Fund from its establishment, seven years after the end of the war its national currency was neither convertible nor yet quoted on exchanges. On the contrary, Greece was obliged to maintain artificial parities, which gave the impression of a false stabilisation, whereas the real depreciation of the drachma was the source of a disturbance which undermined all the productive forces of the country. It was time for the international institutions concerned with the economic sphere to recommend more healthy measures to relieve the situation. He was glad, therefore, that the Monetary Fund was represented at this Session.

Referring to the remark by the French delegation that these taxes were used to facilitate exports, he explained that it was true that part of the proceeds of the tax accrued to exporters but only in order to make up to them the losses they had incurred in receiving payment at the official rate. Referring to the remark of the Italian representative that the profits of importers were confiscated, he stated that this was no longer the case since direct taxation was introduced in 1951 for that purpose.

Mr. VERNON (United States) sympathised with the difficulty of Greece, but the tentative view of his delegation was that this tax was in violation of the Agreement. If it had been imposed on the advice of an official of the United States, an apology was certainly due to the Greek Government. It should have been made clear that such advice could only have been unofficial. He hoped that the problem could be dealt with in such a manner as to assist in the recovery of the Greek economy.

Mr. FRIEDMAN (International Monetary Fund) said that he was not in a position at this time to give a judgment on whether the taxes under consideration constituted a multiple currency practice. The Fund would, of course, be glad to consider the matter further. He called the attention of the CONTRACTING PARTIES to the Fund's letter of December 1947 to its members which dealt with the Fund's policies and jurisdiction with respect to multiple currency practices, noting that nearly all the contracting parties were also members of the Fund. He also was not in a position to comment as to whether

the tax had been imposed in Greece on the informal advice of a member of the staff of the Fund.

The CHAIRMAN suggested that the matter be referred to the Panel on Complaints. The Panel should be authorised to hear the Fund representatives and consult with them as necessary. They should also, of course, hear representatives of any contracting parties interested.

Mr. PAPATSONIS (Greece) agreed to this method of dealing with the question. He was still of the opinion that the case went beyond a mere question of complaint, but if the Fund were represented he assumed that he would have the opportunity to go into the wider issues involved.

It was agreed to refer the matter to the Panel.

The meeting adjourned at 6.30 p.m.