

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Working Party on Balance-of-Payments
Restrictions

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AUSTRALIAN IMPORT RESTRICTIONS

Statement made by the Australian Representative at the
plenary meeting on 7 November 1955

A full report of the consultations which took place in June and July last in the Working Party set up by the Intersessional Committee is contained in document L/370. Those consultations took place under the provisions of Article XII:4(b) and were concerned with the intensification of Australia's quantitative import restrictions which became effective as from 1 April 1955.

The view taken by the Australian Government when Article XII was under consideration during the Review Session was that there was no real necessity to amend the wording of the Article as it stood, but that what was needed was to make more effective the consultations held under its provisions. Accordingly, when circumstances arose which made it necessary for Australia to consult with the CONTRACTING PARTIES under Article XII:4(b) we welcomed the initiative taken by the Chairman to secure more effective consultations by putting forward a list of topics for the guidance of the Working Party appointed for the purpose by the Intersessional Committee. In our view this approach did secure more thoroughgoing consultations which were more effective and more satisfactory from the Australian point of view as well as those of other countries.

The presentation of the Working Party Report to the Tenth Session provides an opportunity for the contracting parties to put forward any views they may wish to express about the effectiveness of the procedures followed in the consultations and in particular about the conclusion recorded in paragraph 5 of the Report that future consultations would be "greatly facilitated" by use of a similar plan - "suitably amended and adopted on each occasion".

For our own part we would support this proposal by the Working Party but would stress the need for flexibility in following any such "plan" during the actual course of the consultations. No two consultations can follow quite the same pattern, and in each instance it would seem wise to give the Chairman of the Working Party conducting the consultations discretionary authority to adapt any previously framed plan as seems desirable to secure the most satisfactory results.

While on this point I should like to take the opportunity to express the Australian delegation's appreciation of the notable part played in the recent consultations by Dr. Naudé as Chairman of the Working Party and of his wise guidance of the discussions which took place.

At the time the July consultations were completed it was not our expectation that the Tenth Session of the CONTRACTING PARTIES would be called upon to consider a further intensification of restrictions by Australia.

However, as the CONTRACTING PARTIES know, my Government, after studying the Australian balance of payments prospects following the opening sales of 1955/56 wool season, reached the conclusion that it had no alternative but to introduce a further reduction in the level of import licensing as from 1 October last.

The details of the new import licensing measures are contained in documents L/414 and L/414/Add.1; and document L/414/Add.2 contains the text of the statement made by the Prime Minister in the Australian House of Representatives on 27 September, in which he gave a comprehensive review of the Australian economic situation. He not only announced the Government's decision to tighten import licensing restrictions from 1 October, but also stated the measures to be taken in the internal field to help restore equilibrium in Australia's balance of international payments and to preserve stability in the economy.

Delegations have this comprehensive and authoritative statement before them. There is, therefore, no need for me to do more than to recapitulate briefly the story of developments which have taken place in the Australian economic scene since the July consultations.

Those who have studied Annex A to the Working Party Report which summarizes the content of the consultations will know that its final paragraph headed "General Policy Objectives" recalls that when the Acting Prime Minister announced the April restrictions he said that the Government remained firm in its intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done, and that its internal policies would be designed to assist towards that end.

The first major opportunity which presented itself for the Government to take action in the internal field was provided by the Budget which traditionally is introduced in Australia in the month of August.

The previous Budget year had ended with a substantial surplus (£A70m.).

However, in view of the evident signs of the re-emergence of inflationary pressures in the economy and the continuing deficit in the balance of payments, the budget introduced by the Treasurer on 24 August contained no taxation concessions, and no new forms of expenditure were approved. The budget was therefore essentially a standstill budget. As presented, a nominal surplus

of £A170,000 was estimated but this was expected to be achieved after putting aside £A48.5 million to meet certain "other commitments" - mainly financial assistance to State works programmes - not normally provided for within the Budget; so that, if the traditional method of presentation had been adopted, the 1955/56 Budget would have shown an estimated surplus of over £A48 m. A point worth mentioning is that this position is expected to be achieved after providing for all the Commonwealth Government's capital works to be financed wholly from revenue.

Given no deterioration in Australia's export income prospects there was good reason to hope that the fiscal policy adopted in the Budget, taken in conjunction with a continued policy of restraint by the Central Bank and with the April import licensing measures, would suffice to restore equilibrium in the balance of payments and to check the drain on international reserves without resort to further import restrictions. Indeed it was hoped that the policies of restraint adopted in the fiscal and monetary field would ultimately pave the way for a relaxation of direct import controls.

However, one of the difficulties, with which Australian Treasurers are confronted is that, at the time it is customary to introduce the Budget, the new season's wool auctions have not opened. As receipts from wool sales are such a dominant item in Australia's export income this means that at the time the Budget is framed it is extraordinarily difficult to make an accurate assessment of balance-of-payments prospects.

When the 1955/56 Budget was drawn up it seemed reasonable to assume that, with the high level of economic activity prevailing in the United States, the United Kingdom and Western European countries, the price of wool during the 1955/56 season would be well maintained. In practice, however, wool prices at the new season's auctions showed a decline of about 11d. per lb. greasy on the previous year's average price. As a fall of a penny a lb. means a decline of something like £A5 million in export income the consequences of this development for the balance of payments will be obvious. Some increase in wool production is expected but this can do no more than offset to a minor degree the loss of export income resulting from the fall in prices.

Production of our second major export commodity - wheat - is also expected to be above last season's level, but, in view of the current world wheat situation, the increased production may well merely add to the already high level of stocks held in Australia. On present prospects export receipts from wheat and flour in 1955/56 are expected to be some 20 per cent below those of the 1954/55 season.

Taking into account these altered prospects for wool and wheat and allowing for adjustments to the previous estimates for other exports, there would, at this stage at least, seem to be few grounds for expecting that total export receipts in 1955/56 will exceed a figure of about £A730 m. - as against £A763 m. in 1954/55.

The net deficit on invisible items in 1954/55 was £A173 m. and will probably not be much less than that in 1955/56. Movements in the capital account are

influenced by many unpredictable factors and the figure of a net surplus of about £A50 m. which is at present being taken as a working hypothesis for 1955/56 could well prove optimistic.

Working on this sort of broad arithmetic reserves are expected to decline over the financial year running from 1 July 1955 to 30 June 1956 by roughly the amount by which imports exceed £A625 m.

The April restrictions were expected when fully operating to bring imports down to an annual rate of £A730 m. But in Australia's case there is an average time lag of about six months between the date of issue of import licences and the date of importation of the goods. The April import restrictions therefore could not become fully effective in 1955/56 and the estimate for 1955/56 imports was (before the October restrictions) put at £A770 m.

Reserves at 30 June 1955 stood at £A428 m. This was £A143 m. less than at the end of June 1954 and to have allowed 1955/56 imports to reach £A 770 m. would, as far as could be seen, mean a further decline in reserves of roughly the same order of magnitude - i.e. £A140 m. odd - in the current financial year.

While such a decline would still leave reserves at a fairly substantial figure the prospect, before the October measures, was that at June 1956 imports would still be coming in at an annual rate of £A730 million which, failing some at present unforeseen improvement in export receipts, would imply a continued substantial drain on reserves.

It was in this context and in the knowledge that in Australia's case now import licensing measures could not in any event become fully effective for some six months, that the Government felt it had no alternative but to introduce further import restrictions designed to reduce the level of imports by about £A80 million in a full year. As the new restrictions are not expected to be reflected in reduced imports until the last quarter of 1955/56 the reduction in 1955/56 is estimated at about £A20 million.

I do not at this stage wish to discuss the details of the new restrictions which are in any case set out in documents L/414 and L/414/Add.1. I would point out, however, that although a further intensification of restrictions was inescapable, the opportunity has been taken to make a forward move in the direction of reducing discrimination by providing for certain basic materials, the total trade in which is substantial, to be licensed in future on a completely non-discriminatory basis.

I should also like to stress that the Government is not relying solely on direct import controls to restore equilibrium in the balance of payments but is also taking a series of measures in the internal field designed to ease inflationary pressures in the economy and to curb the excess demand which has brought about the heavy increase in import expenditures over the past eighteen months.

Further information about these measures can be given in the Working Party which I assume will be set up to conduct the Article XII:4(b) consultations; but as indicated in the Prime Minister's statement (L/414/Add.2) they include:-

- (a) a new directive by the Central Bank to the trading banks on advance policy;
- (b) the adoption of a policy of voluntary restraint by the Australian hire purchase companies (a field in which, because of the limitations of the Federal constitution, the Commonwealth Government cannot directly intervene);
- (c) the cutting back, by deferment of projects totalling £A10 million, of the Commonwealth Government's own capital works programme.
- (d) an intensified drive to increase exports;
- (e) a general appeal to the responsible elements in the community to practice voluntary restraint and emphasis on the point that the present high level of prosperity in the country can be maintained only if it is "worked for and saved for";
- (f) deferment, as part of the "community co-operative effort", of a review that had been planned of the scale of Parliamentary salaries and allowances;
- (g) a decision to present to Parliament an annual Economic Report and to issue other periodical reports through the Treasury on the facts of the economic situation, in order to assist in obtaining better understanding and co-operation by the public in meeting economic problems as they arise.

The Australian delegation will be glad during the course of the consultations to provide the CONTRACTING PARTIES with such further information as they may wish to have both on the general economic background and the details of the various measures taken.