

GENERAL AGREEMENT  
ON TARIFFS AND  
TRADE

ACCORD GENERAL SUR  
LES TARIFS DOUANIERS  
ET LE COMMERCE

RESTRICTED

LIMITED C  
GATT/CP.3/22  
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CONTRACTING PARTIES

Third Session

INTERIM REPORT OF WORKING PARTY 3 SET UP TO FACILITATE

CONCLUSION OF CONSULTATIONS ON THE UNION OF

SOUTH AFRICA'S IMPORT RESTRICTIONS

1. In accordance with paragraph 1 of its terms of reference, the Working Party, under the chairmanship of Mr. G. N. Perry (Canada), examined, in the light of the provisions of Article XII(4)(a), the import restrictions imposed by the Union of South Africa and modifications thereof. The Working Party based its examination on the information contained in the communication addressed by the Government of the Union of South Africa to the Chairman of the CONTRACTING PARTIES on 12 November 1948 (GATT/CP/3), in the statements made respectively by the Leader of the Union's delegation at the meeting held by the CONTRACTING PARTIES on 13 April 1949 (Annex to GATT/CP.3/SR.3) and by the representative of the Union of South Africa on the Working Party (GATT/CP.3/WP.3/3), and in the communications of the International Monetary Fund (GATT/CP.3/3 and GATT/CP.3/3 Add.1). The Working Party, had also at its disposal the text of the relevant regulations of the South African government and the correspondence relating to the consultations with South Africa and with the Fund reproduced in GATT/CP.3/WP.3/2 or filed with the Secretariat.
2. The Working Party, having in mind the provisions of paragraph 2 (a)(i) of Article XII of the General Agreement, took note of the statement in the letter from the Managing Director of the International Monetary Fund to the Chairman of the CONTRACTING PARTIES, dated 18 January 1949 (GATT/CP.3/3) that a serious decline in South Africa's

monetary reserves had occurred during 1948 and that strong immediate remedial measures were necessary to forestall the imminent threat of a further decline in these reserves. The Working Party considered that further comment was not required on this aspect of the consultation with the Union of South Africa.

Nature of South Africa's balance-of-payments difficulties.

3. The balance of payments of South Africa for 1947 and 1948 is contained in Table 1 of the Memorandum submitted by the Fund (GATT/CP.3/3 Add.1, Annex 1). This Memorandum shows that South Africa's deficit on current account with the non-sterling area after taking into account the gold production was £ SA 61 million in 1947 and may be estimated at £ SA 80 million in 1948. The current account deficit with the sterling area was £ SA 70 million in 1947 and £ SA 80 million in 1948. The sterling deficit was more than offset by the inflow of private capital in both years, though the rate of loss of sterling reserves since November 1948 suggests that for the time being net capital inflow may have ceased.

4. The principal causes of the disequilibrium in South Africa's balance of payments have been indicated on pages 3 and 4 of the Fund Memorandum referred to above. The Leader of the South African Delegation in his statement to the CONTRACTING PARTIES (Annex to GATT/CP.3/SR.3, page 10) has expressed agreement with this analysis which may be summarized as follows :

- a) the growing deterioration of South Africa's terms of trade with other countries due mainly to the fact that the price of South Africa's principal export product, namely gold, in terms of the currencies of South Africa's principal suppliers has remained practically unaltered since the beginning of the Second World War whilst the prices of commodities and services required by South Africa from those countries have risen considerably;

- b) South Africa's abnormal requirements of imported supplies resulting from replenishment after the war of depleted stocks of consumers' goods, the replacement of machinery, plant and equipment worn out during the war, the opening of the new goldfields in the Orange Free State, the establishment of new industries as well as the expansion of existing industries and related activities;
- c) the unduly large supply of money in the Union of South Africa, caused, mainly, by an unprecedented influx of capital and, to a lesser extent, also by the increase in bank credit. Both these factors have helped to accentuate the effective demand for goods from abroad. While the capital came almost exclusively from sterling area countries, it gave rise to demand both for sterling and non-sterling goods.

5. Other contributing factors mentioned in the discussions of the Working Party were the transport and labour difficulties which have prevented an expansion of the production of base minerals, and the balance-of-payments difficulties of countries which used to buy the non-essential exports of South Africa.

Measures introduced by South Africa to stop the decline of its monetary reserves.

6. The measures introduced by South Africa were of a two-fold nature:
- a) import prohibitions on non-essential goods (within the term of Article XII of the General Agreement);
- b) exchange restrictions (which, in the case of South Africa, are governed by the relevant provisions of the Articles of Agreement of the International Monetary Fund).

7. Import prohibitions of a non-discriminatory character were imposed as an emergency measure on 5 November 1948; additional prohibitions were decreed on 4 March 1949. Imports during 1948 of goods which appeared in the prohibited list of November 1948 are estimated at £ 15 million. The revised list published on 4 March 1949 comprised goods the importation of which amounted to approximately £ 30 million in 1948. It must be stressed however that total volume of imports was not actually reduced to this extent as importers were free to increase imports of other goods from non-sterling countries to the extent of their exchange quota.

8. The exchange restrictions imposed on 5 November 1948 were of a more drastic character. The provision of non-sterling currency for imports from non-sterling countries during the period July 1948-June 1949 was limited to 50% of that used in 1947. The basic exchange quota allotted to an individual importer for the period July 1948 - June 1949 would therefore represent 50% of the exchange actually purchased by him during the basic period for the import of all classes of goods, including the goods which have been placed on the prohibited lists. The basic exchange quotas allotted to the individual importers for purchases from non-sterling countries could be raised up to 75 - 80% if the authorities were satisfied that the additional exchange applied for was needed for the purchase of machinery, equipment and essential materials. The exchange certificates delivered to an individual importer could not be transferred to another importer.

No restrictions were placed on the use of sterling exchange in November 1948 because the Union of South Africa had been receiving an inflow of capital from the sterling area which exceeded its current account deficit in sterling. Moreover its holdings of sterling, inclusive of its £ 80 million gold loan to the U.K. which had become repayable in sterling on demand, were at that stage still relatively large.

9. The International Monetary Fund, in accordance with Article VIII of its Articles of Agreement, approved the exchange restrictions introduced by South Africa on 5 November 1948 and has also authorized South Africa to adapt these restrictions to changing circumstances. This approval will remain in force so long as the Fund is satisfied that the restrictions are necessary to safeguard South Africa's external financial position.

The Working Party has been informed that the Fund keeps under close review the continued need for discrimination in the application of the exchange restrictions.

Attempt by South Africa to avoid the imposition of restrictions.

10. The representative of the Union of South Africa indicated the measures which had been adopted by his government in 1948 in an attempt to obviate the need for the introduction of exchange and import restrictions and thus to avoid the disturbing influences on South Africa's economy which, in their view, were likely to result from such restrictions. The main lines of approach were the curtailment of commercial bank credit for the importation of consumers' goods, the mobilisation of foreign exchange through the reduction in the statutory gold reserve of the Reserve Bank and the modification in the method of calculating the reserve ratio, and the stimulation of production of export goods.

Alternative corrective measures.

11. The representatives of the Fund informed the Working Party that the omission of an analysis of alternative corrective measures from the Fund's report should not be regarded as establishing a precedent for future cases. Under the particular circumstances of the South African case, the Fund considered it neither appropriate nor necessary at this stage, to include such an analysis in its report. The Fund had already approved exchange restrictions which were of much greater importance than the import restrictions adopted in November

1948, and extended in March 1949. Further the representatives of the Fund stated that consultation was continuing with South Africa on the broader aspects of the situation. Finally, they stated that, in their opinion, feasible alternative measures which would indirectly limit imports could hardly be expected to permit the elimination of such direct measures of control as exchange or quantitative restrictions.

12. The Working Party examined with the representative of South Africa the results which might be expected from the action taken by the South African Government to increase exports and reduce the demand for imported goods, but did not feel that, at this present stage, it would usefully suggest any alternative corrective measures to the CONTRACTING PARTIES.

Effects of the measures on the economies of other contracting parties.

13. The Working Party limited its discussion to the effect of the import prohibitions as the exchange restrictions approved by the IMF were within the jurisdiction of that organisation; it noted however that it was open to the CONTRACTING PARTIES to report to the Fund, in accordance with paragraph 5 of Article XV of the General Agreement, if they considered that exchange restrictions were applied in a manner inconsistent with the exceptions provided for in the Agreement for quantitative restrictions.

14. As indicated in paragraph 7 above, the overall effect of the prohibitions on South Africa's import trade is relatively small as compared with the overall effect of the exchange restrictions, although it may substantially affect the export interests of certain countries. The representatives of some European countries which have a traditional trade in non-essential goods with South Africa pointed out that the total of their trade with South Africa had, by these prohibitions, been reduced by a proportion greatly exceeding the percentage decrease

in South Africa's total imports from all countries. (1) The Working Party felt that it would be appropriate for the countries affected to approach the South African Government in accordance with Article XXII of the General Agreement and the representative of South Africa declared that his government would be prepared to afford to those countries adequate opportunity for consultation.

15. The question of "token imports" was also raised in the course of the discussion; the representative of South Africa explained that the temporary application of import prohibitions on certain classes of non-essential goods, ample stocks of which had been constituted before the introduction of the measures enforced during the last few months, had not, and would not for a considerable time, deprive the market of a minimum supply and thus impair regular channels of trade. He was however prepared to discuss the matter further with any countries which were interested.

16. It was finally noted that restrictions imposed to correct a balance-of-payments deficit may have a clearly protective effect. It was agreed however that the provisions of Article XII do not require a contracting party which is applying restrictions under this Article to eliminate the incidental protective effect. The Working Party also agreed that, with a view to avoiding an uneconomic expansion of output, it would be desirable to discourage domestic producers from taking advantage, for that purpose, of emergency measures of that nature. The representative of South Africa stated that the authorities of his country had clearly indicated that the restrictions introduced, which

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(1) It was reported to the Working Party, for example, that the goods on the prohibited lists accounted for 26% of the total exports of the Netherlands to South Africa in 1948 and for 23% of the total exports of Czechoslovakia to South Africa in 1947.

are not in accordance with the general line of policy constantly followed by South Africa in trade matters, were not intended to be permanent and that the producers had been warned that no additional tariff protection is contemplated when the restrictions are eliminated.

17. The Working Party wishes to place on record its appreciation of the valuable contribution of the representatives of the International Monetary Fund to its discussions. It wishes also to thank M. Royer who acted as secretary to the Working Party for his valuable assistance.

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