

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.17/5
16 November 1960
Limited Distribution

CONTRACTING PARTIES
Seventeenth Session

Page 47

SUMMARY RECORD OF THE FIFTH MEETING

Held at the Palais des Nations, Geneva,
on Friday, 11 November, at 11 a.m.

Chairman: Mr. TORU HAGUIWARA (Japan)

	<u>Page</u>
<u>Subjects discussed:</u>	
1. Status of Protocols	47
2. Italian measures in favour of domestic production of ships' plates	48
3. Italian discrimination against imported agricultural machinery	49
4. Impact of commodity problems upon international trade	52

1. Status of protocols (L/1339)

The CHAIRMAN said that the present status of the amendment Protocols and of other instruments drawn up and opened for signature by the CONTRACTING PARTIES was set out in document L/1339. Many of the Protocols required unanimity and therefore could not enter into force until they had been accepted by all the contracting parties.

Mr. OLDINI (Chile) said he had received instructions from his Government to sign the sixth, seventh, eighth and ninth Protocols of Rectifications and Modifications. Because of the need to give its full attention to the problems which had arisen following the natural disasters in Chile, Parliament had been unable to deal with the question of the amendment Protocols. However, he had received a communication intimating that the Commission of Foreign Affairs of the Chamber of Deputies had approved them.

Mr. KYDIS (Greece) said that, while formal acceptance of the instruments which Greece had not signed was still pending, the instruments concerned were in fact being acted upon.

Mr. ADAIR (United States) said that his Government was prepared to accept the eighth and ninth Protocols of Rectifications and Modifications.

Mr. HONKARANTA (Finland) said that the position regarding the ninth Protocol and the ninth Protocol of Supplementary Concessions as far as Finland was concerned would be regularized in the near future. The delay had been caused by technical reasons.

Mr. VIDAL (Brazil) said that his Government was now prepared to accept the fifth, sixth and seventh Protocols of Rectifications and Modifications.

Mr. AUGUSTOWSKI (Poland) said his delegation noted from document L/1339 that among those contracting parties which had not yet signed the Declaration on relations with Poland were some which had supported the idea of Poland's association with GATT and some with which Poland had close trading relations.

The CHAIRMAN said that the amendment Protocols were open for signature only until the following day. He assumed that the CONTRACTING PARTIES would wish to extend once more the closing date for their signature; if so, he proposed that the Executive Secretary should distribute the text of a decision for approval at a later meeting.

This was agreed.

2. Italian measures in favour of domestic production of ships' plates (L/1194)

The CHAIRMAN called on the representative of Austria to explain the latest developments in Austria's consultations with Italy concerning this complaint which had been on the agenda for several sessions. The latest document concerning this matter was L/1194.

Mr. MARTINS (Austria) said that certain provisions of an Italian law which, in the opinion of his Government, would prejudice Austria's rights under the GATT had been the subject of consultations between Austria and Italy while the law was still in draft form. It was now understood that, subsequent to the sixteenth session, this law had entered into force. Mr. Martins went on to recall that, at the sixteenth session, the Italian delegation had stated that a new law, which would be favourable to Austria's interests, would soon be adopted. This new law had not yet entered into force however, which meant that the detriment to Austria's interests under the present law continued. His delegation would, therefore, request the retention of this item on the agenda of the CONTRACTING PARTIES.

Mr. PARBONI (Italy) explained that the law in question did not have the aim of benefitting the sale to Italian shipyards of domestically produced steel products at the expense of foreign products. While, on the one hand, one article of the law provided for a refund to shipyards using domestically produced steel products, another article exempted from customs duties and other fiscal charges all imported products destined for the shipyards. The fact that the refund had been extended to cover shipyards using steel products

originating from the ECSC countries was, in the opinion of his Government, not in conflict with the provisions of GATT. Mr. Parboni went on to say however that, as he had announced at the sixteenth session of the CONTRACTING PARTIES, his Government envisaged a solution to the present problem when the existing legislation relating to shipyards was revised. On the basis of this solution, shipyards wishing to use steel products originating in any country party to the GATT would be able to choose between the duty-free provision or, as an alternative, the benefit of the refund as provided for in the present law. The draft law containing these provisions had been submitted to Parliament in July and its examination was proceeding. In conclusion, Mr. Parboni said his delegation had no objection to the retention of this item on the agenda for the next session of the CONTRACTING PARTIES.

The CHAIRMAN proposed that this item should be retained on the agenda for the eighteenth session of the CONTRACTING PARTIES.

This was agreed.

3. Italian discrimination against imported agricultural machinery (L/1294)

The CHAIRMAN called on the representative of the United Kingdom to explain why his Government's complaint which, it was thought, had been settled at the thirteenth session, had been brought forward again.

Sir Edgar COHEN (United Kingdom) said that his delegation had first raised this question at the twelfth session and that it had been referred to a Panel of Conciliation which had reported to the CONTRACTING PARTIES in 1958. His delegation had argued that the revolving fund operated by the Italian Government, from which advances were made to Italian farmers to enable them to purchase agricultural machinery of domestic manufacture, put imported agricultural machinery at a serious disadvantage and was contrary to the requirements of paragraph 4 of Article III of the GATT. The Panel of Conciliation had agreed with the United Kingdom view and recommended that the Italian Government should consider the desirability of eliminating, within a reasonable time, the discriminatory aspects of the rotating fund. Sir Edgar Cohen went on to say that his Government had recognized the difficulties which would confront the Italian administration in attempting to secure an amendment to the existing legislation, which was due to expire on 30 June 1964, and had reached an understanding with them whereby the customs duty on tractors was reduced from 32 per cent to 26 per cent. The United Kingdom had thereupon removed its complaint from the agenda of the CONTRACTING PARTIES reserving the right to reinstate it if the discriminatory aspects were prolonged after 1964. However, since then there had been serious developments. First, fresh allocations were made to the rotating fund in January 1959. Secondly, and more important, a bill relating to Italian agriculture and covering the period 1964 to 1969 was sponsored by the Italian Government in February 1960; the bill provided for an extension of the rotating fund beyond 1964 on the same

discriminatory basis. The United Kingdom Government had protested to the Italian Government, requesting it to remove the offending provision so as to conform with the recommendation of the CONTRACTING PARTIES. No reply had been received to these representations.

Sir Edgar Cohen continued by referring to the damage caused to the interests of countries exporting agricultural machinery and quoted figures to illustrate both this and the added protection which resulted for the Italian manufacturer. In this connexion he stressed that it was in fact the manufacturer, and not the farmer, who benefited. Apart from the fact that contracting parties other than the United Kingdom were affected by this discrimination, there was the fact that the breach of GATT obligations involved was a matter which concerned all contracting parties. For the United Kingdom Government this question was a test case for the GATT. In conclusion, Sir Edgar Cohen said he hoped the Italian Government would remove the discriminatory provision from the draft legislation before it became law.

Mr. PARBONI (Italy) in reference to the United Kingdom's complaint that the draft law at present before the Italian Parliament was contrary to the recommendation of the CONTRACTING PARTIES at the thirteenth session, stressed that the recommendation had, in fact, suggested two alternative solutions. He quoted these two alternatives. In the spirit of the recommendation his Government had proposed, and the United Kingdom had accepted, that the rate of duty on tractors should be reduced from 32 per cent to 26 per cent, with a reservation on the part of the United Kingdom that, if the offending provision of the law in question continued in application beyond 30 June 1964, it would be free to refer the question again to the CONTRACTING PARTIES. In the view of the Italian delegation, the draft Italian law, to which the United Kingdom representative had referred, should not be subject to criticism at this stage; while it was true that the draft law could be taken as representing an expression of intention, it was, nevertheless, still only in draft form and was still subject to modification. Moreover, the Italian Government was itself disposed to re-examine the problem on the basis of the actual provisions of the future law and to consult with the United Kingdom Government even before 30 June 1964 with a view to settling the question, in the event of a change in the present situation for the importation of agricultural machinery.

Mr. ADAIR (United States) said that his delegation supported the views expressed by the representative of the United Kingdom. He would join in urging the Italian Government not to extend the discriminatory features of the legislation concerned beyond the present expiry date and to make every effort to eliminate the discriminatory effects of the existing law.

Mr. GRANDY (Canada) said his delegation strongly supported the view expressed by the United Kingdom representative. He agreed that the question was not one with only bilateral significance. He further considered that the argument that the bill only represented an expression of intention was not a satisfactory answer to the United Kingdom's complaint; once proceeded with, it would be very difficult to reverse the bill at a later stage.

Mr. SWARD (Sweden) said that Swedish manufactures were also affected by the measures taken by the Italian Government and his delegation, therefore, supported the views expressed by the United Kingdom representative and joined with those who now urged the Italian Government to reconsider the matter.

The CHAIRMAN proposed that this item be retained on the agenda of the CONTRACTING PARTIES so that the results of further consultations between Italy and the United Kingdom and other contracting parties could be reported.

This was agreed.

4. Impact of commodity problems upon international trade (L/1329, L/1292 and Add.1, L/1318)

The CHAIRMAN, having referred to the CONTRACTING PARTIES' acceptance, at the second meeting (SR.17/2), of his suggestion that the Working Party on Commodities should not meet this year, said that the CONTRACTING PARTIES had, as background material for their plenary discussion, the report submitted by Mr. Jha, in his capacity as nominee of the CONTRACTING PARTIES as the Chairman of ICCICA (L/1329), the report on commodity developments prepared by the secretariat (L/1292 and Add.1) and the section of the secretariat's publication "International Trade 1959" entitled "Recent Trends in Commodity Trade", off-prints of which had been distributed to delegations.

Mr. PERERA (Ceylon) said that developments in international commodity trade over the last year-and-a-half had been by no means encouraging and again emphasized the need to keep commodity problems under periodical review. It was true that there was some evidence that the long-term tendency for exports from non-industrial areas to industrial areas to expand less rapidly than world exports as a whole had been reversed, and that the trade deficit which the non-industrial areas had had with the industrial world in 1957 and 1958 had all but vanished in 1959. This improvement however was more illusory than real. The elimination of this trade deficit was, in fact, the result of a combination of two factors, one of which, viz. an increase in export receipts, was only partly favourable inasmuch as the increase in receipts was accounted for entirely by an expansion in export volume, the average prices of primary products having continued to decline. The other factor, viz. a decline in imports, which, in many cases, included a reduction in imports of much-needed capital goods, was, of course, wholly unfavourable from the long-term point of view. What was particularly disturbing was that the prices of many primary commodities failed to respond to the revival in industrial activity in 1959, with the result that the terms of trade of primary-producing countries as a whole continued to worsen in 1959. It was, therefore, evident that structural problems of imbalance between supply and demand would receive increasing attention in the future in addition to the problems of short-term fluctuations.

Mr. Perera went on to say that the activities of the various international organizations and study groups did indicate that there was a general awareness of these problems and that the techniques of inter-governmental consultation and negotiation developed by these bodies had, in the period under review, been successfully employed to solve particular problems. As the Chairman of ICCICA had rightly emphasized in his report, the most fruitful approach to these problems had been the commodity-by-commodity approach leading, where appropriate, to the conclusion of commodity agreements of a less formal nature between producing and consuming countries. In the light of the activities of these numerous international agencies and study groups, the essential role of GATT in the solution of commodity problems would seem to be the eminently practical one of removing effective barriers to increased consumption of these commodities, particularly in the field of quantitative restrictions, tariffs and internal fiscal charges. GATT's most immediate contribution, therefore, was to implement both effectively and expeditiously the programme for trade expansion reflected in the work of the three Committees appointed for this purpose, and particularly in the work of Committee II and Committee III.

Mr. YEO BENG POH (Federation of Malaya) said that three of the commodities mentioned in the reports before the contracting parties, namely rubber, tin and coconuts, were of great importance to Malaya's economy. The vital importance of rubber and tin was demonstrated by the fact that they accounted for about 76 per cent of Malaya's export earnings and gave employment to 30 per cent of the country's working population. These commodities were of equal importance to the economies of other contracting parties. One consideration to bear in mind was that the rubber and tin producing countries were all less-developed countries whose economic health depended to a large extent on their export receipts from sales of these two commodities; on the other hand, the main consumers of rubber and tin were the richer, industrialized countries. Fluctuations in the prices of rubber and tin had more serious consequences for the less-developed producer countries, in view of the large proportion of their export earnings derived from these commodities, than they did for the consumer countries where these commodities only constituted a very small part of the total import bill. Malaya was therefore very gratified that a number of major consumer and producer countries had become members of the first International Tin Agreement and hoped that it would be possible for those countries not members of that Agreement to become members of the second Agreement which was currently under consideration by governments. Mr. Yeo Beng Poh went on to express his Government's appreciation for the manner in which the United Kingdom had disposed of its stockpile of tin and for the manner in which the United Kingdom and the United States had arranged their rubber disposal programmes. In reference to synthetic rubber, Mr. Yeo Beng Poh explained the efforts being made by his Government to meet the challenge which this commodity presented and expressed the hope that the industrialized countries would match these efforts by finding new uses for, and encouraging a greater use of, the natural commodity. In conclusion, Mr. Yeo Beng Poh again stressed the continued dependence of the less-developed countries on the export of a few primary commodities and urged contracting parties to give their full co-operation in implementing more widely the principles enunciated in paragraph 11 of document L/1329.

Mr. PHILLIPS (Australia), having again stressed the particular importance which his Government attached to the consideration of commodity problems by the CONTRACTING PARTIES, pointed out that both the secretariat report (L/1292 and Add.1) and the report of the Chairman of ICCICA (L/1329) demonstrated the great importance of these problems and the major role which the CONTRACTING PARTIES could play in the search for solutions to them. Mr. Phillips then commented on the reference in the report of the CICT on its eighth session to the fact that the prices of many commodities did not react to the revival in industrial activity in 1959 as they had done during earlier recovery periods, with a consequential worsening in the terms of trade of the primary exporting countries as a whole. Mr. Phillips said that this statement did not surprise his delegation who, on earlier occasions, had pointed out that, while a high level of industrial activity was an essential factor for the maintenance of a high level of commodity trade, it was not the only factor. Other factors, such as the degree of restrictive measures, both tariff and non-tariff, were of the greatest importance. In the case of some key commodities, such as wheat for example, a reduced emphasis on uneconomic production was of far greater significance in promoting international trade than a high level of industrial activity. The adverse effects on the exports of primary exporting countries

of the stimulation of uneconomic production by an excessive degree of protection, and the considerable percentage increase in net imports of agricultural products which would result from a small reduction of domestic production relative to consumption in North America and Western Europe, was well brought out in the Haberler report. Uneconomic production led to reduced import requirements, with a consequential adverse effect on the export earnings, balance of payments and development plans of primary exporting countries. There were also indirect effects, for uneconomic production often led to the subsidization of exports and the accumulation of surplus stocks, both of which were likely to result in damage to the trading interests of traditional, efficient suppliers. Having referred to the consideration being given to commodity problems by the Committees set up under the programme for the expansion of trade and having expressed Australia's satisfaction that special attention was being given to the question of agricultural protection and to non-tariff measures, Mr. Phillips quoted paragraph 11 of document L/1329, in which the Chairman of ICCICA suggested ways in which the CONTRACTING PARTIES could help in the solution of commodity problems. In this connexion, Mr. Phillips said he had already referred to the need for liberal trade policies and he also wished to say that Australia actively supported measures to moderate the effects of excessive commodity price fluctuations. It was gratifying that, as was stated in document L/1329, the climate in favour of commodity agreements had shown a good deal of improvement. Australia welcomed the renegotiation of the International Tin Agreement and was also keen to see the well-being of the International Sugar Agreement. In reference to the International Wheat Agreement, Mr. Phillips pointed to the stabilizing effect on the international wheat trade which the Agreement had had, although it was regrettable that the national grain policies of many non-members were not in harmony with the objectives of the Agreement. Mr. Phillips said that Australia favoured the commodity-by-commodity approach and, where formal commodity agreements were not appropriate, it supported the establishment of active study groups, such as the one set up for lead and zinc. It was essential to have the will to adopt liberal trade policies but it was also necessary to have mechanisms to promote action. In conclusion Mr. Phillips, in reference to his statement on the subject at an earlier meeting, said his delegation would not press for the establishment of a working party at the present late stage in the session.

Mr. VIDAL (Brazil) stressed the importance which the work of the CONTRACTING PARTIES in the commodities field had for the majority of contracting parties. He went on to refer to the comments on sugar and coffee made in paragraphs 31 and 33 of document L/1292/Add.1 prepared by the secretariat and pointed out that, while Brazil's exports of coffee had increased considerably in 1959, a 40 per cent increase in volume had only brought an 8 per cent increase in export earnings; this was a good illustration of the kind of problem which arose in international commodity trade. The work of Committee III was very important in view of the fact that non-tariff measures on imports had a significant effect on coffee consumption in Western Europe; the Brazilian delegation had frequently pointed this out during the past few years. The coffee exporting countries had done their part in contributing to a reduction in coffee prices, which were now 60 per cent lower than they were seven years ago, but the coffee consuming countries had not make a reciprocal effort to improve the coffee situation.

Mr. Vidal went on to say that the Brazilian delegation strongly supported the maintenance of the Working Party on Commodities. In conclusion he drew attention to the importance of the Resolution adopted at the last session of the ECOSOC, in which the CICT was invited to take into consideration, in its future studies, the work already done by the CONTRACTING PARTIES in the commodities field.

Mr. LACARTE (Uruguay) expressed his delegation's view that the normal meeting of the Working Party on Commodities should be held in future years. He went on to refer to the fact that, unlike what had happened in earlier recovery periods, prices of many primary commodities did not respond to the recovery in economic activity in 1959; there was, therefore, a worsening in the terms of trade of countries exporting primary commodities. The increase in the export earnings of these countries was due, almost entirely, to an increase in the volume exported. Commenting on the deficit on trade account of the less-developed countries as a whole, Mr. Lacarte said that, despite the considerable reduction in the deficit between 1957 and 1959, the deficit of \$1.6 billion in 1959 could hardly be described as satisfactory. The main contribution to this result came, in any case, from a reduction of imports by the less-developed countries; this was to the disadvantage, not only of the less-developed countries, but also of the supplying countries. Uruguay was deeply concerned with commodity problems and attached the greatest importance to any steps aimed at controlling or reducing measures which were restricting commodity trade.

Mr. BRUNET (France) referred to paragraph 11 of the report of the Chairman of ICCICA (L/1329) which set out ways in which the CONTRACTING PARTIES could contribute to the solution of commodity problems. One of the lines of action suggested, namely the promotion of liberal commercial policies, was under discussion in Committees II and III. In reference to both paragraphs 11 and 12 of document L/1329, Mr. Brunet said his delegation would like to be able to accept the optimistic view that the climate in favour of commodity agreements had shown a good deal of improvement. It was true that in the case of some commodities such as tin for example there was justification for this view, but in the case of other commodities the situation did not look hopeful. Coffee was an important exception however, and the recent agreement between coffee producers, in which virtually all producing countries were now participating, was of great significance and more likely, in the view of the French delegation, to increase the export earnings of the countries concerned than would steps taken to modify customs duties or fiscal charges on coffee.

The CHAIRMAN said discussion of this item would be resumed at the afternoon meeting.

The meeting adjourned at 12.30 p.m.