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GENERAL AGREEMENT ON TARIFFS AND TRADE

SUMMARY RECORD OF THE EIGHTH MEEING

Held at the Palais des Nations, Geneva, on Monday, 4 December, at 2.30 p.m.

Chairman: Mr. BARBOSA DA SILVA (Brazil)

1. Article XVIII:6 Review (L/1593/Rev.1)

The CHAIRMAN recalled that paragraph 6 of Article XVIII provides for an annual review of all measures applied pursuant to the provisions of sections C and D of the revised Article XVIII. The second annual review under this paragraph had been carried out during the sixteenth session of the CONTRACTING PARTIES. The third review was to have been undertaken at the eighteenth session, but for practical reasons had been postponed until the present session. For the purpose of this review the Governments of Ceylon and Cuba had been requested to supply the necessary information. In the light of the information received, a background document had been prepared and circulated in L/1593/Rev.1.

Mr. DE SILVA (Ceylon) said that document L/1593/Rev.1 indicated the present position with regard to the releases which Ceylon had been allowed under Article XVIII and which were due for review. Regarding the first item, plywood chests, protection afforded under the Industrial Products Act had enabled the

industry to increase production efficiency which had resulted in price reductions up to 1957; the efficiency of the industry had continued to improve but it had not been possible to effect further price reductions as there had been some neutralizing factors such as wage increases. The industry was still facing trade and consumer resistance, and his Government found it impossible at the present stage to remove the operation of the Industrial Products Act with regard to this item. The second item covered sarongs, sarees and cotton piece-goods. The total quantity of locally produced textiles was only a small fraction of the quantity imported. In 1960, as against the local production of 28.6 million yards of textiles of all grades, as much as 150 million yards of textiles had been imported. The textile industry was expanding and the shelter afforded by the Act had helped the adoption of better techniques and had led to increased efficiency. A progressive reduction of prices had been possible. They had also been able to adopt a more liberal ratio. Whereas before 1959 the statutory ratio had been one local to two imported sarongs, the present ratio was one local to five imported. For the purpose of stabilizing and expanding an industry which employed a very large number of people, it was essential that protection should be continued for some time longer. The application of the Industrial Products Act had been found to be most suitable for the purpose. As regards the last item, asbestos cement products, these products had been brought under the Industrial Products Act with effect from 20 July 1960. In order to dispose of the large accumulation of unsold stocks, it had been found necessary to prescribe the maximum ratios of five imported to one local that was approved by the CONTRACTING PARTIES. Some price reductions had been effected and thereafter efforts had been made to improve quality and expand production. It was felt that an immediate reduction in the ratio was not desirable until the overall position had been examined.

All three items under review were now marketed under the Industrial Products Act, and it was very doubtful that any other system of protection available under the Agreement would have been as effective. As soon as his Government felt that any industry could be stabilized by other means at its disposal, the mechanism of the Act would no longer be used. For instance, they had been able to establish on a sound footing their cement and leather goods industries without having recourse to the Act. It should also be noted that although nineteen releases had been granted, only six were in practice operated.

Mr. CARNEIRO (Brazil) said that Article XVIII established various procedures by which the government of a developing country could aid the development of its economy. Countries resorted to Article XVIII basically because they were exporters of primary products which were subject to short-term fluctuations in value and volume and their earnings were affected by changes in the terms of trade. He wished to draw attention to the fact that these basic problems had not yet been satisfactorily solved.

The CHAIRMAN enquired whether contracting parties were prepared to approve document L/1593/Rev.1 as constituting the document embodying the 1961 review under paragraph 6 of Article XVIII.

Document L/1593/Rev.1 was approved for this purpose.

2. Residual import restrictions

(a) Import restrictions maintained by Austria and Norway

Mr. MARTINS (Austria), referring to document L/1563/Add.1 and Add.3, stated that his Government was considering the problem of residual import restrictions. As Dr. Bock had pointed out at the recent meeting of Ministers, new liberalization measures would be put into effect in the beginning of 1962. The drawing up of a liberalization programme was a complex matter and was being pursued. It was as yet difficult to define the items which would finally have to be considered as residual. His Government would keep the CONTRACTING PARTIES informed of developments in this matter.

Mr. SOMMERFELT (Norway) recalled that since his Government disinvoked Article XII in October, the status of those import restrictions which were still maintained had been changed. The extent of these restrictions was now very limited. Excluding ships, 98.1 per cent of industrial imports were now liberalized, partly as a result of Norway's obligations under the EFTA. All liberalization measures taken under this Agreement had been put into effect on a non-discriminatory basis. A programme was being established for the abolition of restrictions on the remaining industrial items. Liberalization would take place in three stages, some items would be freed on 1 January 1962, others on 1 July 1962 and the remainder, perhaps with a few exceptions, on 1 January 1963. The CONTRACTING PARTIES would be notified of further details in the very near future. The position differed somewhat for agricultural products. The Norwegian Minister of Industry had stated at the meeting of Ministers that all tropical products, however, were duty-free or paid a low duty, and were or would be free of all other restrictions. His delegation would continue to take an active part in the work of Committee II. Furthermore, the Norwegian Government had initiated a study on whether any of the import restrictions at present in force within the agricultural sector could be considered to be consistent with the General Agreement.

Mr. EVANS (United States) welcomed the action taken by the Governments of Norway and Asutria under Article XII since the last session and expressed the hope that similar action would be taken by other contracting parties. The United States welcomed the Norwegian Government's intention to establish a plan and schedule for the elimination of the remaining restrictions on industrial products and hoped that similar action would be possible on agricultural products, consequent upon the study referred to by the Norwegian representative. Mr. Evans then welcomed the statement of the representative

for Austria, which was, in effect, a further affirmation of Dr. Bock's statement at the meeting of Ministers. He noted, however, that the increase in liberalization from 50 per cent to 70 per cent referred to by the Austrian Minister was for the "GATT sector" and was not relevant for the OECD and dollar sectors to which a higher rate of liberalization was already applied. His delegation, however, supported the policy of liberalization across the board. On hundreds of Austrian tariff items, restrictions remained which were not justified by the GATT. He realized that these could not all be removed immediately, but expressed the hope that Austria would be able to submit a complete list of items subject to restrictions by the spring Council Meeting, together with a concrete plan and schedule for their removal.

Mr. MARTINS (Austria) said that as had been pointed out by the Austrian representative at the meeting of Ministers, it was the aim of his Government to eliminate as soon as possible the differential treatment of imports from different sources.

Mr. SOMMERFELT (Norway) said that it was hoped that his Government's examination would result in positive steps with regard to import restrictions on agricultural products. He referred to paragraph 4(a) of the Annex to the conclusions of the meeting of Ministers which states that "governments should give immediate and special attention to the speedy removal of those quantitative import restrications which affect the export trade of less-developed countries". His Government had supported this.

Mr. CAMPBELL-SMITH (Canada) welcomed the statement made by the representative of Norway. Referring to the statement made by the Austrian delegate, he expressed the hope that a more definite statement could soon be made, possibly at the next meeting of the Council, especially on the differential treatment of imports.

(b) Report by Council on implementation of the procedures (C/M/8)

The CHAIRMAN recalled that when the CONTRACTING PARTIES at the seventeenth session had adopted procedures for dealing with residual restrictions these had been regarded as of an interim character, and the Council had been instructed to review them in the light of experience and to report its views to the present session. However, when considering this question at its meeting in September, the Council had concluded that it was too early to carry out a full review of the operation of the procedures. Accordingly, the Council had recommended that it should carry out this review at an appropriate time in 1962, and would submit its report a year from now. The notifications which had been made by contracting parties had been distributed in documents L/1563 and Addenda.

Mr. EVANS (United States) said that his delegation was pleased to note that a number of contracting parties had sent notifications of their residual import restrictions, which appeared to be sufficient to allow a study of the

situation and for real progress to be made. He had considered the establishment of a working party, but after discussions with a number of delegations had concluded that it might be more desirable in the first instance to appoint a panel of experts who might assist in determining more definitely where there were cases where notification might have taken place and help the Council to decide if the time was ripe for the establishment of a working party. If the CONTRACTING PARTIES agreed to this procedure, he suggested that they should again request all contracting parties not having done so to notify any such restrictions. The Council should make it clear that it expected all contracting parties to respond to the invitation.

Mr. JOSHI (India) supported the proposal of the delegate for the United States for the establishment of a panel of experts. He referred to the proceedings of the Council in which it had been mentioned that it might be desirable to await the outcome of the meeting of Ministers' discussion on trade in the agricultural sector. Actually of course, restrictions also covered industrial products. The Council did consider that a review might be undertaken later and he thought that the CONTRACTING PARTIES would agree that, in the light of the proceedings of the Ministers' meeting, it was now possible for procedures under this item to be linked with the procedures for a further plan of action on the expansion of trade programme as a whole. A proposal for specific time schedules had been accepted in principle by the Ministers. He suggested that a panel of experts should be appointed and that procedures on this subject should be linked up with procedures which would be adopted as a result of the conclusions of the ministerial meeting.

Mr. CAMPBELL-SMITH (Canada) referring to the report by the Council on the implementation of the procedures, said that this matter was of prime concern for his delegation. When the reporting procedures had been set up his delegation had given its support on the understanding that this would provide the CONTRACTING PARTIES with a framework for dealing effectively with the problem, and for finding ways and means of removing those quantitative barriers to trade. His Government had provided a complete notification of Canadian restrictions as had some other governments, but a number of notifications were still outstanding. He urged contracting parties who had not yet submitted a report to do so. Sufficient information was available, however, to enable the CONTRACTING PARTIES to develop means for more effectively bringing about the elimination of these restrictions. He supported the establishment of a working party. If this proposal were accepted, his delegation could also agree to the proposal of the United States for a panel of experts to carry out a preparatory examination of the information received.

Mr. FLEMING (Australia) welcomed the fact that the majority of contracting parties had notified their import restrictions which were inconsistent with the GATT. It did not seem unreasonable, he said, to urge those countries which had not yet responded to do so in the near future. He supported the proposal of the United States delegation for the establishment of a panel of experts. He recalled that the 1960 report on the discriminatory application of import

restrictions had pointed out that these restrictions were often on agricultural products which tended to discriminate, albeit on a de facto rather than a formal basis, against contracting parties largely dependent for their foreign exchange earnings on agricultural exports. His remarks had application to the report made by the representative of Norway as well as to the question under discussion now, and he hoped that this would be taken into account in the further arrangements regarding the remaining restrictions. He concluded by saying that he would welcome the establishment of examination procedures.

Mr. DATSON (New Zealand) welcomed the suggestion made by the representative of the United States for the establishment of a panel of experts. This would however, be no substitute for reports in documentary form from contracting parties who had not yet reported. He urged that these reports should be presented as soon as possible. He expressed his agreement with the remark of the delegate for India that work under this item could be linked with the conclusions of the ministerial discussion. He suggested that any reports should include an indication of a target date for the termination of these restrictions.

Mr. MIYAZAKI (Japan) associated his delegation with the proposal of the United States for the establishment of a panel of experts.

Baron VON PLATEN (Sweden) said that he had no objection to the proposal of the United States but agreed with the representative of Australia; it was important that all contracting parties should supply relevent information, and certainly before a start was made on working out general plans.

The CHAIRMAN said that the proposal of the United States for the establishment of a panel of experts had been supported by many delegations and he would therefore propose terms of reference for a panel of experts and the composition of the panel for consideration at a later meeting in the session. It would be noted that many delegations had urged that contracting parties who had not submitted notifications should do so.

This was agreed.

(c) Review of the "hard-core" waiver

The CHAIRMAN said that the Decision of 5 March 1955 (dealing with "problems raised for contracting parties in eliminating import restrictions maintained during a period of balance-of-payments difficulties") provided that a contracting party wishing to obtain the concurrence of the CONTRACTING PARTIES in the maintenance of restrictions should submit its request "before it ceases to be entitled to maintain the restrictions under the relevant provisions of the GATT and in any case not later than 31 December 1957". This time-limit had been extended until the end of the current year and it had been agreed that the paragraphs of the Decision which provided the possibility of such extensions would be reviewed at this session.

Mr. EVANS (United States) proposed a one-year extension of the time-limit up to 31 December 1962.

Mr. CAMPBELL-SMITH (Canada) expressed his support for the proposal of the United States.

Mr. FLEMING (Australia) said that the procedures of the "hard-core" waiver had been designed to give temporary help which would allow contracting parties to remove import restrictions. The need was greater now than when the waiver had been granted, as many countries were now emerging from balance-of-payments difficulties. He supported the proposal of the delegate of the United States.

Mr. MARTINS (Austria), pointing out that the "hard-core" waiver met both legal and economic needs, also supported the proposal put forward by the delegate for the United States.

The CHAIRMAN said that if the proposal of the United States was agreed, he would request the Executive Secretary to submit a draft text for approval at a subsequent meeting.

This was agreed.

3. Italian restrictions on imports from Israel (L/1574)

The CHAIRMAN said that this item had been included in the agenda at the request of the Government of Israel.

Mr. BARTUR (Israel) said that document L/1574 contained Israel's request that consultations on the problem of Italian restrictions on imports from Israel be undertaken by the CONTRACTING PARTIES in accordance with Article XXII:2 of the General Agreement. Under the present Italian import regime three negative lists were applied to three different groups of countries. List B, the most liberal, was applied to imports from countries belonging to the former OEEC area; list A was applied to the dollar area which included nearly all the remainder of the GATT member countries, with the exception of Czechoslovakia, Japan and Israel; list C, the most restrictive applied to these three remaining countries.

The discriminatory treatment applied to Israel's exports had been the subject of numerous representations to the Italian authorities over a long period of time, but despite assurances given by the Government of Italy, the gap between the restrictions applied to imports from Israel and those applied to imports from most other countries had broadened with the introduction of new liberalization measures to imports from other countries. Bilateral consultations under Article XXII:1 had taken place in September 1961 and the Italian delegation had declared that the Government of Italy would see its way clear to apply list A to imports from Israel, but that a number of agricultural and industrial items should be excluded from the liberalization. Some of the items to be excluded were of major importance in Israel's export trade.

His Government did not consider that the Italian proposal represented a satisfactory solution to the problem or fulfilled the repeated assurances given by the Government of Italy. He stressed that Italian exports enjoyed

most-favoured-nation treatment in Israel and that the balance of trade had been heavily in favour of Italy. Italian imports from Israel represented only 0.4 per cent of total Italian imports and the Government of Israel was at a loss to understand the motives which caused the Italian Government to maintain discrimination against imports from Israel. There was no justification in terms of the General Agreement and certainly none had been offered. He requested that a working party be established during the nineteenth session to deal with the problem and to report back to this session.

Mr. PARBONI (Italy) said that he would like to confirm the views expressed by the Italian delegation during the consultations which had been held under Article XXII. His Government was ready to extend to Israel, with certain limited exceptions, the measures of liberalization already applied to other contracting parties. His Government intended to examine the question of those excepted products which could be imported under licence under the terms of a bilateral agreement. The Government of Israel did not accept these solutions because they were temporary. He expressed the willingness of his delegation to take part in further consultations.

Mr. BARTUR (Israel) said that the conclusions of the meeting of Ministers had given new hope for the removal of discrimination in trade. In the present case it seemed that an attempt was being made to maintain some last remaining restrictions. He stressed that a toleration of this discrimination would be contrary to the views recently expressed by the Ministers.

Mr. EVANS (United States) supported the request of Israel that the discrimination in Italy's import restrictions should be removed as promptly as possible. He expressed support for the establishment of a working party.

The CHAIRMAN proposed that a working party be established with the following composition and terms of reference:

Terms of reference:

> To consult with the Government of Italy, on the basis of the request of Israel and pursuant to the provisions of paragraph 2 of Article XXII, concerning the maintenance of import restrictions which are no longer justified for balance-of-payments reasons and which were the subject of consultations between Israel and Italy under paragraph 1 of Article XXII, and to report thereon to the CONTRACTING PARTIES before the close of the nineteenth session.

Chairman: Mr. P. NAEGELI (Denmark)

Members:

Australia	Ghana	New Zealand
Belgium	France	Norway
Brazil	Israel	United Kingdom
Canada	Italy	United States
Denmark	Japan	Uruguay

This was agreed.

4. Italian restrictions on imports from Japan

Mr. MIYAZAKI (Japan) said that bilateral consultations under Article XXII:1 were continuing between Japan and Italy. He did not propose any action at this stage, but if no satisfactory solution had been reached before the next Council meeting his Government would consider whether to refer the question to that meeting.

5. Bilateral arrangements, discriminatory treatment and variable duties (L/1636)

The CHAIRMAN recalled that at the second meeting of the session the representative of Uruguay, whose Government had requested the inclusion of this item in the agenda, enquired whether the Executive Secretary could provide an opinion on the questions involved, namely on the compatibility of certain commercial policy measures with the provisions of the GATT. The Executive Secretary had complied with this request by distributing the note contained in document L/1636.

Mr. LACARTE (Uruguay) said that his Government had raised this question because it wanted to be clearly informed whether certain practices were or were not compatible with the GATT. Document L/1636 was very useful, and had pointed out that the question had been raised in general terms, and he agreed that study in detail would be necessary before establishing the procedure to be followed.

Referring first to bilateral agreements which provided for import quotas valid for a given period of time and for given quantities, he asked whether the CONTRACTING PARTIES would accept that paragraphs 3, 4 and 5 of document L/1636 could be interpreted as meaning that it was not possible to use the terms of such an agreement with one country to justify any trade restriction or discrimination against imports from another contracting party.

Mr. Lacarte said that the Executive Secretary had, he thought, indirectly replied to this question, but it would be useful to have the opinion of the CONTRACTING PARTIES on this matter.

Mr. CARNEIRO (Brazil) said that bilateral agreements might be an unavoidable feature in the trade between so-called "centrally-planned" and so-called "free-enterprise" economies. Whether these bilateral agreements constituted a breach of the provisions of GATT might be settled in general terms. In centrally-planned economies, it was possible for bilateral agreements to be operated in conformity with GATT if the most-favoured-nation clause was applied and if no quantitative limitation were imposed on imports other than that imposed by the availability of foreign exchange reserves, and if the customs tariff played the same rôle as in free-enterprise economies. He said, however, that it could be argued that these countries did not offer

non-discriminatory access to their markets on the sole basis of tariff protection because their customs tariff did not fulfil the same function as it did in free-enterprise economies. A country with a centrally planned economy imported only those goods which could not be supplied by planned domestic production and there was, therefore, no hope of competing on equal terms with this domestic production. There would, therefore, be no possibility for these countries to maintain bilateral agreements without breach of the GATT contract. The arguments on this question were, of course, not solved. He said that he was not proposing a solution for the problem which had been raised by the delegate from Uruguay, but that it was important for a solution to be found and that a pronouncement on the compatability or incompatability of these agreements with the General Agreement be made.

Mr. STEYN (South Africa) expressed his sympathy with the point which had been put forward by the Uruguayan delegation. He recalled, however, the debates which had taken place during the review session of 1954/55 and referred to BISD, Third Supplement, page 177, paragraph 29. His delegation had proposed an amendment to Article XIV with a view to ensuring that discrimination practised by contracting parties under bilateral agreements was limited to the extent justifiable on currency grounds. The Working Party, he recalled, had "considered that the amendment proposed by South Africa was unnecessary since it was already covered by the provisions of Article XIV which clearly defined the extent to which deviation from the provisions of Article XIII was permitted. ...Moreover it is for the CONTRACTING PARTIES to decide whether the provisions of the Agreement are being complied with and in so far as discrimination is not authorized under the Agreement, it is possible for a contracting party adversely affected thereby to have recourse to the provisions of Article XII." He said that the report set out the findings of the Working Party. He assumed that, while his delegation entered a reservation on the text of that report, these were still the views of the majority of contracting parties.

Mr. SVEC (Czechoslovakia) expressed his gratitude to the Executive Secretary for the clear presentation of document L/1636. Referring to the statement which had been made by the representative of Uruguay, he said that he understood that this question was linked to some extent with the application of Article XXIII. On the compatibility of bilateral agreements with the GATT, he said that document L/1636 had pointed out that "the General Agreement contains no provisions dealing specifically with the use of bilateral agreements". What was relevant for the General Agreement was the "effects on the trade of other contracting parties of any measures affecting trade". His delegation shared that view. It was not the form of the measure which was relevant but its effect. This was a distinction which should always be borne in mind. He felt that, following the GATT tradition, he should try to present a comment from the so-called pragmatic side. He recalled that the concrete effects of his country's trading system and the effect of its bilateral agreements on the exports of Uruguay had been examined in recent consultations with that country. These consultations covered both items which had been bound to Uruguay such as hides, wool and fats and other non-bound items such as meat. Total Czechoslovakian imports of all these items had increased substantially between 1948 and 1960. Imports of hides had more than doubled, imports of wool had almost trebled, imports of meat had increased four times and imports of fats five times. Generally,

imports from Uruguay had increased substantially. The measures which they applied, irrespective of their form were not restrictive nor discriminatory and led to a promotion of trade, based on conditions of equality.

Mr. AHMAD (Pakistan) welcomed the fact that the delegation for Uruguay had brought this important problem to the attention of the CONTRACTING PARTIES. He expressed the hope that some practical results would be obtained and said that all contracting parties should examine their trade agreements to see if they were compatible with the GATT. When they were not compatible perhaps an effort would be made to make them so. Turning to the legal position, he said that, as pointed out in document L/1636, it was difficult to pass an opinion unless the specific provisions of an agreement were examined. Agreements containing quota provisions might not violate any provision of the GATT. An agreement could provide for special payments arrangements which were in turn a kind of discriminatory practice. He concluded by supporting the view expressed in the Executive Secretary's document L/1636.

Baron VON PLATEN (Sweden) said that in discussing this matter it was his view that there were three types of bilateral arrangements. Firstly, bilateral balancing arrangements; secondly, bilateral balancing arrangements coupled with detailed commodity lists; and thirdly detailed commodity lists without bilateral balancing. In all three cases it was difficult to say without detailed study whether or not a particular arrangement was discriminatory.

Baron von Platen said that bilateral agreements did, however, fulfil a very important rôle in the case of State-trading countries. The practical problems involved in trading with State-trading countries were immense for various reasons, especially because of the pricing system in these countries. There was no truly acceptable index of performance in these countries for the full implementation of the most-favoured-nation clause. His country had, therefore, found it advantageous to maintain or introduce bilateral agreements in practically all instances involving trade relations with the State-trading nations. These bilateral agreements did not, of course, involve bilateral balancing but were mainly arrangements which were implemented through the use of commodity lists which were sometimes detailed and sometimes not very detailed. Baron von Platen said it was his opinion that these principles and fundamental facts should be taken into consideration when judging these problems.

Mr. EVANS (United States) said that with regard to the kind of enquiry which had been launched by the representative of Uruguay, the general position of his delegation was that in the absence of specific cases, it was impossible to say categorically whether a given type of practice, such as a bilateral agreement, was or was not in conformity with the provisions of the General Agreement. The United States delegation agreed with the analysis submitted by the Executive Secretary and indeed the Executive Secretary could not have said anything that he did not say in his analysis. The representative of Uruguay had, however, performed a valuable service to the CONTRACTING PARTIES because it was easy to lose sight of the way in which practices such as bilateral agreements could lead, in some cases quite unconsciously, to a violation of the provisions of the General Agreement. It was a healthy exercise, therefore for the CONTRACTING PARTIES to examine bilateral agreements

from time to time, not in abstract terms, but with regard to the probable effects of bilateral agreements and to the possibility of their leading to contraventions of the General Agreement.

Mr. Evans said that in the view of the United States Government, bilateral agreements of the kind which were usually in mind when the term was used, in most cases involved either a contravention of the letter of the General Agreement or of its spirit. This was almost inevitable since a bilateral arrangement was usually made between two countries each of which was attempting, through such an arrangement, to obtain some privilege not otherwise obtainable. Such a situation inevitably deprived other contracting parties of something which they might otherwise have expected. The United States delegate said he realized that this was a very sweeping view and that there could be exceptions but he thought that it would be more dangerous to assume that bilateral agreements were legal unless proved otherwise. It was possible that the form of discrimination which resulted from a bilateral agreement would be permitted because of balance-of-payments difficulties but where that was so it was probably a very fortunate coincidence. Mr. Evans said that the safest way for contracting parties to comply with their obligations under the General Agreement would be for them to avoid the use of bilateral agreements.

Mr. AHMAD (Pakistan) said that while he was in general agreement with the analysis given by the United States delegate, he disagreed with the remark that in most cases bilateral agreements violated the letter or the spirit of the General Agreement. As far as Pakistan was concerned its experience in this regard was quite to the contrary. In some ways his country considered bilateral agreements as important devices for promoting their exports. They had made such arrangements with some twenty countries and with one exception, these agreements did not involve any discrimination or bilateral quotas. Imports under these agreements took place on a multilateral basis against licences valid for all countries of the world. Mr. Ahmad said that in his view, the type of bilateral agreements his country operated, served as a kind of guide or estimate indicating particular products the countries concerned could export or import.

Mr. CAMPBELL-SMITH (Canada) said that the discussion based on the point raised by the delegate for Uruguay had been very useful and contained very helpful comments and wise advice. His delegation, however, found it difficult to comprehend why bilateral agreements should exist unless there were some discriminatory aspects in them. As a practical issue he thought that it was logical that countries should, as had been suggested, seek to eliminate them. Discussions in the past had led to a reduction in the number of such agreements and the Canadian delegation hoped that the present discussion would again help to narrow the range and the frequent resort to bilateral agreements.

Mr. LACARTE (Uruguay) enquired whether the representative for the International Monetary Fund had anything to add to paragraph 5 of document L/1636.

Mr. HEBBARD (IMF) said that it was clear that the discussion had been focused on whether bilateral agreements were consistent with the General Agreement. He was therefore not in a position to judge whether any specific arrangement would or would not be compatible with the General Agreement.

The CHAIRMAN said that the Fund's views would nevertheless be appreciated, and pointed out that the Fund's views would not be regarded as reflecting its judgement as to whether bilateral agreements were or were not compatible with the General Agreement.

Mr. HEBBARD (IMF) first pointed out that the activities of the International Monetary Fund with respect to bilateralism had naturally concentrated on bilateral payments arrangements and bilateral arrangements involving the use of exchange restrictions.

He said that bilateral arrangements of this kind had been of concern to the Fund, not only because of the adverse effects which they might have on the economic position of other countries which did not employ them, but also because, as more and more currencies were made convertible, the Fund had felt that the longer-run interests of countries relying on bilateralism were endangered by the continued isolation of their economies from the savings and efficiencies available in a more competitive economic relation with all countries. Both of these aspects of bilateralism illustrated the economic reasons that made the establishment of a multilateral system for current payments one of the primary purposes of the Fund.

After an extensive review of the question of bilateralism, drawing on its experience, the Fund's basic policy on bilateral payments arrangements was set forth in a decision published in 1955. This decision urged the full collaboration of all its members to eliminate as rapidly as practicable reliance on bilateralism.

In the following year, in accordance with this decision, a thorough examination of bilateral arrangements was undertaken in connexion with the Fund's Article XIV consultations with individual member countries. In this examination, the Fund explored with the member concerned the possibilities for the early removal of bilateral arrangements, and the ways and means, including the use of the Fund's resources, by which the Fund could assist in this process. Particular regard was given to the balance-of-payments position and prospects of the member. Such annual reviews had become standard practice. The annual Article XIV consultations thus recorded the progress made by individual members and the application of the Fund's policy to particular situations.

Very considerable progress had been made in the elimination of bilateral payments arrangements between members of the Fund. Early in 1955, when the Fund had fifty-six members, there were approximately 200 such arrangements. Now, with seventy-three members, the number of such arrangements was about one-third of that number.

Mr. Hebbard recalled that the Fund's basic policy on bilateralism was specifically reaffirmed in 1959, when the Fund reviewed the implications of wider convertibility in its general decision on discriminatory restrictions imposed for balance-of-payments reasons. This decision was transmitted to the CONTRACTING PARTIES at their fifteenth session in Tokyo. Mr. Hebbard went on to say that, although the Fund's activities had concentrated on bilateral arrangements directly affecting payments, the Fund was not, however, unmindful of the implications of bilateral trade arrangements. The Fund had noted that, as in other aspects of restrictions, it was important that the gains to be derived from the establishment of a multilateral system of payments should not be frustrated by action in the trade field.

The EXECUTIVE SECRETARY said that the representative of the United States and others had indicated that the question put to him, and which had been answered in document L/1636, was a rather formal legal question, and the answer he had given had been in the same form. However he wished to point out that as far as the thinking of the secretariat was concerned on this subject, the information submitted in the document was not necessarily the end of the matter. It would seem that part of the value of the present discussion was to invite a very careful review of such bilateral agreements, some of which might be a legacy from the period of monetary stringency from which countries were emerging and the results of which were being felt in various branches of activities of the CONTRACTING PARTIES and happily were leading to a degree of fulfilment of the obligations and objectives of the General Agreement. If the problem were approached more broadly, as opposed to the purely legal approach, the conclusion that might be drawn from an examination of this matter was that bilateral agreements do present considerable risks of being accompanied by discriminatory action. It was appropriate, therefore, that there should be the greatest degree of circumspection in entering into and maintaining such agreements because of the inherent danger that they may entail departures from the obligations of the General Agreement. One is unable to contemplate a bilateral agreement without at least having a certain fear of the possibility of discrimination.

The Executive Secretary referring to paragraph 4 of document L/1636 said that he wished to confirm that, as he saw it, the existence of a bilateral agreement could in no circumstances be justified as a basis for non-observance of the non-discrimination provisions of the General Agreement.

Mr. KOJEVE (France) enquired whether the reference to bilateral agreements included bilateral agreements for exports as well as for imports.

The EXECUTIVE SECRETARY said that the document in question made no distinction between import and export restrictions which were governed in the same way by the provisions of the General Agreement.

Mr. CARNEIRO (Brazil) said that in relation to bilateral agreements on exports, fixed export prices could present a problem which the normal anti-dumping provisions of the GATT were, in his opinion, clearly inadequate to deal with. Such fixed export prices could have the effect of forcing importing countries to establish import controls.

Mr. LACARTE (Uruguay) thanked the CONTRACTING PARTIES for the constructive way in which they had discussed this matter, and expressed the gratitude of his delegation for the contribution made by the representative of the International Monetary Fund. Mr. Lacarte also thanked the Czechoslovakian delegation for the preference they had indicated for consultations with his delegation, and he pointed out that what the delegate for Czechslovakia had said regarding Uruguay's relationships with Czechslovakia was indeed a true picture. His delegation had no special treatment in mind when they raised this problem, and had submitted the matter for general consideration only.

Mr. Lacarte, referring to paragraph 6 of document L/1636, said that the Executive Secretary had pointed out that the reasoning he had put forward with respect to bilateral arrangements was also applicable regarding the use of lists of countries in the administration of quantitative restrictions, except that in this case, instead of dealing with the situation between two countries, consideration was also given to circumstances where particular treatment was given by one country to several countries at the same time. Mr. Lacarte said that his delegation agreed with the Executive Secretary's reasoning, and was of the view that this list system could only be justified to the extent that it was in conformity with the provisions of the General Agreement.

Mr. LATIMER (Canada) said that with respect to discriminatory quantitative restrictions, he wished to underline the importance attached by his delegation to the Fund's decision on discrimination. With respect to variable levies, he said it was worth reminding contracting parties of the desirability of tariff stability, and recalled that this was one of the basic features which lay behind the provisions of Article XXVIII. In order to promote the objectives and facilitate international exchange of goods it was important that terms of access were known to the exporter and the importer; variable levies could create a measure of uncertainty which was an impediment to international trade.

Mr. LACARTE (Uruguay) said that the variable import levy system referred to in document L/1636 was subjected to the same considerations as bilateral agreements. He invited the Executive Secretary to give his views on the question of the compatibility of variable import duties with Article I of the General Agreement.

The EXECUTIVE SECRETARY said that he did not think it appropriate for him to enter at great length in a discussion on the very complicated question of the compatibility or otherwise of variable import duties with Article I which embodied the most-favoured-nation clause. This subject had been discussed

during the review session, when a contracting party had raised the question of the compatibility of what were called sliding-scale duties with Article I. He said that whether a system of duty rates on one particular product which bears more heavily on imports from one source solely because of a lower price than similar imports from another source of supply, would in fact be in compliance with Article I, was a serious question which had not been resolved.

Mr. EVANS (United States) said that variable duties clearly could differ greatly in their effect and in their purposes, but in their most extreme form they could in fact serve as a quantitative restriction, or in fact as a prohibition against imports. If the variable levy was carried to its logical conclusion and had the effect of exactly equalizing the price of the imported goods with the cost of bringing goods onto the market from domestic sources, it presumably would prevent any trade from taking place. In the opinion of his delegation, where a variable levy did have that intent and effect, the CONTRACTING PARTIES should treat it as if it were a quantitative restriction or a quantitative prohibition on imports. If, for example, a variable levy was used in that way to protect a domestic price support, it should be subjected to the same limitations which applied to the use of quantitative restrictions for that purpose in the General Agreement. In the case of variable levies which were not carried to this logical conclusion, there was still the very serious problem which had been mentioned by the Executive Secretary. His delegation had no hesitation in stating that a levy that varied from source to source would be a violation of the provisions of the Agreement dealing with non-discrimination.

Mr. Evans agreed with the statements made by the representative of Canada. He said that although he did not know of any specific provision in the General Agreement to which he could appeal, it was his view that there was a basic concept running through the agreement which called for the stability of tariffs and their negotiability. He said that it was very difficult to see how variable levies could comply with these basic concepts of the General Agreement. In view of this analysis, his delegation hoped that variable levies would be used most sparingly, if at all, by contracting parties.

Mr. DATSON (New Zealand) associated his delegation with the remarks that had been made by previous speakers. His delegation was particularly concerned with the subject of variable import levies although it was realized that they were largely a matter for the future.

Mr. Datson said that he agreed that these levies could have the effect of adjusting the price of imports so that either it would be impossible for the products of outside suppliers to enter the country applying such levies or, alternatively, that the competitive advantage that imports might otherwise have had would be wholly or substantially lost. The variable levy could be a barrier which no imports could surmount, and the more strenous the efforts to surmount it, the more effective the barrier could become. He said that his delegation agreed with the views expressed by the representative for the

United States and in their view, a levy could be imposed discriminatorily on imports from cheaper sources. If no most-favoured-nation treatment were applied, there presumably would be a tendency to base the variable levy on the lowest possible so-called world price, so that the levy would be even higher.

Although he realized that the present considerations to a large extent related to the future, Mr. Datson said that the present indications were that the import levy would be working in the opposite direction to the objectives expressed in the preamble to the General Agreement which was directed to "the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce".

Whatever their legal basis, import levies would tend to pull down the level of the balance of concessions imposing once again another barrier to trade in agricultural products. He said that at the recent ministerial meeting the New Zealand Minister in his statement had said that tariff negotiations were coming to mean less and less to New Zealand; they would come to mean even less if the variable level became a generally applied device. It had been said that import levies were negotiable, but it was the experience of New Zealand that they were, insofar as they existed at the moment, seldom put up for negotiation and when they were, the maximum rate offered for binding turned out to be very high. Mr. Datson asked what would be the situation in GATT if a number of countries were known to be contemplating the raising of tariffs to prohibitive levels on industrial goods. Every contracting party would be and should be greatly concerned about this question, no matter what justifications were advanced. The use of import levies could set an example that others might be obliged to follow. Such a situation could result only in serious disadvantages for all contracting parties, both agricultural, less-developed and industrial developed countries alike unless there were an agreement as to the ways in which variable levies could be operated so as not to have these possible effects on international trade and especially on agricultural trade.

The CHAIRMAN said it would be noted that a number of representatives had expressed concern about the imposition of variable import levies; their statements would be placed on record and he hoped that the views expressed would be borne in mind if resort to such levies was contemplated.

Mr. KOJEVE (France) said that levies could have no discriminatory effect if export prices were equal. When it was said that equalizing export with domestic prices would stop all trade it would have to be inferred that national trade within a country would also be completely impossible since prices were equal inside the frontiers; yet a great amount of trade did, in fact, take place within frontiers.

Mr. LACARTE (Uruguay) said that the discussion on these matters had been very useful and he thanked the CONTRACTING PARTIES and the Executive Secretary for the way in which these questions had been confronted. Referring to the last paragraph of document L/1636, he said that his delegation had concluded that the criteria used therein were acceptable to the CONTRACTING PARTIES. He realized that the problem of variable levies was obviously a question of the future, but it was a question which deserved to be kept under constant observation.

6. The impact of commodity problems upon international trade (L/1656)

The CHAIRMAN said that under the Resolution of 17 November 1956 the CONTRACTING PARTIES review annually the trends and developments in trade in commodities giving particular attention to the impact of commodity problems on international trade. To provide a basis for this year's review the Commodities Working Party had held several meetings early in the session and had submitted a report in document L/1656.

Mr. VIDAL (Brazil), Chairman of the Working Party on Commodities, in presenting the report recalled that the task of the Working Party on Commodities was to do certain preparatory work for the CONTRACTING PARTIES' annual review of the impact of commodity problems on international trade. Mr. Vidal said that Part I of the report described the impact of commodity problems on international trade in 1960 and the beginning of 1961. He pointed out that the factual information provided in Part I brought out a number of important features in international trade which had a bearing on the trade situation of countries dependent on exports of primary commodities. Parts II and III described the general exchange of views in the discussion on some individual commodities which had taken place in the Working Party.

Mr. Vidal drew attention to paragraph 43 of the report, which contained certain suggestions for studies which were put forward by some members of the Working Party and stated that it had been agreed that the attention of Committee III should be drawn to these suggestions. Finally, paragraph 45 contained a Recommendation on the subject of futures markets.

Mr. AHMAD (Pakistan) expressed the deep appreciation of the Pakistan delegation for the work done by the Working Party. He said that the report dealt with a very complicated problem which had been under consideration by the CONTRACTING PARTIES as well as several other organizations for a number of years. He said that for countries in the position of Pakistan, who mainly depended for their export earnings on the export of a limited number of primary commodities, this problem was perhaps of greater importance than to some other countries.

Mr. Ahmad said that it was apparent from the findings of the Working Party, that in spite of the close attention given to this question by the CONTRACTING PARTIES and by other organizations, there had not been much improvement in the situation, but rather the problem of commodities had continued to be disturbing. On the question of prices, the report said that there was a 3 per cent rise in the average prices of manufactures in 1960, while prices of primary products remained unchanged at their previous low levels. The report also said that in the first quarter of 1961 there was a further fall in imports of primary commodities compared with the last quarter of 1960. Another development which was of concern to his delegation was the growing share of the industrial countries in the trade in primary commodities. Further, the trade deficit of the non-industrialized countries as a whole became more serious in 1960. The Working Party had also mentioned a number of measures which could be adopted to deal with the situation. His delegation wished to underline two of these measures; firstly, that the GATT secretariat should examine developments referring to the growth of the share of industrial countries in commodity trade; secondly, with reference to the long-term solution of the problem, greater opportunities should be provided for the less-developed countries to expand their exports, not only of primary products, but of semi-processed and simple manufactures as well, without which it would be difficult for less-developed countries to implement their plans for economic development.

Continuing, Mr. Ahmad said that in the past his delegation had stressed the point that in spite of the fact that the question had been examined in other intergovernmental forums, the CONTRACTING PARTIES should continue to pay close attention to these problems. It was the hope of his delegation that further work in this field would be continued. He wished again to emphasize that the main point for consideration should be the possibility of increasing the opportunity for less-developed countries to expand their exports.

Mr. VAN WIJK (Netherlands) said that his delegation strongly supported the recommendation regarding future markets. His delegation was of the opinion that the smooth operation of future markets could contribute to a certain stabilization of commodity prices.

Mr. TOWNLEY (Rhodesia and Nyasaland) said that while his delegation agreed that the attention of Committee III should be drawn to the studies suggested in paragraphs 41 and 42 of the report, he wished to make a few remarks about the suggestions in paragraph 42. He said that copper was of such preponderant importance in the Federation's export earnings, that his Government closely and continuously studied the market situation and its repercussions on the whole economy of the Federation. As to the means whereby the adverse effects of such repercussions could be reduced, his delegation wished to suggest a conscious and a critical reappraisal of policies by those countries which, for one reason or another, and by one means or another, gave support to less-economic domestic producers and so contributed to world production in excess of demand. His delegation agreed with the view expressed in the report that countries should concentrate their production in those sectors where they were most efficient. Further, his Government was aware of the potential for enlarging the scope of processing facilities in the Federation, but their need was for investment in those processes and for easier access to markets for their output. However, the question of market access was one which had been adequately taken into account in the Declaration on Promotion of the Trade of Less-Developed Countries, and did not call for further elaboration now.

Mr. MATHUR (India) observed that the Working Party had taken note both of the short and long-term aspects of the commodities problems and that in dealing with the short-term aspect it had dealt with current proposals which were being discussed by other bodies for compensatory financing and again drew attention to the commodity-by-commodity approach. In their examination of the long-term aspect, he noted that there was a link-up with the findings of other GATT committees. It was recognized that the less-developed countries needed assistance in the export of semi-manufactures and simple manufactures and his delegation found the recommendations contained in paragraphs 41 and 42 of the report of particular interest. He hoped that it would be possible to take further action in connexion with the recommendations at the appropriate stage.

Mr. JARDINE (United Kingdom) said that the United Kingdom had long been forcibly persuaded by her close association with many primary-producing countries of the reality of the interdependence between primary-producing and manufacturing countries. As the centre of the sterling area, the United Kingdom had witnessed the constantly shifting picture of world commodity markets not just for one or two commodities, but virtually for the full range of primary products. Such indeed had been the United Kingdom's concern with regard to the impact of commodity problems on international trade that his delegation had taken the lead at the review session in urging the CONTRACTING PARTIES to turn their attention to this field, if the objectives of the General Agreement were to be fully realized and secured.

Mr. Jardine said that no-one had yet succeeded in displacing the commodity-by-commodity approach, deliberate and cautious as that might seem. It was also likely that solutions found in one decade would need adjustment in the next. Changing patterns of consumption had transformed the prospects in some markets since 1951 and time could not be set back. In the meantime, changes in production policies were shifting sources of supply and it was not impossible that in another decade supplies now available on world markets would have to be diverted to meet domestic demand. The Working Party's report had brought out how varied were the governments and institutions which were looking at particular aspects of commodity problems. He said that this should not tempt contracting parties to slacken their support for these efforts, nor should it cause any doubt as to the responsibilities of the CONTRACTING PARTIES to make their own contributions.

Mr. Jardine said that in the concluding sections of their report, the Working Party had offered some suggestions as to the role of the CONTRACTING PARTIES. These sections were of special interest as they had enlarged the concept of commodity problems in terms of economic growth and offered fresh perspectives. Accordingly, his delegation welcomed the approach embodied in the Working Party's report.

Mr. CAMPBELL-SMITH (Canada) associated his delegation with the remarks made by previous speakers on the usefulness of the document presented by the Working Party. He said that although his delegation had some reservations on the application of certain techniques, for example compensatory financing, he was of the opinion that the Committee had drawn the attention of the CONTRACTING PARTIES to some very important problems. He did not feel it appropriate to comment further at this time, but it was the view of his delegation that the directives from Ministers had included some of the recommendations suggested by the Working Party.

Mr. EVANS (United States) welcomed the report by the Working Party. He said that it was gratifying to see that this report had not narrowly interpreted the term "commodity problems" and that it was not suggested that the only solution lay in the field of commodity agreements. Mr. Evans said that governments were becoming increasingly aware of the long-term problem of commodities and that the root of the problem lay in the lag in the growth of commodity trade relative to world trade generally and in the imbalance of supply and demand for many commodities. He said that the GATT was dealing with important aspects of both these problems through the work of Committees II and III and would be dealing further with these problems in the follow-up of the decisions reached by Ministers. The GATT could take satisfaction in having recognized these problems so promptly. He hoped that action following from the ministerial meeting would give added impetus to this work. The short-term aspect of the problem was still relevant and his Government would be willing to consider any reasonable proposals in connexion with this problem. His Government was participating in the study of various proposals for strengthening the international machinery for compensating less-developed countries for excessive short falls in their export earnings due to short-term commodity price changes. He felt, however, that governments had given insufficient attention to the longer-term aspect of commodity problems and he hoped that they would be constantly kept in mind so as to avoid action to deal with other problems in commodity trade in ways that might aggravate the longer-term problems.

Mr. GARCIA OLDINI (Chile) said that in one part of the report by the Commodities Working Party reference was made to figures and background information which, like information given previously during the session and during the ministerial meeting, was very discouraging and disheartening. However, in the report a summary was also made of the ways of seeking means in order to satisfy the needs of countries producing raw materials and commodities and to assist them in the development of their economies. In the Working Party, the producers of mineral products in particular, had raised their problems. He thanked the Working Party for taking into account these complaints which were detailed in paragraph 42 of the report. He said there was a tendency to become satisfied with increases in the volume of exports and to ignore increases in prices. It was his hope that the suggestions brought out in the report by the Working Party would be considered by contracting parties when they attempted to put into practice the instructions and guide lines arising from the Ministers' meeting.

Mr. BOSCH (Uruguay) said that the gravity of the facts with respect to the developing countries had been brought out by the Working Party in document L/1566. It was the hope of his delegation that these facts which had given support to the anxieties of those countries would be borne in mind by contracting parties when the recommendations of Ministers were being applied.

Mr. FLEMING (Australia) said that it was clear from the discussions of the Ministers' meeting as well as from those of previous meetings that in considering international action on these problems, the promotion of stability was most important. He found the comments of the United States delegation most interesting and was in agreement with the view that many of the suggestions embodied in the Working Party's report would be caught up in the action of the Contracting Parties arising from the decisions of Ministers. He also supported the Netherlands in proposing that the problem of future markets be further studied.

Mr. ROESKE (Federal Republic of Germany) speaking on behalf of the EEC said he gave full support to the conclusions contained in the report.

Mr. DE SILVA (Ceylon) said that the report of the Working Party had disclosed that the trade deficit of non-industrial countries had taken a turn for the worse in 1960. The need for a solution of the problem, either by international commodity arrangements or by compensatory financing or by other means, had been emphasized. The GATT secretariat had been requested to examine the reasons for the growing share which the industrial countries had taken in primary commodities. The importance of reports of Committees II and III had been recognized and while supporting the recommendations in paragraphs 41 and 42 of document L/1656, Mr. de Silva said that his delegation hoped that the application of the recommendations made in the ministerial meeting would result in a greater measure of stability in the commodity market.

The CHAIRMAN said that the comments made were evidence of the interest that contracting parties attached to the conclusions of the Working Party. Contracting parties were keen to see that action arising from the report and from the studies of Committee III would be enhanced by the decisions taken at the ministerial meeting.

The Chairman thanked Mr. Vidal and the members of the Working Party for the task they had performed.

The recommendations presented by the Working Party on Commodities were approved and the report contained in document L/1656 was adopted.

The meeting adjourned at 6 p.m.