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THIRD COMMITTEE: COMMERCIAL POLICY

SUMMARY RECORD OF THE TWENTY-SIXTH MEETING

(COMMITTEE III B)

Held at the Capitol, Havana, Cuba,
on Tuesday, 6 January 1948, at 3.00 p.m.

Chairman: Mr. L. D. WILGRESS (Canada)

SECTION C - SUBSIDIES

GENERAL DISCUSSION:

Mr. RODRIGUEZ (Brazil) expressed the view that export subsidies constituted a practice which was at least as harmful to international trade as quantitative restrictions. They gave an abnormal stimulus to the exports of one country at the expense of other countries producing the same commodity, thereby causing a disequilibrium in the balance of payments in those countries. To permit export subsidies would be the surest way of destroying confidence in the Charter and of destroying friendly relations between nations. They would counteract the favourable effect of tariff reductions and would accentuate the differences between countries in different stages of economic development. It would be illogical and unfair to permit subsidies which would ruin the very branches of production, on which under-developed countries were being told to concentrate. No country liable to be damaged by export subsidies could ratify a Charter which did not limit them to the greatest extent possible.

He was unable to accept the United States amendment to Article 26, as he felt that its adoption would result in the conditions which he had already outlined but welcomed the United States amendment to Article 25.

Mr. LLORENTE (Philippines) drew attention to the National Rice and Corn Corporation, which had been created by the Philippine Government to attain self-sufficiency in the production of rice and to put an end to monopolistic practices in the distribution of rice. Rice was the principal article of diet and the most important product of the Philippines. By fixing the purchase price of rice, the Corporation had attempted to make it remunerative to the marginal producer and at the same time fair to the consumer. In such a way,

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the violent fluctuations which occurred during the planting and the harvesting of rice had been brought under control. In certain instances, the Corporation had been forced to import rice from abroad and it had also entered the distribution field so that people would benefit from the mass distribution scheme.

He wished to be informed if such action violated the terms of Section C, Section D, or Chapter V. If such was the case, his delegation would submit an amendment; any measure which attempted to make a country self-sufficient as regards its principal article of diet, was one which should be supported wholeheartedly by ITO.

Mr. de VRIES (Netherlands) explained that before the war, his Government had established similar agencies to that referred to by the Philippine representative, in the Netherlands and in the Netherlands East Indies. The question had been discussed by the Preparatory Committee and also by FAO in Geneva, which had come to the unanimous conclusion that such stabilization schemes were acceptable, provided that they did not harm the economies of other countries. These schemes came under the terms of Article 25 when they resulted in the attainment of almost or complete self-sufficiency. They were not prohibited by Article 26, and he could not agree with the Brazilian representative that they were more dangerous than quantitative restrictions. If they seriously affected the economic life of another country, that country would have the right to discuss the limitation of the particular measures with the country which was applying them.

The Netherlands amendment to Article 27 would cover his Government's system of subsidizing agriculture. At times this in fact represented an inverted subsidy, since domestic prices were held at a level sometimes above and sometimes below world market prices. The amendment provided safeguards against serious prejudice to the interests of other Members.

Mr. FERRERO (Peru) said his delegation supported the suggestion made by the International Chamber of Commerce that Articles 25 and 26 should be reversed in sequence, Article 26 containing the general anti-subsidy rule being placed ahead of Article 25. The delegation of Peru felt that export subsidies should be condemned, as they might be used by highly industrialized countries to the detriment of undeveloped countries exporting primary commodities and unable to afford measures of counter-subsidization. It could not support the amendment suggested by the delegation of the United States of America, as this would substantially change the spirit of the Geneva text.

Mr. CAPLAN (United Kingdom) stated that Section C emphasized the importance of Members avoiding action in their domestic fields of policy which would have serious repercussions on the interests of other Members.

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This was implicit in Article 25. The amendment to the second sentence of that Article by the delegation of the United States of America was a useful one. He agreed with the representative of Brazil regarding the importance of Article 26 in relation to those tariff negotiations which had taken place and which would be taking place in the future between Members; he felt that the amendment suggested by the United States might carry with it much that would nullify such negotiations. He referred to the statements of the representatives of the Philippines and of the Netherlands regarding domestic price stabilization schemes, and agreed with the latter that such schemes in general would tend to assist international efforts to secure the moderation of pronounced price fluctuations in world trade in major primary commodities. Paragraph 2 of Article 27 emphasized the close link which should exist between primary commodities throughout the Charter, and in particular as between primary products in relation to subsidies and in relation to Chapter VI. The Charter should stimulate members of ITO to resolve problems regarding primary products by means of mutual co-operation through commodity agreements within the framework of the Chapter VI. He regretted the United States proposal for a new paragraph as this would open the door to retaliatory measures. He had some doubts regarding the amendment submitted by the delegation of Venezuela. He felt however that the scope and provisions of paragraph 3 might be re-examined and that the present draft should be taken as a basis. Referring to the new article proposed by the delegation of Ecuador, he thought that it would be somewhat out of place in Section C.

Mr. REISMAN (Canada) said that the Canadian delegation accepted the Geneva draft of Article 27 which permitted the use of export subsidies in limited cases, and felt that that Article provided an effective mechanism for obtaining release from the requirements of Article 26 when such escape was justified. Referring to the amendments submitted by the delegation of the United States of America, he said that his delegation shared the views of the delegation of the United Kingdom. He thought that the Sub-Committee should bear in mind the following essential principles:

(1) Article 25 contained a careful balance between the rights and obligations of importing and those of exporting countries; this should be maintained. It would be upset by the amendment to Article 28 suggested by the delegation of the United States of America.

(2) The exception provided for primary commodities must be such that, while due regard was paid to the special difficulties which they might encounter, it should not be so wide as to permit abuse.

(3) The exceptions for primary commodities should be so formulated as to encourage and facilitate Chapter VI technique.

(4) Safeguards must be provided to ensure that export subsidies were not

used as a means of expanding a Member's share of world exports beyond that of a fair and representative period.

Mr. LECUYER (France) considered that the principles of Articles 25 and 26 should be maintained, and viewed with misgivings the amendment to Article 26 proposed by the delegation of the United States of America. This might bring about a more dangerous situation than if the Articles were maintained as at present drafted. The French delegation must reserve its position on the United States amendments pending further explanation.

Mr. D'ASCOLI (Venezuela) regarded subsidies as prejudicial and dangerous when used for dumping purposes or to stimulate production of exportable goods difficult to place in foreign countries. In other cases, he saw no objection to their use. The Venezuelan amendments had been presented from that point of view and he would justify them at the appropriate time.

Mr. McCARTHY (Australia) said that subsidies divided themselves into two main categories: those relating to secondary industries, and those relating to primary industries. These two groups could each be subdivided into "production" subsidies and "export" subsidies.

In regard to manufactured goods, subsidies usually took the place of tariffs, the subsidy depending on the cost of production in relation to the cost of importing like goods. It was argued that this method had greater merit than the tariff method in that the cost came out of revenue and was submitted to regular scrutiny by the Government. He agreed that export subsidies called for special safeguards, but said that in practice it was hard to differentiate between export and production subsidies. It was essentially a difference in technique, to which the Charter gave too much weight, subsidies on exports being treated more stringently than those on production. However, he did not see how this could be avoided. Primary products were much more difficult to deal with. In trying to assess the measure of protection to be given to a country's own industries and products, a varied and changing international market had to be taken into consideration. He pointed out that the subsidy requirements of an industry would vary according to the stages in its development and cited Australia's ca in the production of rice. Production sybsidies might be useful in an early stage but it was necessary to see that the production did not help to glut the world market. The scheme described by the representative of the Philippines would seem to be permitted, unless the 1st sentence of Article 27 (2) was read to cover all subsidies on a primary product. In that case the scheme would be brought under Article 26. If Article 27 was intended only to cover export subsidies, the Netherland's amendment would be unnecessary as it was automatically covered by Article 25, but if Paragraph 2 covered subsidies on all primary products, the amendment was understandable. Without the intervention of Governments the primary production price support formula could not be worked out, and therefore the remedy lay in

Chapter VI. High prices must be avoided at all costs, in order to supply the world's needs. The references to Article 26 contained in Article 27 should be retained.

The CHAIRMAN proposed that the Committee should proceed with the first reading of the Articles, after which the various amendments and proposals would be further discussed by a Sub-Committee set up to consider the whole of Section C.

2. ARTICLE 25 - SUBSIDIES IN GENERAL (FIRST READING)

Mr. ORTIZ-LAMADRID (Cuba) said the Cuban amendment was based on the necessity for an economic instrument which would permit the indirect subsidizing of certain products in order to bring about industrial diversification. Cuba was in no position at present to use direct subsidies, and could not renounce the only formula she possessed: exemption from taxes. A further explanation would be given in the Sub-Committee.

It was agreed that the amendments proposed by the delegations of Cuba and the United States of America and the suggestion of the International Chamber of Commerce concerning Article 25 should be referred to the Sub-Committee.

3. ARTICLE 26: ADDITIONAL PROVISIONS ON EXPORT SUBSIDIES (FIRST READING)

Mr. ORTIZ-LAMADRID (Cuba) stated that his delegation's reservation, shown in the Geneva text as applying to Article 26, in fact referred to Article 25 and was dealt with by their amendment to that Article.

The CHAIRMAN drew attention to the proposal of the International Chamber of Commerce to transfer Article 28 to form part of Article 26.

It was agreed to refer both points to the proposed Sub-Committee.

Paragraph 1.

Mr. KENNEDY (United States of America) stated that he would defer comment on his delegation's amendment until discussion of its reservation on Articles 27 and 28.

Paragraph 2

Mr. SAHLIN (Sweden) said that, inasmuch as the present wording of paragraph 2 referred only to exemption of exported products from taxes imposed on like products consumed domestically, his amendment proposed to extend the exemption to taxes on raw materials and semi-manufactured articles included in exported products. It should be recognized that many countries had adopted such a system of exemptions.

Mr. BAHGAT (Egypt) and Mr. BLUSZTAJN (Poland) supported the Swedish amendment.

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Mr. de VRIES (Netherlands) thought the substance of the amendment was covered by the existing text.

It was agreed to refer the Swedish amendment to the Sub-Committee.

Paragraph 3

Mr. BRIGNOLI (Argentina) said that his amendment proposed the deletion of the time-limit set for eliminating subsidies. The brevity of the two-year period was recognized by the provision for postponement, but the effective date was uncertain and consideration should be given to the circumstances each country would face when the Charter came into force.

Mr. RODRIGUEZ (Brazil) was already uneasy about paragraph 2 and thought that the Argentine amendment made it worse.

It was agreed to refer the amendment to the Sub-Committee.

Proposed new Paragraph

Mr. D'ASCOLI (Venezuela) explained that the proposed new paragraph was intended to cover subsidies designed to avoid a country's dependence upon one product.

Until the early part of the 20th Century, coffee and cocoa had been Venezuela's chief exports. After 1908 the export of oil had become of primary importance. While this had strengthened the financial position, it presented the disadvantages of a decrease in agricultural production and dependency upon a single mineral. Moreover, a large proportion of the profits from oil was returned to foreign investors. As a consequence and because of the devaluation of the dollar in 1933, it was necessary, in order to safeguard her external purchasing power, protect the employment of one-third her population, and not devalue her currency, for Venezuela to subsidize the production of coffee and cocoa through taxing oil.

It was not necessary to state how the subsidies were allocated and granted, but the principle was emphasized as being reasonable, since it was not disadvantageous to other countries, and should be acknowledged in the Charter.

He stressed the fact that the Venezuelan system did not increase exports, nor did it affect world prices of coffee and cocoa. Also it was an essential means of maintaining full employment.

Mr. BLUSZTAJN (Poland) said that the Venezuelan amendment was of interest to a number of other countries in similar circumstances who were obliged to maintain their present exchange rates in order to support their external purchasing power. This involved differential exchange rates for exports. The rules of the International Monetary Fund permitted postponement of the removal of such differential rates during a transitional

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period. He thought that the substance of the Venezuelan amendment might be covered by Article 24, but if this were not the case, he considered that an amendment to Article 26 on the lines of that proposed by Venezuela was desirable.

Mr. D'ASCOLI (Venezuela) expressed his appreciation of the Polish delegate's remarks, and emphasized that in his own statement he had tried to make a clear distinction between the method of subsidization and the principle involved.

Mr. McCARTHY (Australia) thought that if the type of subsidy envisaged by Venezuela were a subsidy on production, it would be covered by Article 25. If, however, it were a subsidy on export, then it would be covered by Article 26. It was mainly a matter of technique, and on this depended which Article would apply.

Mr. CAPLAN (United Kingdom) considered that Article 24 might be more appropriate for consideration of the Venezuelan amendment.

Mr. D'ASCOLI (Venezuela) asked whether, if Venezuela were to remove its differential exchange rates under the rules of the International Monetary Fund, it would then be permitted to grant direct help to its producers of coffee and cocoa in the form of subsidies on their exports.

Mr. RODRIGUEZ (Brazil) pointed out that export subsidies of this kind were expressly prohibited under Article 26.

Mr. D'ASCOLI (Venezuela) agreed that this was the case, and explained that this was the reason why his delegation had submitted the amendment under consideration.

Mr. de VRIES (Netherlands) thought that the present text of Section 'C' went a considerable way to meet Venezuela's requirements. In particular, Articles 26 (paragraph 3) and 27 would offer Venezuela an escape from the anti-dumping provisions of Article 33.

Mr. MULLER (Chile) thought that Venezuela's problem of high export costs was partly the result of their over-valued exchange rate.

Mr. D'ASCOLI (Venezuela) in reply stated that costs had risen drastically quite irrespective of the rate of exchange.

It was agreed to refer the amendment proposed by Venezuela to the Sub-Committee, and to authorize the latter, if necessary, to enter into consultation with any other Sub-Committee on the question.

The meeting rose at 5.30 p.m.
