

22 January 1955

AMENDMENT TO ARTICLE XV:6 PROPOSAL BY CZECHOSLOVAKIA

Resumé of the Statement by the Czechoslovak Representative
in the Sub-Group I-B on 18 January 1955

The Czechoslovak proposal (W.9/142) does not go so far as the proposal of the New Zealand delegation (L/270, page 3). We intend to cover by our proposal only the specific case of a contracting party having a complete state monopoly of its foreign trade.

In order to explain why there is under Article XV:6 such a specific case for a country having a complete state monopoly of its foreign trade we want to add to the memorandum (W.9/142) the following:

1. Foreign trade of a state with a complete state monopoly of imports and exports is carried out exclusively through monopoly corporations specialized in trade in certain kinds of products. These corporations import as well as export. All foreign trade co-operations are thus concentrated in this system of monopoly and there exist no private importers or exporters. From the point of view of organization, the monopoly of foreign trade is strictly separated both from the internal production and from the internal distribution. At the same time these two sectors of national economy are the only channels to which the monopoly hands over the goods imported or from which it takes over the goods to be exported according to the Plan.

The operations of the foreign trade monopoly corporations are not motivated by profits; they are bound in their activities by the plan of foreign trade which is an integral part of the national economic plan of the state. In a state with a complete state monopoly of foreign trade two plans are set up concerning foreign trade:

- (a) the so-called material plan, i.e. plan as to the kinds and quantities of goods to be imported and exported, and
- (b) the foreign exchange plan, which expresses in currency to the material plan and at the same time contains also the amount of expected income and expenses for other items than goods, such as transportation, etc.

These plans are set up for a one-year period and in addition they are constantly being complemented in operative quarterly plans. The import section of the plan is being set up on the basis of anticipated needs of the population and of industry.

In order to make possible the payments for planned imports it is necessary to plan also exports which would provide sufficient amounts of foreign exchange.

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The needs of the export plan form the basis of, and direct, the export production. Thus in a state with the complete state monopoly of foreign trade such as Czechoslovakia we see a reverse situation than that prevailing in a state with private foreign trade. Production does not seek to sell its products abroad to secure profits and employment, but the exports serve the import-and-payment needs of the state. Imports have primary importance and exports serve only to supply the necessary foreign exchange to pay for imports. It is the imports which are the end while exports are only a means to an end, not an end in themselves as it is the case in private enterprise systems.

2. Now as to the fact that in a country having such a complete state monopoly of foreign trade changes in par value of its currency do not affect international commercial transactions of other contracting parties and cannot impair the value of any of the concessions or benefits accruing to the other contracting parties under the General Agreement. This conclusion is connected with the system of prices of such a contracting party.

First of all, in such countries all domestic prices in the same way as wages, salaries, rents etc. are fixed by the state. Thus, there is a complete system of internal uniform nationally-set prices, fixed by the state for all kinds of goods.

This domestic price system is not connected with the world prices or with their changes either - due to the fact that all imports and exports are carried out solely and exclusively by the monopoly of foreign trade. The monopoly foreign trade corporations - their managers and staff - are responsible for the best fulfilment of the import and export plan. It is natural that when buying or selling they try to secure the most favourable conditions as they are independent economic units and are interested - even materially - in achieving the best results. On the other hand, imported goods, after the payment of customs duties, are being transferred to the state distribution centres or to the state industry for stable uniform prices fixed by the state in advance; similarly the prices which the monopoly pays to the state industry for goods delivered according to the export plan, are fixed by the state.

Variations in the domestic currency equivalent of import-and-export prices which might result from the change of par value of the domestic currency, are reflected only in the account-books of the monopoly corporations. The domestic prices, however, do not depend on the import or export prices as all domestic prices are fixed by the state. Thus the monopoly functions in effect as a kind of a buffer which takes over all the differences between the two price levels. As at the same time the monopoly handle both all imports and all exports, according to a plan aiming at an equilibrium, it is in a position to balance the differences caused by the variations mentioned above.

The monopoly corporations are bound to fulfil the material foreign trade plan both in imports and in exports, hence their activities are not affected by any attention to the rate of exchange of the domestic currency or to its alterations.

3. Thus - in such a case - neither exchange rate of the domestic currency nor its alterations - affect international commercial transactions or the concessions and benefits of other contracting parties. Moreover as for the tariff concessions, the interests of the contracting parties are safeguarded by the provisions of Article II:3 which require that no contracting party shall alter its method of converting currencies so as to impair the value of any of the concessions, as well as by Article II:6(a) and other provisions of the Agreement.

The contracting parties have a concrete practical experience with such a case, namely the experience with the alteration of the exchange rate of the Czechoslovak crown which took place on 1 June 1953 and which was discussed at the Eighth Session in connection with the adjustments of the Czechoslovak specific duties. In that case no contracting party offered any objections to the alterations made by the Czechoslovak Government and the CONTRACTING PARTIES in their decision of 24 October 1953 took note of the alteration of the gold equivalent of the Czechoslovak crown and of the corresponding adjustments of specific duties.

Consequently in such a specific case the contracting party cannot take any exchange action which would be contrary to the intent of the General Agreement and there is no need to apply the provisions of a special exchange agreement as envisaged in Article XV:6. The complicated and burdensome procedures provided for in the special exchange agreement in its present form are in such a case entirely superfluous and inappropriate.