

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Twenty-Second Session

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SUMMARY RECORD OF THE SEVENTH MEETING
HELD AT THE PALAIS DES NATIONS, GENEVA
ON MONDAY, 22 MARCH AT 2.30 P.M.

Chairman: Mr J. LACARTE (Uruguay)

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1. European Economic Community - Association of overseas territories (L/2342)

The CHAIRMAN recalled that in document L/2342 dated 2 February 1965 the Executive Secretary had circulated a communication which had been forwarded to him by the Council of the European Economic Community at the request of the member States. This communication had been transmitted in accordance with the undertaking of the member States to communicate any changes in the plan and schedule for the implementation of the Rome Treaty. The communication had contained the text of a Decision of the Council of the Community which defined for a further period of five years the provisions for the Association between the Community and certain non-European countries and territories maintaining special relations with France and the Netherlands. At its meeting on 28 January, the Council of Representatives had decided to recommend that this text should be referred to the Working Party which had been appointed to examine the Convention of Association between the European Economic Community and the African and Malagasy States.

The Chairman further recalled that, in an airgram dated 8 February, the Executive Secretary had suggested that it would facilitate the examination of this matter at the session if contracting parties wishing to put forward questions concerning the provisions and the implementation of the Decision were to submit these to the secretariat before the opening of the session. A limited number of such questions had been received and these had been brought to the attention of the Community and would be made available to the Working Party.

The Chairman proposed that the terms of reference of the Working Party which would be examining the Convention of Association between the European Economic Community and the African and Malagasy States be enlarged to read as follows:

"To examine in the light of the relevant provisions of the General Agreement,

- (i) the provisions of the Convention of Association between the EEC and the African and Malagasy States associated with the Community, and
- (ii) the provisions of the Decision of 25 February 1964 of the Council of the EEC defining for a further period of five years the provisions for the Association between the EEC and certain non-European countries and territories maintaining special relations with France and the Netherlands,

and to report to the CONTRACTING PARTIES."

This was agreed.

2. Article XVIII - annual review under paragraph 6 (L/2385)

The CHAIRMAN said that under the provisions of paragraph 6 of Article XVIII the CONTRACTING PARTIES were required to review annually all measures applied pursuant to the provisions of Sections C and D of the Article. At present the only measures which fell to be reviewed under these provisions were those which were applied by the Government of Ceylon pursuant to Section C. The Government of Ceylon had provided information for this review and this had been distributed in document L/2385.

Mr. SENARATNE (Ceylon) said that the present review was the first to be undertaken since the Decision of 9 March 1964. The Industrial Products Act No. 18 of 1949, which was the legal basis on which measures covered by the Decision were applied, was designed for the express purpose of facilitating the marketing of the local product; importers of competing products were required to purchase the local product up to a specified proportion of the quantity of their imports. Ceylon had obtained numerous releases under Article XVIII:C. Of these releases the only one currently in operation was that relating to a category of textile products. Protection had been sought under this Article because the method of manufacture through the use of twisted yarns had met with consumer resistance. Consequently a switch-over to the use of single yarn was considered a matter of urgency in order to safeguard the industry and to promote sales of local manufactured textiles. When the extension of the release was discussed by the CONTRACTING PARTIES at the twenty-first session, Ceylon had reported that three mechanical sizing plants which supplied handloom weavers with single sized yarn were in operation. Since then three additional plants had begun operation and were now producing and supplying single sized yarn to handloom weavers. The Government had also decided to provide for an increase in the number of sizing plants from three to eight. The measures contemplated by the Government were expected to reduce the cost of production and improve the quality of the product so that it would be acceptable to the consumer on its own merits. On the successful implementation of these measures it was expected that protection of this item under the Act would no longer be required at the end of 1968.

The CHAIRMAN suggested that, as in previous years, the information provided in document L/2385 and the statement by the delegate of Ceylon be deemed to constitute the annual review under paragraph 6 of Article XVIII.

This was agreed.

3. United States agricultural import restrictions (L/2387)

The CHAIRMAN recalled that the CONTRACTING PARTIES had referred to a working party for examination the tenth annual report by the Government of the United States under the Decision of 5 March 1955. The working party had submitted a report in document L/2387.

Mr. COLLYMORE (Jamaica) Chairman of the working party presented the report. He said that many questions were put to the United States delegation in the working party and were fully answered. Several members of the working party, in drawing attention to the fact that the waiver had been in existence for some ten years, recalled that the expressed purpose of the waiver had been to give the United States the opportunity to seek a solution to the problem of agricultural surpluses so as to render the import restrictions which were authorized by the waiver no longer necessary. Mr. Collymore pointed out that when the waiver had entered into effect ten years ago there were many import restrictions covered by it, but at present the waiver applied to only four commodity groups. He said that whilst this was recognized in the working party, some members had indicated that there had been no further relaxations since 1962. References were made in the working party to the current trade negotiations and the United States representative had replied to the effect that in principle, his Government was prepared to enter into negotiations on relevant elements of its agricultural policy, though he maintained that discussion of such matters was not within the terms of reference of the working party.

Concern was expressed by members of the working party concerning the long-term dollar credit sales under Title IV of Public Law 480 which had resulted in additional competition for third country suppliers. The United States delegation, however, stressed that all surplus disposals by the United States were carried out in strict accordance with the FAO principals on surplus disposals. Members of the working party, whilst agreeing that the consultations were properly carried out stated that they were not necessarily pleased with the results of the consultations. As could be seen from the report there had been a lengthy and detailed examination on a product-by-product basis.

Mr. Collymore said that members of the working party had expressed the hope that the current round of trade negotiations would lead to improved access in world markets including that of the United States for agricultural products and would not be confined necessarily to those products which were the subject of the report. They expressed fears that certain United States regulations would prevent them from negotiating arrangements on those agricultural products subject to Section 22 restrictions. The reply of the United States delegation to this point was shown in the concluding sentence of the report.

Mr. PRESS (New Zealand) said it was clear from the report that there had been a strong feeling in the working party that the present time was particularly propitious for the United States to take some action with regard to the waiver. His delegation subscribed to the hope expressed in paragraph 4 of the report that the United States would consider seriously the possibility of relinquishing the present waiver with its almost unlimited scope for restrictions. The existence of this blanket waiver for a period of ten years had had unfortunate implications for the expansion of international trade in all its aspects and, in particular, had greatly impaired the attainment by some countries of a balance of advantages under the General Agreement. The New Zealand delegation also supported the view expressed in the working party's report that there was no longer any convincing justification for the maintenance of certain of the restrictions. In the dairy sector stocks were for practical purposes down to working levels. The figure of uncommitted government stocks of butter in February 1964 were shown in paragraph 16 of the report as 41 million pounds compared with a figure of 344 million pounds on the same date in 1963. The changes in stock figures for cheese and non-fat dry milk followed a similar pattern. In these circumstances the restrictions should be relaxed or removed. In the case of butter for example, attention should be drawn to the fact that the present quota, which had remained unchanged since 1955, amounted to about .054 per cent of United States consumption. Attention should also be drawn to the increasing productivity in the United States dairy industry, and the question might be asked whether the present high level of support was necessary for each and every farmer. New Zealand would be most disappointed if by the end of the Kennedy Round there was no improvement in access to the United States market for dairy products. Indeed, there was no reason why steps in this direction should be delayed until that time. On the credit side it was noted that measures had been taken to control wheat production. Further, that income supports for a number of products had been held for some years at the minimum permitted by law. It was also noted that there had been a reduction over the years in the number of products on which restrictions were maintained.

Mr. SKAK-NIELSEN (Denmark) said that the statement by the delegate of New Zealand had covered the points he had intended to make. He would therefore confine himself to joining fully in the views expressed in particular with regard to the dairy sector. Like New Zealand, Denmark hoped that at the end of the Kennedy Round the United States Government would be able to make quite substantial increases in the quota for butter - at least to the amount of the tariff quota which was negotiated some eighteen years ago. Denmark likewise could see no reason why the necessary action could not be taken before the end of the Kennedy Round.

Mr. VAN WIJK (Netherlands) recalled that when the waiver was granted to the United States ten years ago the CONTRACTING PARTIES had stated in the text of the Decision that "... they regret that circumstances make it necessary for the United States to continue to apply import restrictions which, in certain cases, adversely affect the trade of a number of contracting parties, impair concessions granted by the United States and thus impede the attainment of the objectives of the General Agreement". The Netherlands delegation felt that ten years was sufficient time for the United States to conform to the General Agreement even on the subject of agriculture. He noted that in the earlier years of the waiver the United States had found possibilities for relaxing its import restrictions, but during the past year no such relaxations had taken place. He would once again ask that the United States should seriously consider the possibility of relinquishing the waiver or at least to remove or relax the present restrictions.

Mr. ONYIA (Nigeria) associated himself with the views expressed by previous speakers. The fact that a temporary waiver granted ten years ago was still being utilized, exposed the danger of granting waivers without a time limit. He hoped that this experience would guide the CONTRACTING PARTIES in the future. His delegation appreciated the progress made by the United States during the existence of the waiver but found it difficult to understand why the position should have remained stagnant for the last two years. In this connexion he stressed the importance of improvement in the prospects for groundnuts, an item of importance to Nigeria. The Kennedy Round would afford an opportunity for some improvement. The points of particular interest to Nigeria were contained in paragraphs 17 and 19 of the report. He hoped that the current high support price would be reduced to the minimum allowed by the enabling Act, and that in the very near future the United States would make an effort to encourage the shift from groundnut production to commodities not covered by the support programme.

Mr. LANGLEY (Canada), while acknowledging the actions taken by the United States to remove many restrictions under the waiver, expressed concern that after ten years many important restrictions were still maintained on products in which Canada had a substantial export interest. Canada was particularly disappointed that the overall quota for Cheddar cheese had remained unchanged over the entire period of the waiver. This was in contrast to the situation where other types of cheese had markedly increased their share of the United States market. The Cheddar cheese quota was at a very low level in comparison with the level of United States domestic cheese consumption, and all steps should be taken to abolish restrictions on imports of Cheddar cheese. The "hard core" items in the United States waiver had now been reached, and it was noted that in the past few years no restrictions had been removed from any of the items at present covered by the waiver. There was need to seek a solution to some of the fundamental structural

problems in the United States agricultural sector in order to help solve the problem of surpluses and thereby lead to the removal of the remaining restrictions. The Canadian delegation agreed with the view that the time was at hand for progress in this direction.

Mr. DONOVAN (Australia) fully supported the remarks of the New Zealand delegate. Referring to paragraphs 4 and 16 of the report he noted that reference was made to the improved world supply and demand situation for dairy products and to the improved domestic situation in the United States as reflected in the very substantial reduction in butter stocks in recent years. Under the terms of the waiver the United States was required to remove or relax each restriction as soon as it was found that the circumstances requiring the restriction no longer existed or had changed so as no longer to require its imposition in its existing form. In the circumstances, his delegation would welcome a positive statement from the United States as to whether, in view of the present favourable position, it was their intention to restore the butter quota to the level of 60 million pounds which was the tariff quota negotiated with Australia, New Zealand and Denmark in 1947. Paragraph 20 raised a question concerning the Trade Expansion Act. It was noted that, whilst Section 257 of the United States Trade Expansion Act provided that nothing in the Act should be construed to affect in any way the provisions of Section 22 of the Agricultural Adjustment Act or to apply to any import restrictions imposed under that Section, Section 212 of the Trade Expansion Act provided authority for the reduction or elimination in international negotiations of tariff or other trade restrictions on any agricultural commodity the President determined that agreement to do this would tend to ensure the maintenance or expansion of the United States exports of the relevant products. In paragraph 6 of the Working Party's report the United States representative had pointed out that as regards the current trade negotiations the United States had always stated that in principle it was prepared to enter into negotiations on all relevant aspects of its agricultural policy. In paragraph 20 of the report the United States representative had also stated that there was no conflict between Section 257 and Section 212 of the Trade Expansion Act and between Section 22 of the Agricultural Adjustment Act. It was assumed therefore that agricultural products subject to Section 22 restrictions were negotiable and that in the event of the United States negotiating arrangements in the current trade negotiations on the products concerned, no further enabling legislation by the United States Congress would subsequently be required.

Mr. LARENA (Argentina) noted that little progress had been made in the past years in removing the restrictions maintained under the waiver. The discussions in the Working Party had brought out that there were favourable

improvements in the demand and supply situation of various products. This should have made it possible for the restrictions to be removed. If a highly developed country like the United States had been unable in ten years to remove restrictions applied on imports of certain agricultural products it might be supposed that these measures would be applied indefinitely unless some other appropriate negotiations enabled progress to be made. This was relevant to the undertaking of the United States under the new Part IV of the General Agreement. Mr. Larena stressed the necessity of finding appropriate means as early as possible to deal with the question of agricultural surpluses so that the question would no longer be a problem for exporting countries which were efficient producers. His delegation wished to state once again that a solution to this problem could not be found merely in the establishment of a system of consultations however effective they might be. It was recognized that this system had overcome certain ills but it had not been capable in many cases of assisting traditional exporters like Argentina which had lost some of their customary markets. Unless this problem was tackled at the very roots it would continue to exist. In this respect he hoped that the Kennedy Round would provide an opportunity to improve the situation.

Mr. EVANS (United States) said that he had taken careful note of the statements made and would convey them to his Government. He was not in the position to make any promises regarding requests that the United States should consider the prompt termination of the use of the waiver. A study of the use made of the waiver would show that for most of those products on which restrictions were still maintained the United States had applied limitations of acreage or other forms of limitations on production, and it was therefore perhaps questionable whether the waiver was in fact being utilized in those cases. However, in the case of dairy products, for example, full compliance with the provisions of Article XI which would require some form of production control of dairy products, had not been found possible. Whether it would be possible to dispense with the waiver in certain circumstances would remain more or less an academic question so long as virtually every country producing dairy products maintained some form of protection or support other than that of the fixed tariff. Certain representatives had referred to the Kennedy Round as presenting a favourable opportunity for removing the causes of trade difficulties in the dairy field. Although it was difficult to predict, he hoped that it would be possible to negotiate some solution during the Kennedy Round.

Referring to the point raised by the representative of Australia concerning the relationship between the authority granted to the United States for negotiation in the Kennedy Round and Section 22 of the Agricultural Adjustment Act, Mr. Evans confirmed that the Trade Expansion Act did not prohibit negotiation on items which were subject to Section 22 of the Agricultural Adjustment Act. He also reaffirmed the stated policy of the United States that it was prepared to negotiate on its agricultural policy in the Kennedy Round. This was of course clearly contingent on what others were prepared to do. He was, however, not in a position to give an immediate reply to the question as to whether new legislation would be required in order to conclude a negotiation on the removal of restrictions maintained under Section 22 of the Agricultural Adjustment Act. This was a legal question to which careful consideration would be given. He felt however that this was a question which could not be answered in a vacuum; it would be necessary to know precisely what restriction was being removed and precisely what other countries would be doing before it could be determined whether the President could take action under the Trade Expansion Act or whether he would have to submit new legislation to Congress.

The CHAIRMAN said that a number of delegations had expressed concern that the United States was still invoking the waiver and had continued to maintain restrictions on a number of important agricultural commodities. They had recognized that some progress had been made in removing some of the restrictions originally imposed under the waiver but were disappointed that no progress had been made recently. Several speakers had also pointed out that the present situation justified some liberalization, and suggested that the United States cease to invoke the waiver or at least to reduce its scope. The delegate of the United States had noted the statements made and had indicated his intention to convey them to his Government. Reference had also been made to the possibility of negotiations on the commodities covered by the waiver in the context of the Kennedy Round, and the delegate of the United States had made interesting comments on this aspect of the matter.

The report contained in document L/2387 was adopted.

4. Procedures for Accession (W.22/6)

The CHAIRMAN said that the Governments of Argentina, Iceland, Tunisia, United Arab Republic and Yugoslavia had acceded provisionally to the General Agreement pending the conclusion of negotiations for full accession under Article XXXIII. In addition, the Government of Ireland had expressed a desire to renew the discussion on terms of accession which had begun in 1960. The Council of Representatives had recently considered the arrangements that should be made for processing these applications. In the first place, the Council had instructed the Trade Negotiations Committee to make provision for the participation in the Kennedy Round of any of these governments which wished to take part with a view to full accession. Secondly, the Council had recommended that the CONTRACTING PARTIES

should establish appropriate machinery for examining any matters concerning the terms of accession which were not directly related to the trade negotiations.

These decisions of the Council were recorded in a Note by the Executive Secretary in document W.22/6 and the Executive Secretary had added his proposals for the implementation of the Council's recommendation. It was proposed that a working party be established for each application. In each case the work had begun some years ago. Information furnished by the applicant government, its commercial policy and trade regulations, and other matters which might affect the eventual terms of accession, had been discussed in a working party. The task of the working parties now proposed would be to complete these studies, where necessary, taking full account of the work already accomplished and of any decisions reached. The working parties would also take account of the results of the participation of the applicant countries in the trade negotiations and would provide for concessions agreed by them to be annexed in schedules to any protocols of accession that might be drawn up.

Mr. KOPCOK (Yugoslavia) was happy to note that a few days previously the Trade Negotiations Committee had adopted the first part of the procedure suggested by the Council by agreeing to accept offers by countries which had provisionally acceded and to regard these countries as full participants in the Kennedy Round with a view to their full accession to the General Agreement. His delegation was pleased to support the second part of the procedure for establishing working parties to prepare terms of accession. His delegation had been pleased with the work accomplished by the working party which recommended the provisional accession of Yugoslavia and it was hoped that the same working party would deal with this new task, in view of the fact that its members were aware of the economic and trade problems of his country.

Mr. ABOU-GABAL (United Arab Republic) said that since its provisional accession in November 1962, the United Arab Republic had taken, and would continue to take, great interest in the activities of GATT. This positive contribution reflected the importance attached by his country to the GATT. His delegation was therefore prepared to discuss any purely commercial matters relevant to the General Agreement in the proposed working party. His Government would be participating in the trade negotiations with a view to full accession. As it was expected that the trade negotiations might continue for a long time, it was hoped that arrangements for the full accession of the United Arab Republic would be accomplished in the very near future.

The Council's recommendation and the proposals by the Executive Secretary as set out in document W.22/6 were approved.

5. Newly-independent States

The CHAIRMAN recalled that the Recommendation of 18 November 1960 had provided for the reciprocal de facto application of the GATT for a period of two years between contracting parties and territories which had acquired autonomy in the conduct of their external commercial relations but had not yet decided upon their future relations with the GATT. This Recommendation was at present applicable in respect of five countries, for some of which extensions of the time limit had been agreed upon at previous sessions. The Recommendation became applicable in respect of Zambia a few months ago and would remain valid until October 1966. Thus, no problem arose in respect of Zambia at the present session. The validity of the Recommendation would expire at the close of the session in respect of Congo (Leopoldville) and Mali. It would expire in respect of Algeria and Rwanda in July. The Executive Secretary had written to these four governments. It was known that some of them were actively considering the question of their future relations with the GATT, but final decisions had not so far been notified.

The Chairman suggested that in the circumstances the CONTRACTING PARTIES might wish to extend the validity of the Recommendation of 18 November 1960 in respect of these four countries until the twenty-third session, at which time the CONTRACTING PARTIES would review the situation again.

This was agreed.

6. Protocol Introducing Part IV - Spanish Text (L/2328/Add.2, L/2401)

The CHAIRMAN said that on 8 February, at the last meeting of the Second Special Session, representatives had signed the Final Act authenticating the English and French texts of the Protocol Introducing Part IV on Trade and Development. At that time the Spanish text was not quite in final form and the CONTRACTING PARTIES had agreed that they would authenticate the Spanish text at the present session. Comments had been invited on the Spanish text which had been distributed in document L/2383/Add.2. The text had evidently been found satisfactory and the Executive Secretary had now submitted in document L/2401 a draft decision to authenticate this text.

The Decision was adopted.

7. Status of Protocols (L/2380)

The CHAIRMAN said that the Executive Secretary had distributed in document L/2380 a report on the present status of various protocols. This note had shown that some instruments drawn up as long ago as 1955 had not yet entered into force, while others which had entered into force had not been accepted by all contracting parties. As at previous sessions, these facts were reported to the CONTRACTING PARTIES in the hope that the representatives of the governments which had not yet accepted the Protocols would bring this to the notice of the authorities with a view to action being taken with the least possible delay.

Mr. BOSCH (Uruguay) expressed the hope that the situation with regard to Uruguay would change very shortly following the approval of the Protocol introducing Part IV by the appropriate organs of his Government.

The CHAIRMAN proposed that the closing date for acceptance of the Protocols of Amendment which required unanimity and which contained a closing date for signature should be again extended until the twenty-third session, and that the Executive Secretary be requested to prepare a draft decision for consideration at a later meeting.

This was agreed.

Referring to the Protocol Introducing Part IV on Trade and Development the CHAIRMAN drew attention to the fact that this Protocol was open for acceptance until the end of the year. It had been accepted by seventeen contracting parties but could not enter into force until it had been accepted by another twenty-seven. Meanwhile a majority of the contracting parties had declared their intention to implement on a de facto basis the amendments provided for in the Protocol. Those governments which were not represented at the meeting on 8 February when the Declaration was adopted, had been invited to subscribe to Declaration.

8. Regional liaison arrangements (L/2381)

The CHAIRMAN recalled that at the twenty-first session the Executive Secretary had put forward proposals concerning visits by himself and the Deputy Executive Secretary or senior officials of the secretariat to Africa, Asia and Latin America, and concerning the organization of annual regional meetings by countries in these areas. A Working Party had been established to consider these proposals, together with any other suggestions that might be submitted by contracting parties. No suggestions had been received and the Working Party had not been convened. The Executive Secretary had now distributed a note in document L/2381 which referred to the recent establishment within the secretariat of a Department on External Relations and to the increased contacts with contracting parties in the areas mentioned which would result from the establishment of this

Department. All aspects of liaison between the secretariat and governments would be studied by the new Department, and in due course the Executive Secretary would submit a report on the results of this study.

The Chairman suggested that in the circumstances the CONTRACTING PARTIES might consider it desirable to defer further consideration of the question until such time as the Executive Secretary's report was available.

This was agreed.

9. Administrative and financial questions

(a) 1964 budget position (L/2372)

The proposals in paragraphs 6 and 9 of document L/2372 were approved.

The CHAIRMAN drew attention to Annex A of document L/2372. He pointed out that when the report of the Committee on Budget, Finance and Administration was approved on 18 November 1964 at the Special Session of the CONTRACTING PARTIES, reference had been made to the need to see that contributions were paid promptly so that the financial management of the secretariat would not be impeded. Certain recommendations by the Committee in respect of contributions in arrears were adopted. Document L/2372 had now indicated that since November a number of governments had met their obligations, but there still remained some outstanding amounts, and it was important that the arrears be cleared up as soon as possible.

(b) Assessment of additional contributions (L/2324)

The proposal concerning assessment of additional contributions to the 1964 and 1965 budgets and advances to the Working Capital Fund in paragraphs 3, 5, 7, 10, 12 and 14 of document L/2324 were approved.

(c) Joint Staff Pension Fund (L/2396)

The recommendations in paragraphs 2 and 3 of document L/2396, regarding measures adopted by the United Nations General Assembly on the United Nations Joint Staff Pension Fund were approved.

(d) General Service salary scale (L/2397)

The proposal in paragraph 2 of document L/2397 for increases in the General Service Category salary scales was approved.

(e) Deviation from the United Nations Staff Rules (L/2382)

The information contained in document L/2382 was noted.

(f) Trade Information Centre - Report by the Committee on Budget, Finance and Administration (L/2304)

The recommendation contained in paragraph 6 of document L/2304 was approved and the report was adopted.

10. Ceylon duty increases

The CHAIRMAN recalled that, under the Decisions of 10 April 1961 and 15 November 1962, the CONTRACTING PARTIES had granted a waiver to the Government of Ceylon to apply increased duties on imports of certain items specified in the Ceylon schedule. The application of these higher duties was "an emergency measure designed to overcome the threat to Ceylon's monetary reserves while certain corrective fiscal and monetary measures were being pursued". The waiver had expired on 31 December 1964. The Government of Ceylon had requested that this item be included on the agenda with a view to submitting a request for a further extension of the waiver.

Mr. SENARATNE (Ceylon) said that in August and September 1960, certain monetary, tariff and import licensing measures had been introduced to stem the drain on Ceylon's external reserves. These reserves which at the end of 1956 had been 1,179 million rupees had declined at the end of 1960 to 555 million rupees. As the external reserves situation did not improve in the years that followed, the Government of Ceylon had been obliged to continue the imposition of these restrictions. The tariff measures which were taken to check the drain on Ceylon's external reserves had incidentally involved the increase of customs duties with respect to certain items bound in the Ceylon schedule. As the situation had not improved Ceylon found it necessary to apply for an extension of the waiver for a further period of two years.

Ceylon's external assets which had amounted to 406.7 million rupees in 1962 and 358.8 million rupees in 1963, had fallen to 305 million rupees at the end of 1964. The deterioration in the merchandise account in 1964 was chiefly due to a deterioration in the terms of trade. Export receipts had increased from 1,707.8 million in 1963 to 1,765 million in 1964. This reflected an increase in the volume of trade by 5 per cent since the average export price remained unchanged at the 1963 level. The increase in export expenditure however, had more than offset the increase in receipts by rising from 1,868.8 million in 1963 to 1,948 million in 1964. The increase in outlay on imports was partly due to the increase by 9.4 per cent in the import price index of rice, sugar and flour. These commodities were imported exclusively by the Government and it was not practicable to react to an increase in the price of these commodities by a reduction in the volume of imports. Any economies had to be exercised on other items of imports. As the imports in 1964 of all commodities were restricted to their already very low levels in 1963, there was no further scope for reduction in the volume of imports except by effecting cuts in imports of essential foodstuffs and drugs and the import requirements of the local and plantation industries.

With regard to internal finance, Mr. Seneratne said that Ceylon had endeavoured to avoid inflationary financing of the budget in recent years. Internal financing in 1963/64 was limited to 97 million rupees as against 162 million in 1962/63 and 190 million in 1961/62. The improvement in fiscal performance in 1963/64 was achieved despite the higher outlay on food subsidy consequent on the increased import prices of rice, flour and sugar and the adverse effect on import duty revenue of the intensified import restrictions. But for the increase in import prices, it was quite likely that the inflationary gap in the budget in 1963/64 would have been totally eliminated. Under the conditions of continued monetary expansion, there had been a significant increase in the domestic price level in Ceylon in 1964. In the original import budget for 1965, there was provision for a sharp reduction in government payments for food due to the decline in sugar prices that had taken place. All other categories of imports were to be kept down generally to their 1964 level. It was expected that the total payments in 1965 would be in approximate balance with the foreign exchange receipts during the year. Developments in recent months, however, particularly in the form of drought and cyclone, had severely affected the paddy crop, thus increasing the imports of rice in 1965 by 200,000 tons, to the value of approximately 100 million rupees. These additional imports had to be financed either from foreign assistance or by curtailing the foreign exchange allocations for other commodities from their present very low levels. It could thus be seen that the foreign exchange reserves had reached dangerously low levels and that quantitative restrictions and tariff increases were the minimum necessary to cope with the situation.

The CHAIRMAN observed that the matter involved problems concerning monetary reserves and that the CONTRACTING PARTIES were required to consult with the International Monetary Fund in accordance with paragraph 2 of Article XV.

Mr. ANDERSON (International Monetary Fund) said that the Fund had transmitted to the CONTRACTING PARTIES for their information and use in connexion with their consideration of Ceylon's request, a paper dated 1 February 1965. This paper contained background material prepared in connexion with a consultation with Ceylon under Article XIV of the Fund Agreement. The Fund expected to complete this consultation with Ceylon in the near future and to transmit to the CONTRACTING PARTIES, the Executive Board's decision relating to the consultation when it became available. Mr. Anderson said that the material provided by the Fund indicated that, despite the measures applied, Ceylon continued to experience balance-of-payments difficulties. The general level of the various restrictive and temporary tariff measures being applied by Ceylon did not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

Mr. SUZUKI (Japan) said that, in view of Ceylon's balance-of-payments difficulties, his delegation supported the extension of the waiver.

It was agreed that the waiver should be extended. The Executive Secretary was requested to prepare a draft decision for consideration at a later meeting.

11. Negotiations under Article XXVIII:1 (W.22/10)

The CHAIRMAN recalled that, by a decision at the twenty-first session and by a subsequent decision of the Council, it had been agreed that the re-negotiations of certain concessions in GATT schedules which had begun in 1963 could be continued up to the end of the present session. As was stated in document W.22/10, some of the governments concerned had advised that they had not yet been able to conclude their negotiations and had therefore asked for a further extension of the time limit.

The CHAIRMAN proposed and the CONTRACTING PARTIES agreed that the uncompleted negotiations could be continued, if necessary, up to the end of 1965.

The meeting adjourned at 4.30 p.m.