

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES

Tenth Session

PRELIMINARY DRAFT OF  
THE SIXTH ANNUAL REPORT UNDER ARTICLE XIV:1(g)  
ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

(This draft has been prepared by the secretariat to serve as a basis of discussion at the Tenth Session. The secretariat expects, however, to circulate a revised draft to the Working Party which will take into account any additional statements from contracting parties or other information received too late to be included in this draft. The text of the Annex will be circulated separately.)

1. Under paragraph 1(g) of Article XIV the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of the Agreement permitting the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report has been drawn up by the CONTRACTING PARTIES at their Tenth Session held in October - December 1955. It is based on information supplied by the contracting parties concerned, either in writing or in the course of discussions and consultations at that Session, and on data gathered from other sources, including information supplied by the International Monetary Fund. The report is devoted principally to an examination of the general trend in the field of discriminatory restrictions during the first ten months of 1955. In the Annex a brief description is given of the discriminatory restrictive system of each of the contracting parties concerned, and of the more important modifications introduced during the year.
2. In statements submitted in 1955 at the request of the CONTRACTING PARTIES or in other communications, twenty-three of the thirty-five contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balance of payments and are exercising some degree of discrimination as between sources of supply as permitted under paragraphs 1(b) and/or 1(c) of Article XIV, or under Annex J. These are:

Australia  
Austria  
Brazil  
Burma  
Ceylon  
Chile  
Denmark  
Finland

France  
Germany  
Greece  
India  
Italy  
Japan  
Netherlands  
New Zealand

Norway  
Pakistan  
Rhodesia and  
Nyasaland  
Sweden  
Turkey  
United Kingdom  
Uruguay

3. [This paragraph will indicate the position of the twelve contracting parties which are not resorting to the provisions of Article XIV. A text will be circulated as soon as information is available on all of the contracting parties concerned.]

4. It was noted in last year's report<sup>1</sup> that the general improvement in the world dollar situation which began in 1953 had continued in 1954, and that there had remained only a few countries, notably those largely dependent upon the export of raw materials for which the difficulties of preceding years had not been lessened. Although this continuing trend was due in part to such temporary factors as the sustained volume of United States off-shore purchases and military and other expenditure abroad, the vigorous recovery of industrial production, especially in Europe, had enabled most major trading countries to withstand the effects of a recession in the United States and to continue to increase their gold and dollar reserves. The general improvement during 1953-54 encouraged a number of the more important trading countries to introduce greater freedom in their international transactions and to reduce the degree of restriction on imports. Especially in 1954 many of these measures in relaxation had been extended to imports from the dollar area.

5. Toward the end of 1954 the favourable trend in the dollar payments position of the non-dollar world was halted and in some countries replaced by an adverse trend. Dollar imports into Western Europe rose substantially. At the same time, most raw material countries, which had been facing difficulties, suffered further reversals. Latin American exports in particular suffered from a decline in raw material prices and a sharp reduction in United States coffee purchases.

6. In the fourth quarter of 1954, United States exports reached an annual rate of \$14.2 billion, compared to \$12.5 billion in the previous twelve months. In the same period, United States imports remained unchanged at an annual rate of \$10.3 billion. In the first half of 1955 these exports further increased to an annual rate of \$15.3 billion while imports increased to \$11 billion. Reflecting these changes net receipts of gold and dollars by countries outside the United States fell to an annual rate of about \$1.3 billion in the last quarter of 1954 from the level of \$1.5 billion in the previous twelve months. This decline was greatly accelerated in the first quarter of 1955; despite increased United States imports and expenditures abroad, net receipts of gold and dollars by the rest of the world from transactions with the United States fell to an annual rate of \$300 million. [More recent data will be added when available.]

7. It is noteworthy that in spite of this reversal of the earlier favourable trend in the international balance-of-payments situation most important trading nations in 1955 have maintained the gains already made in the reduction of discrimination, and many have made further progress. In Europe, Denmark, the Federal Republic of Germany, Greece, Italy, the Netherlands and the United Kingdom, and among other sterling countries, India and the Union of South Africa,

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<sup>1</sup> Basic Instruments and Selected Documents, Third Supplement, pp. 63-77.

all of which had in the preceding year either totally dispensed with or substantially reduced their discriminatory restrictions, took no retrogressive steps and in a number of other cases further measures of relaxation have been taken by governments in 1955.

8. The United Kingdom has continued its policy of reducing discrimination against dollar goods, and a large number of products, including such important items as cotton, scrap metals, live animals, fibre boards, fats and oils, aluminium and ferro-alloys, hides and skins have been added in the course of 1955 to the list of commodities which may be imported free of licence from all sources. These measures have brought dollar imports free from restriction to a level of per cent of such imports in 1953. In April 1955 an extension of the German free list brought that country's level of liberalized private dollar imports to over 60 per cent of such imports in 1953, and in May the effective percentage was further raised to 84. In January 1955 Sweden announced a further relaxation of dollar restrictions. The goods covered by the free list then accounted for about 58 per cent of Swedish private imports from the United States in 1953. Effective from 21 February 1955, Denmark established a new general free list. In October 1955 some further restrictions on Danish imports from the dollar area were removed, thus increasing the share of dollar imports freed of quantitative restrictions from the previous level of 38 to 55 per cent of such imports in 1953. In Austria a new list of liberalized imports from the dollar area was put into force on 15 July 1955, whereby liberalized dollar imports were brought to a level of some 8.5 per cent of Austrian 1953 imports from the United States and Canada. [References to measures of relaxation in other countries to be added when precise information is obtained or when available data have been verified with delegations at the Tenth Session.]

9. As noted in paragraph 4, the general improvement in the dollar payments situation in 1953-1954 had not been shared by all countries. The weakening of the reserves position of several primary producing countries in the second half of 1954 led to cases of intensification in import restrictions though not in all cases to increased discrimination. In at least one case, namely Australia, intensification of import restrictions in the latter part of 1954 and in 1955 had the effect of reducing the level of discrimination against dollar goods. The measures introduced by Australia in October 1954 were limited to the withdrawal of earlier measures for the liberalization of imports from non-dollar countries. Similarly, the intensification introduced in June 1955 involved non-dollar imports only. Further measures for restricting imports, introduced in October 1955, however, affected imports from both dollar and non-dollar countries.

10. A brief description of the extent and types of restrictions applied to imports from different sources by each of the twenty-three contracting parties acting under Article XIV of the Agreement is given in the Annex. It will be seen there that a considerable number of these countries have established either a global free list of goods permitted to be imported from any source either without licence or under licences which are freely issued, or a dollar

or hard-currency list permitting similarly unrestricted imports from defined dollar areas. Global lists, varyingly referred to as World Exemption List, World Open General Licence, or Unrestricted List, are in force in Australia, Austria, Ceylon, Denmark, Greece, New Zealand, Rhodesia and Nyasaland and the United Kingdom. Most dollar free lists have been introduced in recent years, and for some of these countries such lists cover a substantial proportion of dollar imports, e.g., Denmark (55 per cent of base-year dollar imports), Germany (84 per cent), the Netherlands (90 per cent), Norway (75 per cent), Sweden (58 per cent).

11. In addition to these formal measures for reducing discrimination against dollar imports this is reason to believe that the degree of such discrimination has also been reduced in the area governed by administrative decisions. This assumption is justified not only by the statements of many governments maintaining such controls but by the reduced incentives, in some cases, toward continued discrimination against dollar goods. Under the renewed European Payments Union, for example, net surpluses or deficits, beginning with the second half of 1955, have been settled on a basis of 75 per cent gold and 25 per cent credit instead of the previous ratio of 50 per cent each.

12. In recording the progress made in the relaxation of restrictions discriminatory against dollar goods, it seems necessary to point out that progress in this field has not been uniform as between the different classes of commodities imported. The emphasis in relaxation has been mainly on industrial raw materials and other basic commodities. As pointed out in last year's report, in a considerable number of countries a wide range of manufactured goods remains subject to discriminatory restrictions.

13. Even with the qualification that progress toward the relaxation of dollar discrimination has been uneven both as between countries and as between commodity groups, it remains gratifying that this progress has continued at a time when the improvement in the dollar position of most countries has been seriously retarded or even reversed. The willingness of major trading countries to continue to move in the direction of dollar liberalization can probably be accounted for by their desire to place themselves in a position to restore full convertibility of their currencies at the earliest possible time. The earlier expectation of achieving full convertibility before the end of 1955 has not materialized, but it may be that the further progress made in 1955 toward the reduction of discrimination will facilitate such a movement when the time is ripe. In addition to the reduction in trade discrimination as such, which has taken place, further progress has been made by some countries in the restoration of de facto convertibility. There has been an encouraging tendency by nations faced with balance-of-payments difficulties to strengthen their competitive position by internal fiscal and economic measures instead of the introduction of further restrictions on trade.

14. In considering the progress that has been made toward the relaxation of discrimination toward dollar goods it is necessary to bear in mind that there remains a substantial body of discriminatory practices, not only as against dollar goods but as between goods from various non-dollar sources. This

non-dollar discrimination takes many forms. Perhaps the most important form consists of discrimination by members of certain currency areas against non-members. Thus, sterling area countries give more favourable treatment to other countries in the area than to those outside. Similarly, the liberalization which OEEC countries have adopted toward imports from other OEEC countries is not generally extended to goods from countries outside the area and is not in all cases extended to countries in the sterling area with which payments can be cleared through EPU. There remains a substantial body of bilateral agreements which either establish favourable quotas for the importation of goods by one partner from the other or which provide some other form of favoured treatment. For example, some OEEC countries extend OEEC treatment to imports from outside countries with whom they have trade or payments agreements and not to countries with whom such agreements do not exist. Some countries which have established régimes of Open General Licence for most non-dollar goods nevertheless withhold this treatment from the goods originating in certain countries. In certain cases, where no other discrimination is practiced as between non-dollar goods, specially favourable treatment is given to certain goods originating in countries with whom barter agreements have been made.

15. The liberalization of intra-European trade under the OEEC has freed to a large extent imports within that region from licensing restriction. In recent years the facilities provided by the European Payments Union have enabled Western European countries to dispense with discrimination in the application of restrictions on imports from other Western European countries of those goods on their liberalized lists. Because of the participation of the sterling area, through the United Kingdom, in the payments mechanism of EPU, some though not all the OEEC countries extend OEEC liberalization to imports from other sterling countries. The percentages reached in the liberalization of intra-European trade vary from country to country, but most of them have maintained the high level reached in the previous year and some of them have reached a higher level. By the first half of 1955, the general level of liberalized private imports of all OEEC countries stood at 80 per cent of base-year imports. It has been decided by the OEEC that further progress should be made in the liberalization of intra-European trade; the general rule, which has been put into effect on an experimental basis and subject to escape provisions, is that commodities on the liberalization list must represent at least 90 per cent by value of each country's 1948 imports from other member countries, instead of 75 per cent set previously and that the minimum percentage for each separate category (i.e. food and feeding stuffs, raw materials and manufactures) will be 75 per cent instead of 60 per cent. In addition, to ensure that countries in a position to do so make some further progress, each country except under certain circumstances, must free at least 10 per cent of the trade not liberalized on 30 June 1954. [A description of the current status of OEEC countries with respect to these requirements will be added.]

16. In general, therefore, trade among sterling and Western European countries is to a considerable extent free from quantitative restriction. Imports of these countries from other non-dollar countries, for which payments cannot be made through the mechanism of the European Payments Union, are subject

to restrictions which, though less severe than on dollar imports, are broader and more effective than on intra-EPU imports. A substantial part of the trade between certain European countries on the one hand and countries of Asia and Latin America on the other is still governed by bilateral trade agreements. However, with more currencies approaching the status of convertibility countries using inconvertible currencies are finding it more difficult to obtain from their trading partners that reciprocity without which bilateral quota arrangements would have doubtful value. The widening of the transferability of currencies, notably the pound sterling and Deutsche Mark, has greatly reduced the need for other countries to discriminate. Of interest in this connexion is the payments agreement recently entered into by the Governments of Brazil, Germany, the Netherlands and the United Kingdom under which payments for imports and exports between Brazil and the three European countries can be effected in any of the latter's currencies, a system which has been referred to as an arrangement of limited convertibility.

17. In spite of the decreasing need for bilateral agreements for balance-of-payments reasons some countries have been reluctant to relinquish their resort to this device. Some producers of primary commodities see in such agreements a means of maintaining exports that are important in their trade, and sometimes of preventing a decline in the prices of these exports. They appear to believe that bilateral arrangements are the most effective means of maintaining or expanding the flow of their exports. Even when no present advantage is to be derived from such arrangements, and when clear advantages are manifest in a policy of freer trade, some governments hesitate to deprive themselves of this means of protection so long as their competitors have not renounced the use of bilateral arrangements.

18. The General Agreement permits the use of discriminatory restrictions as a transitional measure to meet the peculiar post-war situation of payments disequilibrium. The Agreement requires, however, that each contracting party dismantle discriminatory restrictions, whether achieved by bilateral quota agreements or by unilateral action, as rapidly as its balance-of-payments situation permits. For the maintenance of discrimination by one country increases the difficulty that others face in the adoption of non-discrimination and the establishment of currency convertibility. If each country delays action in this field until all risk is removed the achievement of ultimate non-discrimination and the full benefits of multilateral trade is certain to be postponed indefinitely.

