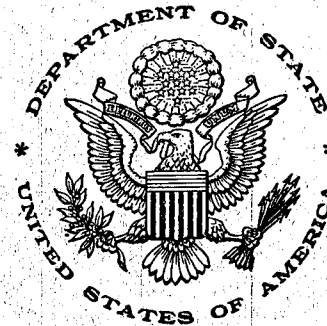


PROPOSALS

for Expansion of World Trade and Employment



Developed by a Technical Staff within
the Government of the United States
in Preparation for an International
Conference on Trade and Employment
and Presented for Consideration by the
Peoples of the World

DEPARTMENT OF STATE

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FOREWORD

By the Secretary of State

The proposals contained in this pamphlet have been developed by experts drawn from several agencies of the United States Government, working together under the general chairmanship of William L. Clayton, Assistant Secretary of State, and are published, for consideration by the people of the United States and by the peoples and the governments of other countries, in preparation for an International Conference on Trade and Employment.

It is important that such a Conference, based on these or similar proposals, should meet as soon as possible. Nations are now determining the policies which they will apply to trade in the postwar world. It is urgently necessary that these policies should be agreed upon, in order that the world may not separate into economic blocs.

The Government of the United States, therefore, believes that such a Conference should meet, under the sponsorship of the United Nations, not later than the summer of 1946. The representatives of the United States in the appropriate organs of the United Nations will urge that this be done.

The success of such a Conference depends on adequate preparation. This preparation should go forward immediately. The present publication and the careful work that lies behind it represent a determined effort to come to grips with the problems that will confront such a Conference and so to prepare the way for its success.

JAMES F. BYRNES

DEPARTMENT OF STATE
WASHINGTON

November 1, 1945.

MR. SECRETARY:

I hand you herewith "Proposals for Consideration by an International Conference on Trade and Employment", together with a statement of their purpose.

These proposals have been developed over many months by a group of experts drawn from all the interested departments and agencies of the government. They are intended to suggest a way in which the United States and other countries may concert their policy and action in the field of international trade so that the enormous productive powers which lie all about us may be released to operate fully for the general benefit. They are not regarded as final and perfect, but as a working basis for discussion and, I hope, for international action in the near future.

It is important that international agreement on the range of questions covered by these proposals be reached soon. All countries are faced by serious commercial problems and are taking action on them every day. Unless they act together, they will act at cross purposes and may well do serious damage to each other. But if they do act together, there is every possibility that the peoples of the world may enjoy, in our lifetime, a higher degree of prosperity and welfare than they have ever had before. Powers of production are now the greatest that the world has known. To bring them into play requires agreement on principles of exchange and distribution which will permit trade, production, employment, and consumption all to expand together.

I therefore recommend that these proposals be published as a basis of discussion and I would hope that such discussion might lead to an International Conference on Trade and Employment, to meet under the sponsorship of the United Nations, not later than the summer of 1946.

Respectfully,

WILLIAM L. CLAYTON
Assistant Secretary of State

Expansion of World Trade and Employment

ANALYSIS OF THE PROPOSALS

The main prize of the victory of the United Nations is a limited and temporary power to establish the kind of world we want to live in.

That power is limited by what exists and by what can be agreed on. Human institutions are conservative; only within limits can they be moved by conscious choice. But after a great war some power of choice exists; it is important that the United Nations use it wisely.

The fundamental choice is whether countries will struggle against each other for wealth and power, or work together for security and mutual advantage. That choice was made in principle at San Francisco and has since been ratified by the overwhelming majority of the governments concerned. The business of the immediate future is to give that decision the necessary body of common institutions and so to support those institutions that the experiment may succeed.

Success requires that the United Nations work together in every field of common interest, in particular the economic. The experience of cooperation in the task of earning a living promotes both the habit and the techniques of common effort and helps make permanent the mutual confidence on which the peace depends. The United Nations have therefore created not only an Economic and Social Council but special bodies to help them work together on many practical matters. Already there exist, or are in process of creation, agencies to deal with emergency relief, with currency, with international investment, with civil aviation, with labor, and with food and agriculture.

The United Nations should also endeavor to harmonize their policies with respect to international trade and employment. An International Trade Organization is still to be created. To this end, it is now proposed that an International Conference on Trade and Employment should be called by the United Nations, to meet not later than the summer of 1946.

The common interests of countries in world trade are obvious. Science and technology have enormously increased the productive powers of man. Limits upon human welfare are imposed today, not

by the ultimate poverty of nature's resources, but by failure to use human powers to the full. Among the factors which obstruct our march toward the goal of freedom from want are excessive restrictions on exchange and distribution. Progress requires release from these restrictions.

Every country has its arrangements for the organization of production and distribution within its borders. To make the best use of these arrangements, countries must exchange their products. World trade is not only the device through which useful goods produced in one country are made available to consumers in another; it is also the means through which the needs of people in one country are translated into orders and therefore into jobs in another. Trade connects employment, production and consumption and facilitates all three. Its increase means more jobs, more wealth produced, more goods to be enjoyed.

Countries should therefore join in an effort to release trade from the various restrictions which have kept it small. If they succeed in this they will have made a major contribution to the welfare of their peoples and to the success of their common efforts in other fields.

International trade is kept small by four things:

- (1) Restrictions imposed by governments;
- (2) Restrictions imposed by private combines and cartels;
- (3) Fear of disorder in the markets for certain primary commodities;
- (4) Irregularity, and the fear of irregularity, in production and employment.

The Proposals which are herewith published deal with each of these problems.

I. Release from Restrictions Imposed by Governments

Governments have restricted the freedom of traders by many measures and for many reasons. They will continue to do so. No government is ready to embrace "free trade" in any absolute sense. Nevertheless, much can usefully be done by international agreement toward reduction of governmental barriers to trade.

These barriers take many forms. A transaction between a willing buyer in one country and a willing seller in another may be prevented because the tariff of the buyer's country creates an added cost too great to be borne; or because the paper-work required for export or import is so burdensome that the deal is not worth while; or because the seller cannot get an export license; or because the buyer cannot acquire the seller's currency to make a payment; or because importation is restricted by the buyer's country to a quota which has been exhausted; or because it is forbidden altogether. Or the seller may

discover that the tariff of the buyer's country discriminates against him in favor of sellers located elsewhere.

All these restrictions and the red tape connected with them have undoubtedly prevented many business transactions, cut down the total of world trade, and reduced to that extent the benefits which trade might bring to all the parties concerned.

Barriers of this sort are imposed because they serve or seem to serve some purpose other than the expansion of world trade. Within limits they cannot be forbidden. But when they grow too high, and especially when they discriminate between countries or interrupt previous business connections, they create bad feeling and destroy prosperity. The objective of international action should be to reduce them all and to state fair rules within which those that remain should be confined.

This has often been attempted between two countries at a time or among several countries with respect to a single problem. These attempts have not been adequate because the many barriers are interdependent. Every country has its own kind of restriction, adapted to its own situation, and can hardly be expected to throw off its peculiar armor unless the other kinds of armor, employed by other countries, are thrown off at the same time. What is needed is a broad and yet detailed agreement, among many nations, dealing at one time with many different sorts of governmental restrictions upon trade, reducing all of them at once on a balanced and equitable basis, and stating rules and principles within which the restrictions permitted to remain should be administered. To prepare such an agreement should be one of the main tasks of the International Conference on Trade and Employment.

The Proposals now published afford a basis on which agreement might be reached. Rules are suggested to limit quotas and embargoes to carefully defined cases and to avoid discrimination in their application. Provision is made for the substantial reduction of tariffs and the elimination of tariff preferences. Subsidies, especially subsidies on exports, would be brought under supervision. Local taxes on imported products would be limited to rates no higher than those levied on like products produced at home. Agencies of governments conducting foreign trade would be asked to give fair treatment to the commerce of friendly states, to make their purchases and sales on economic grounds, and to avoid using a monopoly of imports to afford excessive protection to domestic producers. On these and other points the Proposals try to state fair principles acceptable to all and of benefit to all.

The proof of any principle is in its application. Therefore, effective preparation for the Conference must include detailed negotiations on trade barriers to commence as soon as possible. These negotiations should get down to cases, seeking to reduce tariffs, to eliminate

preferences, and to lighten or remove other barriers to trade, whatever they may be.

In the United States, such negotiations are conducted under the Reciprocal Trade Agreements Act, which was renewed by Congress in June 1945 with an increase of the authority conferred upon the President. The use of that authority is one of the most important contributions which the United States can make to the success of the Conference.

Accordingly, this country should undertake negotiations under the Trade Agreements Act with several other governments as soon as a mutually satisfactory basis can be found, the required notices published, the statutory public hearings held, and their results considered. These negotiations cannot practicably be conducted with all countries at the same time, but the effort should be to get forward with the work, commencing before the general Conference convenes and continuing until every friendly country has participated in the enterprise.

Together, if they will, the countries of the world now have it in their power to free their trade from excessive governmental barriers. When that happens and to the extent that it happens, more ships will sail with fuller cargoes, more men will be employed, more goods will be produced, and more people will have better things to eat and wear and otherwise consume.

II. Release From Restrictions Imposed by Private Combines and Cartels

Trade may also be restricted by business interests in order to obtain the unfair advantage of monopoly.

In many lines this has not happened, but in others, as experience discloses, firms have banded together to restrain competition by fixing common selling prices, by dividing the world into exclusive markets, by curtailing production, by suppressing technology and invention, by excluding their rivals from particular fields, and by boycotting outsiders. These practices destroy fair competition and fair trade, damage new businesses and small businesses, and levy an unjust toll upon consumers. Upon occasion, they may be even more destructive of world trade than are restrictions imposed by governments.

Goods can surmount a tariff if they pay the duty; they can enter despite a quota if they are within it. But when a private agreement divides the markets of the world among the members of a cartel, none of those goods can move between the zones while the contract is in force. Clearly, if trade is to increase as a result of the lightening

of government restrictions, the governments concerned must make sure that it is not restrained by private combinations.

The Proposals therefore contemplate that countries will act, individually and cooperatively, to curb those restrictive business practices in international trade which interfere with the objectives of increased production and trade, access on equal terms to markets and raw materials, and high levels of employment and real income.

To this end, it is suggested that a special agency be established within the International Trade Organization to receive complaints concerning restrictive practices of international combines and cartels, to obtain and examine the facts which are relevant to such cases, and to advise the Organization as to the remedies that may be required.

Enforcement against private violators necessarily rests with member governments. It will be the function of the Organization to recommend to these governments that they take action under their own laws and procedures. In the United States, enforcement would continue to be by judicial proceedings under the antitrust laws.

III. Release From Fear of Disorder in the Markets for Primary Commodities

After a great war there is danger of violent and rapid movement in the markets for primary commodities. The production of some things has been increased enormously to meet a war demand or to replace sources of production cut off by enemy action. Some time after the end of the fighting, the war demand subsides, goods held by the armies are returned to normal channels, and old sources of production come back into the markets and add to supplies. There is suddenly too much of some commodities and the prices react accordingly. Many countries learned after the last war that such changes can be devastating.

If the Proposals so far discussed can be put into effect, a great advance will have been made toward increasing trade and business activity. The resulting expansion of incomes and consumption should go a long way toward enlarging the demand for primary commodities. The best cure for any surplus is more money in the pockets of consumers. And general prosperity will make it easier for people caught by a particular failure of demand to shift to other lines where opportunities are better.

Such shifts are occurring all the time in any progressive society. Public policy should not seek to prevent them, for they are a necessary part of the process by which the economy meets the changing needs of the people. But if the changes come too fast they may bring serious distress to many small producers and to their communities. It is important that the needed changes be made gradually.

When excess supplies threaten, the first effort obviously should be to increase consumption. But if study discloses that that cannot be done rapidly enough to be effective, other measures may be needed. And since action by one country is quite likely to affect producers and consumers in another, there should be consultation between governments.

Consultation may result in a proposal for an intergovernmental commodity agreement. Such agreements are not intended to freeze existing patterns of production, but rather to provide a program of adjustment and a period of time within which the essential changes can be made without undue hardship.

During the transition, it may be necessary to restrict production or exports, to fix prices, or to allocate shares of markets among producing countries. Controls of this sort should not be applied in any case unless the need is real and serious, affecting many people, and not curable by the normal process of competition. And when they are set up they should be strictly temporary, lasting no longer than required to carry out the necessary shifts. Their purpose is not to protect vested interests, but to prevent widespread distress during the course of necessary change.

Intergovernmental restrictions on production or on exports might be used—like international cartels—to take unfair advantage of consumers. Therefore the Proposals recommend adherence to the rule that consuming countries be entitled to participate along with producers in the original consideration of such agreements and be entitled also to an equal voice in their administration. Furthermore, there should be full publicity about each scheme and all its operations, in order that the world may make sure that it is managed in the general interest.

IV. Release From Fear of Irregularity in Production and Employment

Every country will seek so to manage its own affairs that its business life will be free from violent depressions. The object of international action should be to insure that these national efforts reinforce each other and do not cancel out.

The industrial activity of every country is affected by the size and the regularity of its orders from abroad. When industry in any country slows down and its purchases of foreign materials are cut, the effects are felt in every corner of the globe. Full and regular production at home, with increased participation in world trade, is the greatest boon which any people can confer upon producers throughout the world.

It is important, however, that nations should not seek to obtain full employment for themselves by exporting unemployment to their neighbors. To seek employment by prohibiting imports or by subsidizing exports would be harmful and self-defeating. The business of the Conference, therefore, should be to establish general agreement that each country will seek, on its own account, to maintain full and regular production, that it will not do so by using measures which would damage other countries or prevent the expansion of world trade, and that all countries will cooperate in exchanging information and participate in consultations with respect to anti-depression policies.

V. An International Trade Organization

Arrangements on this scale clearly require, for their successful operation, both an international forum where they may be discussed and improved and an international staff to assist in their administration.

The Proposals therefore suggest that an International Trade Organization be created, to stand beside the existing international agencies dealing with currency, investment, agriculture, labor, and civil aviation. It should have a constitution much like those of the other agencies set up by the United Nations, with enough internal specialization to enable it to perform the tasks assigned to it in dealing with trade barriers, restrictive business practices, and international commodity arrangements. Detailed suggestions on this matter are contained in the Proposals.

The Organization should be designed as the central international agency to deal with trade. It should be brought into relation with the Economic and Social Council in the manner provided in the Charter of the United Nations.

The Proposals reflect awareness that we live in a world of many countries with a variety of economic systems. They seek to make it possible for those systems to meet in the market-place without conflict, thus to contribute each to the other's prosperity and welfare. In no case do they impinge upon sovereign independence, but they do recognize that measures adopted by any country may have effects abroad and they suggest for general adoption fair rules of mutual tolerance.

The purpose is to make real the principle of equal access to the markets and the raw materials of the world, so that the varied gifts of many peoples may exert themselves more fully for the common good. The larger purpose is to contribute to the effective partnership of the United Nations, to the growth of international confidence and solidarity, and thus to the preservation of the peace.

Proposals for Consideration by an International Conference on Trade and Employment

A. NEED FOR INTERNATIONAL ECONOMIC COOPERATION

1. Collective measures to safeguard the peoples of the world against threats to peace and to reach just settlements of disputes among nations must be based not only on international machinery to deal directly with disputes and to prevent aggression, but also on economic cooperation among nations with the object of preventing and removing economic and social maladjustments, of achieving fairness and equity in economic relations between states, and of raising the level of economic well-being among all peoples.

2. Important contributions have already been made toward the attainment of these objectives. The Food and Agriculture Organization of the United Nations has been established. An International Monetary Fund to maintain reasonable exchange stability and facilitate adjustment in the balance of payments of member countries, and an International Bank for Reconstruction and Development to provide financial resources on a cooperative basis for those purposes are awaiting the action of governments required for their establishment.

3. In order to reach the objectives of the Atlantic Charter and Article VII of the mutual-aid agreements, it is essential that the cooperative economic measures already taken or recommended be supplemented by further measures dealing directly with trade barriers and discriminations which stand in the way of an expansion of multilateral trade and by an undertaking on the part of nations to seek full employment.

4. Cooperative action with respect to trade and employment is indispensable to the success of such other measures as those dealing with monetary and exchange stability and the flow of investment capital. Effective action in regard to employment and to trade barriers and discriminations must, therefore, be taken on the whole

program of international economic cooperation will fail, and an economic environment conducive to the maintenance of peaceful international relations will not be created.

B. PROPOSALS CONCERNING EMPLOYMENT

Since high and stable levels of employment are a necessary condition for an enlarged volume of trade, and since problems of trade and employment are to be considered jointly at an international conference, the following propositions are advanced.

Governing Principles

1. It is recognized that:

- a. In all countries high and stable employment is a main condition for the attainment of satisfactory levels of living.
- b. The attainment of approximately full employment by the major industrial and trading nations, and its maintenance on a reasonably assured basis, are essential to the expansion of international trade on which the full prosperity of these and other nations depends; to the full realization of the objectives of all liberal international agreements in such fields as commercial policy, commodity problems, restrictive business practices, monetary stabilization, and investment; and, therefore, to the preservation of world peace and security.

2. Domestic programs to expand employment should be consistent with realization of the purposes of liberal international agreements and compatible with the economic well-being of other nations.

3. It is recognized that the adoption of the Bretton Woods Agreements and of measures to reduce restrictions on trade will contribute substantially to the maintenance of productive employment.

4. The United Nations have pledged, in the Charter of the United Nations Organization, to take joint and separate action in cooperation with the Organization to achieve the economic and social purposes of the United Nations, including higher standards of living, full employment, and conditions of economic and social progress and development.

Effectuation of Aims

There should be an undertaking that:

1. Each of the signatory nations will take action designed to achieve and maintain full employment within its own jurisdiction, through measures appropriate to its political and economic institutions.
2. No nation will seek to maintain employment through measures which are likely to create unemployment in other countries or which

are incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production.

3. Signatory nations will make arrangements, both individually and collaboratively under the general sponsorship of the Economic and Social Council of the United Nations Organization, for the collection, analysis, and exchange of information on employment problems, trends, and policies.

4. Signatory nations will, under the general sponsorship of the Economic and Social Council, consult regularly on employment problems and hold special conferences in case of threat of widespread unemployment.

C. PROPOSALS CONCERNING AN INTERNATIONAL TRADE ORGANIZATION

Need for an International Trade Organization

1. Measures designed to effect an expansion of trade are essential because of their direct contribution to maximum levels of employment, production and consumption. Since such expansion can only be attained by collective measures, in continuous operation and adaptable to economic changes, it is necessary to establish permanent machinery for international collaboration in matters affecting international commerce, with a view to continuous consultation, the provision of expert advice, the formulation of agreed policies, procedures and plans, and to the development of agreed rules of conduct in regard to matters affecting international trade.

2. It is accordingly proposed that there be created an International Trade Organization of the United Nations, the members of which would undertake to conduct their international commercial policies and relations in accordance with agreed principles to be set forth in the articles of the Organization. These principles, in order to make possible an effective expansion of world production, employment, exchange, and consumption, should:

- a. Provide an equitable basis for dealing with the problems of governmental measures affecting international trade;
- b. Provide for the curbing of restrictive trade practices resulting from private international business arrangements; and
- c. Govern the institution and operation of intergovernmental commodity arrangements.

Proposed International Trade Organization

There follows an outline of the principles which it is proposed should be incorporated in the articles of the Organization

CHAPTER I

PURPOSES

The purposes of the Organization should be:

1. To promote international commercial cooperation by establishing machinery for consultation and collaboration among member governments regarding the solution of problems in the field of international commercial policies and relations.

2. To enable members to avoid recourse to measures destructive of world commerce by providing, on a reciprocal and mutually advantageous basis, expanding opportunities for their trade and economic development.

3. To facilitate access by all members, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.

4. In general, to promote national and international action for the expansion of the production, exchange and consumption of goods, for the reduction of tariffs and other trade barriers, and for the elimination of all forms of discriminatory treatment in international commerce; thus contributing to an expanding world economy, to the establishment and maintenance in all countries of high levels of employment and real income, and to the creation of economic conditions conducive to the maintenance of world peace.

CHAPTER II

MEMBERSHIP

The original members of the Organization should be those countries participating in the Conference on Trade and Employment which accept membership.

CHAPTER III

GENERAL COMMERCIAL POLICY

Section A. General Commercial Provisions

Members should undertake:

1. To accord to products imported from other members treatment no less favorable than that accorded to domestic products with regard to matters affecting the internal taxation and regulation of the trade in goods.

2. To provide, for products in transit through their territories, coming from or going to other members, freedom from customs and transit duties, from unreasonable transit charges, and from discriminatory treatment of all kinds.

3. To subscribe to a general definition of the circumstances under

which antidumping and countervailing duties may properly be applied to products imported from other members.

4. To give effect, as soon as practicable, to agreed principles of tariff valuation designed to assure the use of true commercial values as a basis for assessing duties, and to cooperate with other members and with the Organization in working out internationally acceptable valuation procedures of a standardized character.

5. To give effect, as soon as practicable, to agreed principles looking toward the simplification of customs formalities with a view to eliminating unnecessary requirements which afford an indirect protection to domestic products.

6. To eliminate excessive requirements regarding marks of origin in so far as they affect products imported from other members.

7. To refrain from governmentally financed or organized boycotts or campaigns designed to discourage, directly or indirectly, importation or consumption of products of other members.

8. To provide for adequate publicity regarding laws and regulations affecting foreign trade, and to maintain or establish national tribunals of an independent character to review and correct administrative customs action.

9. To transmit to the Organization appropriate trade information and statistics.

10. To cooperate with the Organization and with other members in carrying out or implementing the articles of the Organization.

Section B. Tariffs and Preferences

1. *Import tariffs and preferences.* In the light of the principles set forth in Article VII of the mutual aid agreements, members should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariff preferences, action for the elimination of tariff preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous arrangements contemplated in this document.

As an initial step in the process of eliminating tariff preferences it should be agreed that:

- a. Existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences.
- b. All negotiated reductions in most-favored-nation tariffs will operate automatically to reduce or eliminate margins of preference.
- c. Margins of preference on any product will in no case be increased and no new preferences will be introduced.

2. *Export tariffs and preferences.* Export duties should be open to negotiation in the same way as import duties. Members should

undertake not to impose or maintain export duties which differentiate by reference to the destinations to which the goods are exported.

3. *Emergency action.* Commitments with regard to tariffs should permit countries to take temporary action to prevent sudden and widespread injury to the producers concerned. Undertakings for reducing tariffs should therefore contain an escape clause to cover such contingencies.

Section C. Quantitative Trade Restrictions

1. *General elimination of quantitative restrictions.* Except as provided for elsewhere in this Chapter, members should undertake not to maintain any quotas, embargoes, or other quantitative restrictions on their export or import trade with other members. This undertaking should not, however, apply to the following:

- a. Import and export prohibitions or restrictions, imposed during the early postwar transitional period, which are essential to (a) the efficient use of shipping space in short supply, (b) the equitable international distribution of products in short supply, or (c) the orderly liquidation of temporary surpluses of government stocks accumulated as a result of the war. Such prohibitions and restrictions should be removed not later than three years after the close of hostilities, but provision should be made whereby this period may be extended with the concurrence of the Organization.
- b. Export prohibitions or restrictions temporarily imposed to relieve conditions of distress in the exporting country caused by severe shortages of foodstuffs or other essential products.
- c. Export prohibitions or restrictions necessary to the application of suitable standards for the classification and grading of commodities in international commerce.
- d. Export or import quotas imposed under intergovernmental commodity agreements conforming to the principles set forth in Chapter V.
- e. Import quotas on agricultural products, imported in any form, necessary to the enforcement of governmental measures which operate (a) to restrict the quantities of like domestic products which may be marketed or produced, or (b) to remove a temporary surplus of like domestic products by making such surpluses available to certain groups of domestic consumers free of charge or at prices below the current market level. Such quotas should not be more restrictive than necessary, should be removed as soon as they cease to be necessary for the purposes of this subparagraph, and should be made the subject of periodic consultation with

the Organization. If such quotas are allocated among sources of supply, they should be allocated fairly, on the basis of imports during a previous representative period, account being taken in so far as practicable of any special factors which may have affected or which may be affecting the trade in the product concerned. Import quotas imposed under (a) of this subparagraph should not be such as would reduce imports relatively to domestic production as compared with the proportion prevailing in a previous representative period, account being taken in so far as practicable of any special factors which may have affected or which may be affecting the trade in the product concerned.

2. *Restrictions to safeguard the balance of payments.* Members confronted with an adverse balance of payments should be entitled to impose quantitative import restrictions as an aid to the restoration of equilibrium in the balance of payments. This provision should be operative under conditions and procedures to be agreed upon. These conditions and procedures

- a. should set forth criteria and requirements in the light of which balance-of-payments restrictions might be imposed;
- b. should, as regards the use of such restrictions in the post-war transitional period, be framed on principles which would be designed to promote the maximum development of multi-lateral trade during that period and which in no event would be more restrictive of such trade than the principles applicable, under Article XIV of the International Monetary Fund Agreement, to the use of exchange restrictions in the transitional period;
- c. should provide for the determination of the transitional period for the purposes of subparagraph b, above, by a procedure analogous to that contained in Article XIV of the International Monetary Fund Agreement;
- d. should provide for the full application of nondiscrimination in the use of such restrictions after the transitional period; and
- e. should make appropriate provision for international consultation regarding balance-of-payments restrictions, whether imposed during the transitional period or thereafter.

3. *Equality of treatment.* Quantitative restrictions imposed on balance-of-payments grounds should be deemed nondiscriminatory if they are administered on a basis which does not discriminate among sources of supply in respect of any imported product.

- a. In the case of restrictions imposed in the form of quotas, members imposing such quotas should publish the global amounts or values of the various products which will be permitted to be imported during a specified future period. Any allocation of

such quotas among sources of supply should be based in so far as practicable upon the proportion of the total imports of the product in question supplied by the various member countries in a previous representative period, account being taken of any special factors which may have affected or which may be affecting the trade in that product.

- b. In the case of restrictions not imposed in the form of quotas, the member imposing the restrictions should undertake to provide, upon the request of any other member having an interest in the product concerned, all relevant information as to the administration of the restriction, including information as to the import licenses granted over a past period and the distribution of such licenses among sources of supply.
- c. Any member should be entitled to raise with the Organization the question as to whether another member was imposing balance-of-payments restrictions, whether in the form of quotas or otherwise, in a manner not in harmony with the guiding principles stated above or in a manner which unnecessarily injured its commerce, and the member imposing the restrictions should undertake in these circumstances to discuss the grounds on which it had acted.

4. *Inconvertible currencies.* The undertakings set forth in paragraph 3, above, should not apply in cases in which their application would have the effect of preventing a member from utilizing inconvertible currencies for buying needed imports.

5. *Scarce currencies and currencies of territories having a common quota in the Monetary Fund.* Members should not be precluded by this Section from applying quantitative restrictions a) in pursuance of action which they may take under Article VII of the International Monetary Fund Agreement, relating to scarce currencies, or b) in a manner designed to maintain the par value of the currencies of territories having a common quota in the Monetary Fund, in accordance with Article XX, Section 4 (g) of that Agreement.

6. *Application of quantitative restrictions by state-trading organizations.* The provisions of this Section relating to quantitative restrictions on imports for balance-of-payments reasons should apply equally to the restriction of imports by state-trading organizations for the same reasons.

Section D. Subsidies

1. *Subsidies in general.* Subject to the provisions of paragraphs 2 and 3, below, members granting any subsidy which operates to increase exports or reduce imports should undertake to keep the Organization informed as to the extent and nature of the subsidy, as to the reason therefor and as to the probable effects on trade. They should

also be prepared, in cases where, under procedures approved by the Organization, it is agreed that serious injury to international trade threatens to result from the operation of the subsidy, to discuss with other members or with the Organization possible limitations on the quantity of the domestic product subsidized. In this paragraph, the term "subsidy" includes any form of internal income or price support.

2. *Export subsidies.* Subject to the provisions of paragraph 3, below, members should undertake not to take any action which would result in the sale of a product in export markets at a price lower than the comparable price charged for the like product to buyers in the home market, due allowance being made for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability. This undertaking should take effect, at latest, within 3 years of the establishment of the Organization. If at the end of that time any member considers itself unable to comply with the undertaking in respect of any particular commodity or commodities, it should inform the Organization, with an explanation of the reasons. It should then be decided by consultation among the interested members under procedures approved by the Organization whether there should be some further extension of time for the member desiring it in respect of the commodity or commodities concerned.

3. *Commodities in surplus supply.*

a. When it is determined, in accordance with procedures approved by the Organization, that a commodity is, or is likely to become in burdensome world surplus, the members which are important producers or consumers of the commodity should agree to consult together with a view to promoting consumption increases, to promoting the reduction of production through the diversion of resources from uneconomic production, and to seeking, if necessary, the conclusion of an intergovernmental commodity arrangement in accordance with the principles of Chapter V.

b. If, however, within a reasonable time to be agreed upon, such steps should fail of their object, the provisions of paragraphs 1 and 2, above, should cease to apply to such product until such time as it has been agreed under procedures approved by the Organization that those provisions should be reapplied to it.

c. With regard to any export subsidies which may be imposed under subparagraph (b), no member should employ such subsidies so as to enlarge its share of the world market, as compared with the share prevailing in a previous representative period. The question as to what period would be representative in

respect of the particular product concerned should be a subject for international consultation through the Organization.

Section E. State Trading

1. *Equality of treatment.* Members engaging in state trading in any form should accord equality of treatment to all other members. To this end, members should undertake that the foreign purchases and sales of their state-trading enterprises shall be influenced solely by commercial considerations, such as price, quality, marketability, transportation and terms of purchase or sale.

2. *State monopolies of individual products.* Members maintaining a state monopoly in respect of any product should undertake to negotiate, in the manner contemplated for tariffs, the maximum protective margin between the landed price of the product and the price at which the product (of whatever origin, domestic or foreign) is sold in the home market. Members newly establishing such monopolies should agree not to create protective margins greater than the tariffs which may have been negotiated in regard to those products. Unless the product is subject to rationing, the monopoly should offer for sale such quantities of the product as will be sufficient to satisfy the full domestic demand.

3. *Complete state monopolies of foreign trade.* As the counterpart of tariff reductions and other actions to encourage an expansion of multi-lateral trade by other members, members having a complete state monopoly of foreign trade should undertake to purchase annually from members, on the nondiscriminatory basis referred to in paragraph 1, above, products valued at not less than an aggregate amount to be agreed upon. This global purchase arrangement should be subject to periodic adjustment in consultation with the Organization.

Section F. Exchange Control

1. *Relation to the International Monetary Fund.* In order to avoid the imposition of trade restrictions and discriminations through exchange techniques, the members of the International Trade Organization should abide by the exchange principles established pursuant to the Articles of Agreement of the International Monetary Fund and for this reason it should be required that the Organization and the Fund have a common membership.

2. *Equality of exchange treatment.* Members maintaining or establishing exchange restrictions should undertake to accord to the trade of other members the equality of treatment with respect to all aspects of such restrictions required under the provisions of the Articles of Agreement of the International Monetary Fund or, in cases where

the approval of the Fund is required, the equality of treatment prescribed by the Fund after consultation with the International Trade Organization.

Section G. General Exceptions

The undertakings in this Chapter should not be construed to prevent members from adopting or enforcing measures:

1. necessary to protect public morals;
2. necessary to protect human, animal or plant life or health;
3. relating to the traffic in arms, ammunition and implements of war, and, in exceptional circumstances, all other military supplies;
4. relating to the importation or exportation of gold or silver;
5. necessary to induce compliance with laws or regulations, such as those relating to customs enforcement, deceptive practices, and the protection of patents, trademarks and copyrights, which are not inconsistent with the purposes of the Organization;
6. relating to prison-made goods;
7. imposed for the protection of national treasures of artistic, historic or archaeological value;
8. undertaken in pursuance of obligations for the maintenance of peace and security; or
9. imposed, in exceptional cases, in accordance with a recommendation of the Organization formulated in accordance with criteria and procedures to be agreed upon.

Section H. Territorial Application of Chapter III

1. *Customs territories.* The provisions of Chapter III should apply to the customs territories of the members. If any member has more than one customs territory under its jurisdiction, each customs territory should be considered a separate member for the purpose of applying the provisions of Chapter III.

2. *Frontier traffic and customs unions.* The provisions of Chapter III should not prevent any member *a)* from according advantages to adjacent countries in order to facilitate frontier traffic or *b)* from joining a customs union, provided that such customs union meets certain agreed criteria. Members proposing to join a customs union should consult with the Organization and should make available to it such information as would enable it to make appropriate reports and recommendations.

CHAPTER IV

RESTRICTIVE BUSINESS PRACTICES

1. *Curbing of restrictive business practices.* There should be individual and concerted efforts by members of the Organization to curb those restrictive business practices in international trade (such as combinations or agreements to fix prices and terms of sale, divide markets or territories, limit production or exports, suppress technology or invention, exclude enterprises from particular fields, or boycott or discriminate against particular firms) which have the effect of frustrating the objectives of the Organization to promote expansion of production and trade, equal access to markets and raw materials, and the maintenance in all countries of high levels of employment and real income.

2. *Cooperation among members.* In order to achieve the purposes of paragraph 1, the Organization should be charged with the furtherance of this objective. The Organization should receive complaints from any member (or, with the permission of the member, from commercial enterprises within its jurisdiction who allege that their interests are affected), that the objectives of the Organization are being frustrated by a private international combination or agreement. The Organization should be empowered to call upon any member to provide information relevant to such a complaint; it should consider such data and, if warranted, make recommendations to the appropriate members for action in accordance with their respective laws and procedures; it should be empowered to request reports from members as to their actions in implementing such recommendations, and to report thereon. The Organization should also be authorized, within the scope of its subject matter, to conduct studies, to make recommendations concerning uniform national standards, and to call conferences of member states for purposes of general consultation.

3. *Continued effectiveness of national laws and regulations directed against restrictive business practices.* Any act or failure to act on the part of the Organization should not preclude any member from enforcing within its own jurisdiction any national statute or decree directed toward the elimination or prevention of restrictive business practices in international trade.

4. *Special enforcement arrangements.* It should be provided that members may, by mutual accord, cooperate in measures for the purpose of making more effective any remedial order which has been issued by a duly authorized agency of another member.

CHAPTER V

INTERGOVERNMENTAL COMMODITY ARRANGEMENTS

The production of, and trade in, primary commodities is exposed to certain difficulties different in character from those which generally exist in the case of manufactured goods; and these difficulties, if serious, may have such widespread repercussions as to prejudice the prospect of the general policy of economic expansion. Members should therefore agree upon the procedure which should be adopted to deal with such difficulties.

1. *Special commodity studies.*

- a. Special studies should be made in accordance with the procedure set forth in *b*, below, of the position of particular commodities of which excess supplies exist or are threatened, to the end that, if possible, consumption may be increased and the anticipated difficulties may thereby be averted.
- b. Members substantially interested in the production or consumption of a particular commodity should be entitled, if they consider that special difficulties exist or are expected to arise regarding that commodity, to ask that a special study of that commodity be made, and the Organization, if it finds that these representations are well founded, should invite the members principally concerned in the production or consumption of that commodity to appoint representatives to a Study Group to make a special study of that commodity.

2. *Intergovernmental commodity conferences.* If it is concluded, in the light of an investigation of the root causes of the problem, that measures for increasing the consumption of a commodity are unlikely to operate quickly enough to prevent excess supplies of the commodity from accumulating, the members may ask the Organization to convene an intergovernmental conference for the purpose of framing an intergovernmental commodity agreement for the commodity concerned.

3. *Objectives of intergovernmental commodity agreements.* It should be recognized that intergovernmental commodity agreements involving restrictions on production or trade would be justified in the circumstances stated in paragraph 2 above to achieve the following objectives:

- a. To enable member countries to find solutions to particular commodity problems without resorting to unilateral action that tends to shift the burden of their problems to other countries.
- b. To prevent or alleviate the serious economic problems which may arise when, owing to the difficulties of finding alternative employment, production adjustments cannot be effected

by the free play of market forces as rapidly as the circumstances require.

- c. To provide a period of transition which will afford opportunities for the orderly solution of particular commodity problems by agreement between member governments upon a program of over-all economic adjustments designed to promote a shift of resources and manpower out of over-expanded industries into new and productive occupations.

4. *Principles of intergovernmental commodity agreements.* Members should undertake to adhere to the following principles governing the institution of intergovernmental commodity agreements:

- a. Members having an interest in the production or consumption of any commodity for which an intergovernmental commodity agreement is proposed, should be entitled to participate in the consideration of the proposed agreement.
- b. Members should undertake not to enter into intergovernmental commodity agreements involving the limitation of production or exports or the allocation of markets, except after:
 - 1) Investigation by the Study Group of the root causes of the problem which gave rise to the proposal;
 - 2) Determination, in accordance with procedures approved by the Organization, either:
 - a) that a burdensome surplus of the product concerned has developed or is developing in international trade and is accompanied by widespread distress to small producers accounting for a substantial proportion of the total output and that these conditions cannot be corrected by the normal play of competitive forces because, in the case of the product concerned, a substantial reduction of price leads neither to a significant increase in consumption nor to a significant decrease in production; or
 - b) that widespread unemployment, unrelated to general business conditions, has developed or is developing in respect of the industry concerned and that such unemployment cannot be corrected by the normal play of competitive forces rapidly enough to prevent widespread and undue hardship to workers because, in the case of the industry concerned, i) a substantial reduction of price does not lead to a significant increase in consumption but leads, instead, to the reduction of employment, and ii) the resulting unemployment cannot be remedied by normal processes of reallocation;

- 3) Formulation and adoption by members of a program of economic adjustment believed to be adequate to insure substantial progress toward solution of the problem within the time limits of the agreement.
- c. Intergovernmental agreements involving the limitation of production or exports or the allocation of markets in respect of fabricated products should not be resorted to unless the Organization finds that exceptional circumstances justify such action. Such agreements should be subject to the principles set forth in this Chapter, and, in addition, to any other requirements which the Organization may establish.
5. *Operation of commodity agreements.* Members should undertake to adhere to the following principles governing the operation of intergovernmental commodity agreements:
- a. The agreements should be open to accession by any member on terms not less favorable than those accorded to members parties thereto.
- b. The members adhering to such agreements which are largely dependent for consumption on imports of the commodity involved should, in any determinations made relating to the regulation of prices, trade, stocks, or production, have together a voice equal to those largely interested in obtaining export markets for their production.
- c. The agreements should, when necessary, contain provisions for assuring the availability of supplies adequate at all times for world consumption requirements at reasonable prices.
- d. The agreements should, with due regard to the transitional need for preventing serious economic and social dislocation, make appropriate provision to afford increasing opportunities for satisfying world requirements from sources from which such requirements can be supplied most effectively.
6. *Termination and renewal of commodity agreements.* Intergovernmental commodity agreements should not remain initially in effect for more than five years. The renewal of an agreement should be subject to the principles governing new agreements set forth in paragraph 4, above, and to the additional principle that either a) substantial progress toward a solution of the underlying problem shall have been accomplished during the initial period of the agreement or that b) the renewed agreement is so revised as to be effective for this purpose.
7. *Review of commodity agreements.* Members should undertake to transmit to the Organization, for review, intergovernmental commodity agreements in which they now participate or in which they propose to participate in the future. Members should also transmit

to the Organization appropriate information regarding the formulation, provisions and operation of such agreements.

8. *Publicity.* Full publicity should be given to any commodity agreement proposed or concluded, to the statements of considerations and objectives advanced by the proposing members, to the operation of the agreements, and to the nature and development of measures adopted to correct the underlying situation which gave rise to the agreement.

9. *Exceptions.* The provisions of Chapter V are not designed to cover international agreements relating to the protection of public morals; the protection of human, animal or plant life or health; the conservation of reserves of exhaustible natural resources; the control of international monopoly situations; or the equitable distribution of commodities in short supply. However, such agreements should not be used to accomplish results inconsistent with the objectives of Chapter IV or Chapter V. If any such agreement involves the restriction of production or of international trade, it should not be adopted unless authorized or provided for by a multilateral convention subscribed to by a substantial number of nations, or unless operated under the Organization.

CHAPTER VI ORGANIZATION

Section A. Functions

The functions of the Organization should include the following:

1. To collect, analyze and publish information, regarding the operation of Chapter III, relating to general commercial policy, Chapter IV, relating to the prevention of restrictive business practices, and Chapter V, relating to intergovernmental commodity arrangements, or in general regarding international trade and commercial policy.
2. To provide technical assistance to members as may be required or appropriate under the provisions of Chapters III, IV and V.
3. To make recommendations to members regarding the operation of Chapters III, IV and V, including the following:
 - a. Recommendations regarding the relaxation or removal of trade control measures permitted under Chapter III.
 - b. Recommendations as to measures for implementing the objectives with regard to restrictive private business practices, set forth in Chapter IV.
 - c. Recommendations regarding the application to commodity arrangements under consideration by members of the principles governing commodity arrangements set forth in

Chapter V; and recommendations initiating proposals for new commodity arrangements, or proposing such modifications, including termination, of commodity arrangements already concluded, as may be deemed appropriate under the commodity principles or in the general interest.

d. Recommendations designed to promote the maximum obtainable consistency in the operation of Chapters III, IV and V and in other arrangements in the fields of general commercial policy, commodity arrangements and private business practices.

4. To interpret the provisions of Chapters III, IV and V, to consult with members regarding disputes growing out of the provisions of those Chapters, and to provide a mechanism for the settlement of such disputes.

5. In accordance with criteria and procedures to be agreed upon, to waive particular obligations of members, in exceptional circumstances.

6. To make recommendations for international agreements designed to improve the bases of trade and to assure just and equitable treatment for the enterprises, skills and capital brought from one country to another, including agreements on the treatment of foreign nationals and enterprises, on the treatment of commercial travelers, on commercial arbitration, and on the avoidance of double taxation.

7. Generally to perform any function appropriate to the purposes of the Organization.

Section B. Organs

The Organization should have as its principal organs: A Conference, an Executive Board, a Commercial Policy Commission, a Commission on Business Practices, a Commodity Commission, and a Secretariat.

Section C. The Conference

The Conference should have final authority to determine the policies of the Organization and to exercise the powers conferred upon the Organization.

1. *Membership.* All states members of the Organization should be members of the Conference.

2. *Voting.* Each member of the Conference should have one vote. Except as may be otherwise specifically provided for, decisions of the Conference should be reached by a simple majority vote. It may be desirable to provide for special voting arrangements with regard to the exercise of certain functions of the Organization.

3. *Sessions.* The Conference should meet at least once a year.

Section D. The Executive Board

The Executive Board should be authorized to take provisional decisions between meetings of the Conference and to exercise such powers as may be delegated to it by the Conference. The Conference should in general be authorized to delegate its powers to the Executive Board.

1. *Membership.* The Executive Board should consist of not more than eighteen member states, each of which should have one representative. Member states of chief economic importance should have permanent seats. The Conference should elect the states to fill the nonpermanent seats for 3-year terms, one-third of the nonpermanent members retiring every year. The number of nonpermanent seats should exceed the number of permanent seats, but the latter should not be fewer than one-third of the total number of seats.

2. *Voting and sessions.* The Executive Board should regulate its own procedure.

Section E. The Commissions

The Commission on Commercial Policy, the Commission on Business Practices and the Commodity Commission should be responsible to the Executive Board. Each Commission should be given as much initiative and independence of action as may be necessary for the effective discharge of its functions.

1. *Membership.* The Commissions should be composed of experts appointed by the Executive Board. The terms and other conditions of office of the members of the Commissions should be determined in accordance with regulations prescribed by the Conference. Such terms and conditions need not be uniform, but may vary from Commission to Commission. Pursuant to the reciprocal arrangements with other specialized international organizations contemplated in Section H, paragraph 2, of this Chapter, provision should be made for appropriate representation on the Commodity Commission of the Food and Agriculture Organization of the United Nations and of other specialized international organizations having an important interest in the commodity operations discussed in Chapter V.

2. *Chairmen.* The Chairmen of the Commissions should be non-voting members of the Executive Board and should be permitted to participate, without vote, in the deliberations of the Conference.

3. *Voting and sessions.* Each Commission should regulate its own procedure, subject to any decisions made by the Executive Board.

4. *Functions.* The functions of the Commissions should include the following:

a. *The Commercial Policy Commission.* The Commercial Policy Commission should:

- 1) Review, and advise the Executive Board regarding, the operation of treaties, agreements, practices and policies affecting international trade.
 - 2) Investigate, and advise the Executive Board regarding, the economic aspects of proposals to waive certain obligations of members in accordance with the provisions of paragraph 5, Section A, of this Chapter.
 - 3) Investigate, and advise the Executive Board regarding, the economic aspects of proposed customs unions.
 - 4) Develop and recommend to the Executive Board, for adoption by members of the Organization, cooperative projects of a technical nature in the field of commercial policy (e.g. standard bases and methods of determining dutiable value, uniform customs nomenclature, and standardization of statistical methods and nomenclature in foreign trade statistics).
 - 5) Develop and recommend to the Executive Board additional programs designed to further the objectives of the Organization in the general field of commercial policy.
- b. *The Commission on Business Practices.* The Commission on Business Practices should:
- 1) Inquire into activities on the part of private commercial enterprises which have the effect or purpose of restraining international trade, restricting access to international markets, or of fostering monopolistic controls in international trade.
 - 2) Advise the Executive Board with regard to the recommendations which should be made to members in respect of business divestitures, reorganizations, dissolutions or other remedial actions.
 - 3) Conduct investigations and make recommendations to the Executive Board looking to the promotion and adoption in all countries of codes of fair business practices designed to facilitate and enlarge the flow of international trade.
 - 4) Advise the Executive Board as to the types of information which members should file with the Organization.
 - 5) Facilitate appropriate intergovernmental arrangements for the international exchange of technological information, on a nondiscriminatory basis.
- c. *The Commodity Commission.* The Commodity Commission should:
- 1) Investigate commodity problems, including the problem of an international buffer stocks organization or other arrangements which are proposed as a means of promoting solutions to commodity problems.

- 2) Make recommendations to the Executive Board on appropriate courses of action, including recommendations for the establishment of Study Groups for particular commodities. Such Study Groups should be established by the Executive Board, upon the recommendations of the Commodity Commission, for the purpose of investigating problems with respect to particular commodities. The Study Groups should be composed of representatives of member governments invited to participate by the Executive Board and one or more representatives designated by the Commodity Commission.
- 3) Make recommendations to the Executive Board as to whether or not a particular commodity is in world surplus.
- 4) Make recommendations to the Executive Board as to whether an application made by a member for the convening of an intergovernmental conference should be granted.
- 5) Designate members of the Commission to participate in an advisory capacity in the formulation of intergovernmental commodity agreements.
- 6) Make recommendations to the Executive Board regarding the application of the commodity agreements under consideration by members.
- 7) Designate the Chairman and Secretary for any Commodity Council established to administer an intergovernmental commodity agreement.
- 8) Maintain continuous review of the conduct of the operations of intergovernmental commodity agreements in the light of the terms of the agreements, the commodity principles in Chapter V, and the general welfare; and make recommendations to the Executive Board with regard thereto.

Section F. Industrial and Mineral Unit

The Conference should create an Industrial and Mineral Unit, responsible to the Executive Board. The Industrial and Mineral Unit should promote by technical assistance and other appropriate means the expansion of production and trade with regard to fabricated products and with regard to minerals and other primary commodities in respect of which such promotional activities are not under the jurisdiction of the Food and Agriculture Organization.

Section G. The Secretariat

The Secretariat, which should be divided into three or more offices, should serve all the organs of the Organization and the Commodity Councils established to administer specific commodity arrangements. It should be headed by a Director-General. Under his authority

there should be three or more Deputy Directors-General each of whom should be in charge of an office. The Director-General, and on the advice of the Director-General, the Deputy Directors-General, should be appointed by the Conference upon the nomination of the Executive Board. The Director-General should be the chief administrative officer of the Organization and should be an *ex officio* member; without vote, of the Executive Board. Three Deputy Directors-General should be *ex officio* members of the three Commissions. The Director-General and the Deputy Directors-General should have the authority to initiate proposals for the consideration of any organ of the Organization.

Section H. Relations with Other Organizations

1. *Relations with the United Nations Organization.* The Organization should be brought into relationship with the United Nations Organization on terms to be determined by agreement between the Executive Board and the appropriate authorities of the United Nations Organization, subject to approval by the Conference.

2. *Relations with other specialized international organizations.* In order to provide for close cooperation between the Organization and other specialized international organizations with related responsibilities, the Executive Board, subject to the approval of the Conference, should be authorized to enter into agreements with the appropriate authorities of such organizations defining the distribution of responsibilities and methods of cooperation.

3. *Administrative arrangements.* The Director-General should be authorized, subject to the authority of the Conference or of the Executive Board, to enter into agreements with other international organizations for the maintenance of common services, for common arrangements in regard to recruitment, training, conditions of service, and other related matters, and for interchanges of staff.