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FINAL REPORT OF WORKING PARTY 3 ON NEW IMPORT RESTRICTIONS CONTEMPLATED BY THE UNION OF SOUTH AFRICA

I. INTRODUCTION

1. In its interim report submitted to the CONTRACTING PARTIES on 12 May 1949 the Working Party suggested that the consultation with the Union of South Africa under paragraph 4 (a) of Article XII should be considered as a continuing process. The Working Party, acting on the instructions of the CONTRACTING PARTIES, reconvened as soon as it received more detailed information from the South African delegation and resumed its discussions on the basis of that information and of the opinions and facts furnished by the International Monetary Fund in accordance with Article XV of the General Agreement.

2. The Working Party examined the information submitted by the delegation of the Union of South Africa on 25 May (GATT/CP.3/31) as well as the information contained both in the memorandum submitted on 30 May (GATT/CP.3/WP.3/12) and in oral statements made to the Working Party. The Working Party had also at its disposal a memorandum prepared by the International Monetary Fund, dated 25 May 1949, and transmitted to the Chairman of the CONTRACTING PARTIES on 29 May 1949.

II. NATURE OF SOUTH AFRICA'S BALANCE-of-PAYMENTS DIFFICULTIES

3. The balance of payments of South Africa for 1948 and for the first four months of 1949 (provisional estimate) is contained in Table I of the Fund memorandum dated 25 May and transmitted on 29 May.

The Fund has determined that, owing especially to the increased use of sterling exchange, the serious decline in the Union's reserves which occurred in 1948 has continued during the first four months of 1949 and strong immediate remedial measures are necessary. The Fund Report has indicated that the deficit of South African current transactions with the non-sterling area has been greatly reduced during the first four months of 1949, and that the deficit with the sterling area has increased as compared with 1948. The Fund indicated that a severe contraction in imports would be required in order to maintain the monetary reserves of the Union of South Africa. The Working Party considered that the serious decline in South Africa's reserves since the introduction of restrictions in November 1948, as indicated by the Fund, would justify a further contraction in the volume of imports, in particular of imports from the sterling area.

4. The representatives of South Africa stressed that unless the prospective foreign exchange resources - which include that part of the gold production which, after deduction of the amount necessary to keep the monetary reserves at an adequate level, could be used for the payment of imports - could be increased above the level of the best estimates now available, these resources would not suffice to maintain South Africa's full requirements of essential imports during the latter half of 1949.

5. The South African representatives also explained that in the past only a small proportion of the Union's exports was marketed in countries whose currencies are now convertible. They indicated that although South Africa was hopeful that an increase in its exports to convertible currency countries would be achieved, such increase was unlikely to assume material proportions in the foreseeable future. They therefore doubted whether the amount of gold and convertible currencies estimated to be available during the latter half of 1949 for purchases in any

market would cover more than half of the Union's import requirements of essential goods. The inconvertible currencies which would accrue to South Africa from exports during that period should amount to about the same figure as the gold and convertible currencies available. The Union of South Africa expects, however, that in the near future a renewal of the traditional inflow of investment capital would increase the amount of foreign exchange (mainly sterling) available for the payment of imports. Some members of the Working Party suggested, with others disagreeing, that South African estimates of prospective convertible currency receipts appear to be somewhat pessimistic, and that the prospects of a net capital inflow may be at least as great in convertible currencies as in sterling. In this connection, the opinion was also expressed that grouping all inconvertible currency receipts together tends to obscure the separate problems which may be involved in connection with particular inconvertible currencies.

III. NEW PROPOSALS OF SOUTH AFRICA TO CORRECT ITS BALANCE-OF-PAYMENTS DIFFICULTIES.

6. The South African representatives submitted the following statement to the Working Party:

"7. Notwithstanding the exchange quota restrictions and import prohibitions introduced by the Government of the Union of South Africa on 15 November 1948, South Africa's monetary reserves have continued to decline to such an extent that the Union Government have found it necessary to take further steps to curtail imports with a view to restoring equilibrium in the country's balance of payments.

"8. The steps which the Union Government propose to take involve the replacement of the original system of non-sterling exchange quotas by a new and more drastic system of physical control of imports which will apply to imports from all countries.

"9. In the application of the new measures the Union Government would have preferred to adopt a system of import licensing which, whilst limiting the total amount of imports, would leave the importer complete freedom to choose his source of supply.

"10. Such a non-discriminatory system could, however, be applied only if the Union were assured:

a) that the United Kingdom (or any other country) would be prepared to convert into any currency (including United States dollars) the Union's net earnings in countries whose currencies are inconvertible;

b) that the inflow of capital from the Union's traditional sources of supply would not be adversely affected; and

c) that the countries which constitute the Union's traditional markets and which are likely to be most severely affected by such a system of non-discriminatory import control would not curtail their imports from South Africa particularly of less essential goods.

"11. On the basis of the information available the Union Government cannot but conclude that such assurances are unlikely to be forthcoming from the countries concerned under present circumstances. The adoption of a non-discriminatory system of import control is, therefore, likely to have serious repercussions on the Union's economy in that it would reduce both capital inflow into South Africa and the export of South African goods to its traditional markets. Such a development would reduce South Africa's foreign currency resources which in turn would necessitate a reduction of South Africa's total imports from all sources considerably below the level which it would be able to maintain under a system of discrimination.

"12. The exchange restrictions introduced in November had distinguished only between sterling and non-sterling currencies. This simple distinction, natural to a sterling area country, had been assisted by the operation of Article 6 of the United Kingdom Gold Loan Agreement of 9 October 1947, which was designed to reimburse gold to the United Kingdom for net payments (expenditures less receipts) of non-sterling currencies made by South Africa through London. Recently the Union had developed a large favourable balance with "soft" non-sterling countries which, under Article 6, was offset against the still larger unfavourable balance with "hard" countries, thus, in effect, converting the Union's "soft" surplus into dollars. This arrangement would not continue after the Gold Loan had been fully repaid, as it was likely to be in the second half of 1949, and the Union Government now felt bound to move away from the distinction between sterling and non-sterling currencies to one more in accord with the situation in which it would then find itself.

"13. Having regard to these considerations, the Union Government propose to distinguish under the new scheme between "hard" and "soft" currency countries 1/ and to allocate its available foreign exchange resources as follows:-

a) The Union's current gold production (less such amounts as may be required for the maintenance of satisfactory reserves) plus the earnings of hard currency (after allowance has been made for invisibles) to an amount not exceeding £5,000,000 plus an equivalent amount of soft currency will be made available for purchases of essential goods.

b) The remainder of the Union's hard and soft currency earnings will be used to pay for import requirements not covered by the currency pool set aside under (a) above.

"14. It is proposed to issue three types of import permits, namely:

a) Universal permits up to the amount indicated under paragraph 13 (a) above for the Union's essential requirements. These permits will be available for imports from <u>any</u> source both "hard" and "soft" currency countries;
b) Restricted <u>soft</u> currency (including sterling) country permits up to the amount of "soft" currency available under paragraph 13 (b) above. These permits will be available only for purchases from soft currency countries;

1/ The definition of hard currency countries would correspond generally to that adopted by the other sterling area countries. Broadly speaking they include at the moment countries in the Western Hemisphere, the Philippines, Belgium and Switzerland, but are subject to review according to circumstances.

c) Restricted hard currency country permits to the amount of hard currency available under paragraph 13 (b). These permits will only be available for purchases in hard currency countries of the types of commodities imported with restricted "soft" currency permits in terms of sub-paragraph (b) above.

"15. The main advantages of this scheme are:-

a) It distinguishes merely between two currency groups and therefore avoids the balancing of the Union's accounts with individual countries which would place the Union in insurmountable difficulties;
b) It would ensure the maintenance of capital inflow into the Union and of commodity exports and thereby enable the Union to maximise its imports;
c) It is easier to administer than any other discriminatory system of import control and involves a minimum measure of discrimination.

"16. It must be understood that the Union Government could not undertake to maintain this particular scheme unless soft currency countries are prepared to cooperate with a view to discouraging the artificial diversion to soft currency countries of certain exports which would otherwise have earned hard currency for the Union.

"17. Interim arrangements for the second half of 1949. The Union Government propose to introduce the measures described in paragraphs 13 and 14 above as soon as it will be administratively possible, but in any case not later than 1 January 1950. During the intervening period the import control will be based on a distinction between sterling and non-sterling countries 1/. Two types of licences will be issued, namely:

a) Universal licences available for purchases from any source (sterling and non-sterling countries), and
b) Restricted licences available for purchases in the sterling area.

"18. The amount of the universal licences will be determined, during the life of the United Kingdom Gold Loan Agreement of 9 October 1947, by the amount of the Union's earnings of non-sterling exchange

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1/ There are variations from time to time in the countries included in the sterling area. The countries currently included are ascertainable in the South African Exchange Control Regulations or under the First Schedule of the United Kingdom Exchange Control Act of 1947 and any subsequent orders issued thereunder.

(after deducting invisible imports) plus current gold production less such amount as may be required for the maintenance of adequate reserves.

"19. The amount of restricted licences will be determined by the amount of the Union's sterling resources after allowance has been made for invisible imports.

"20. In view of excessive orders placed by Union importers in sterling countries since the imposition of exchange control in November 1948, and of heavy commitments which still have to be met in respect of orders placed in non-sterling countries, the limitations placed on the Union's available currency resources have compelled the Union Government to restrict importations for the remainder of 1949 to the following broad categories:

a) essential capital goods for mining, agriculture and other basic industries;
b) essential spares;
c) essential raw materials; and
d) consumable stores for industry.

"21. A further breakdown of the commodities to be included in these four principal categories of essential import requirements will probably be necessary and priorities may be assigned within particular classes of goods according to the importance of the use to which they are to be applied. It is, therefore, possible, that both types of permits (i.e., universal and restricted) may be issued in respect of the same commodity. For example, too large a share of the Union's freely convertible resources (paragraph 13 (a)) may be absorbed if "universal" permits were to be issued for all iron and steel products irrespective of the purpose to which such products are to be applied and it may be necessary to reserve "universal" permits mainly for iron and steel required by, say, the goldmining industry, while the iron and steel requirements of less important industries would be covered in part or in whole by "restricted" permits.

"22. The scheme set out in paragraph 21 will, as far as possible, also apply in respect of the long-term arrangements which South Africa proposes to use after the end of 1949.

"23. From a preliminary estimate of the available currency resources, <u>including statutory gold reserves</u>, which South Africa will have at its disposal for the latter half of 1949, it appears that these resources will still fall short of what is needed to meet the Union's requirements of the four principal categories of goods enumerated in paragraph 20 above during the six-monthly period in question. Until such time, therefore, as the Union is in a position to import a larger percentage of its requirements of these four principal categories, it will not be able to relax its restrictions in respect of less essential requirements and, particularly, in respect of consumers' goods.

"24. The amount of permits for sterling and non-sterling imports will necessarily be determined by the amount of sterling and non-sterling exchange available. In order not to bring trade to a standstill it has been decided to issue preliminary permits to importers to an amount equivalent to half of the estimated sterling and non-sterling exchange available for the next six months. Although the amount of non-sterling exchange for which preliminary permits will be issued is actually larger than the amount of sterling exchange made available for preliminary permits, the individual importer's non-sterling permit represents a smaller percentage (16 2/3 per cent) of his 1948 imports of the non-sterling essential goods in question than his sterling permit represents (25 per cent) of his 1948 imports of the sterling essential goods in question. It must be noted, however, that the imports from non-sterling countries were unduly high in the latter half of 1948 owing to the excessive purchases by the Union importers in anticipation of the introduction of the exchange quota regulations.

"25. It must be stressed that, after the initial issue of permits described above, the balance of the permits to be issued during the next six months will not be solely based upon 1948 imports, but will be based on a number of considerations, including the type of exchange available, the relative importance of the goods and the stock position of individual importers. The amount of existing exchange quotas carried forward into the second half of 1949 will also be taken into consideration.

"26. Import prohibitions - In addition to the measures outlined above, the present list of prohibited imports will be maintained. It is not intended that permits would be issued for prohibited goods as such action would further diminish the amount of exchange available for essential goods.

"27. Exchange restrictions. When the new scheme is finally adopted by the Government of South Africa, it is intended that the existing scheme of exchange quotas will be discontinued."

IV. ALTERNATIVE CORRECTIVE MEASURES.

28. In its first interim report dated 13 May, 1949 (GATT/CP.3/22) the Working Party indicated the measures which had been adopted by the Union of South Africa in an effort to avoid the imposition of restrictions. The Working Party also noted that the International Monetary Fund considered that "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." When the Working Party examined the new measures to be introduced on 1 July, the representatives of the Fund indicated that nothing in the recent developments had led the Fund, at this stage, to modify the conclusions communicated earlier to the Working Party. The Working Party discussed at length alternative methods of applying import restrictions and these discussions are covered in Section V B of this report. In the circumstances the Working Party did not consider it fruitful to discuss at length whether other alternative corrective measures might be appropriate.

V. VIEWS EXPRESSED IN THE WORKING PARTY ON THE SOUTH AFRICAN NEW PROPOSALS

A. Effects on other countries

29. Effects on the economies of certain European countries.

The representatives of certain European countries stated that a large part of the trade from South Africa is normally directed to continental Europe and largely in materials necessary for development and reconstruction. The Union intends to limit its imports almost exclusively to essential goods, whereas the normal flow of trade from these European countries to the Union has been, up till now, mostly composed of consumer goods, and these exports, already reduced by the import prohibitions, would further decrease to a large degree. Moreover, the interim arrangement based upon the distinction between sterling and non-sterling, these representatives feared, would leave these countries in a very unfavourable position as it would reduce their exports to South Africa more than those from the sterling area. Therefore, the Union would be left in rather large surplus with certain European countries whose currencies are inconvertible and the European countries would have a larger deficit towards the Union and the sterling area as a whole.

30. Suggestions of certain European countries to mitigate adverse effects.

The representatives of certain European countries drew the attention of the Union of South Africa to possible modifications of their proposals which could minimize the adverse effects on their economies of the South African import restrictions, and would constitute an appreciable help to the European countries whose economies have been disrupted by the war:

a) It is the view of these European countries that the specification of permits as to "soft" and "hard" currencies, contemplated for a later stage in the South African scheme, is one method of removing the discrimination against exports from European countries whose currencies, as a consequence of the war, are inconvertible and therefore considered as "soft", thus permitting and facilitating the more speedy restoration of their economies;

b) The representatives of the European countries concerned felt further that, if consideration could be given by South Africa to the surpluses that the Union gets from a favourable balance of payments with these countries, some improvements in the proposed scheme could be envisaged to the benefit of both South Africa and themselves, in order to diminish the magnitude of the deficit by increasing the flow of exports from these countries to South Africa and thus to help them to gain means of payments for their imports from South Africa.

31. <u>The relation of South African gold to sterling viability</u>.

The United Kingdom representative pointed out that, in his view, the import restrictions to be imposed by the South African Government might have a profound effect on the amount of gold which the United Kingdom could earn by her trade with South Africa. Before the war practically the whole of current South African gold production had been sold in London and had provided one of the foundations of the international sterling system; South African net payments to the dollar countries had then been relatively small and a substantial net balance of the annual output of gold (which was then valued at about £90 million with a much higher purchasing power than now) remained to support the world-wide convertibility of sterling. If the import restrictions to be imposed by South Africa were such as to endanger the United Kingdom's prospect of earning a considerable part of the current South African gold output the effect on sterling would be extremely serious, and the prospect of achieving "viability" by 1952-53, when Marshall Aid came to an end, would be gravely impaired. The effects of this would be felt not only by the United Kingdom and the sterling area but also by a considerable number of European countries who, in practice, use sterling as their principal international currency. These views were shared by certain other members of the Working Party.

32. The consequences of the possibilities as envisaged in paragraph 31 might, in the opinion of the United Kingdom representative, be so serious as to compel the United Kingdom to take the most drastic action to avert them. As the amount of gold earned by the United Kingdom from South Africa was determined by South Africa's net deficit on her sterling payments and receipts as a whole, the United Kingdom would be under the heaviest pressure to earn gold by maximising that deficit, and, though the United Kingdom Government would be most unwilling to take such action, it might find itself compelled by the circumstances to cut to a maximum all types of sterling payment to South Africa both on current and capital account. The United Kingdom representative stressed that this point was not in any sense made as a threat or for bargaining purposes but as one of the most important possible effects of the South African measures on the economies of other contracting parties which should be brought to the attention of the Union Government in the present consultation. In particular, the United Kingdom fully understood the need of the Union to keep its cost structure as low as possible and made no suggestion that it should spend its gold and convertible currency otherwise than to its own best advantage under conditions of full and free competition.

33. In connection with the statements set forth in paragraphs 31 and 32, attention was called to the terms of Article XII 3 (a) and of Article XIV 1 (a) recognising the problems of economic adjustment resulting from the war and requiring the CONTRACTING PARTIES to take full account of them.

34. The representative of the United States pointed out that, in his view, the considerations set forth in paragraph 31 provide no

justification for discrimination. The re-establishment of the United Kingdom's pre-war position in the South African market, on a sound competitive basis, would, of course, be of great assistance to its balance of payments. But true "viability" for the British economy, and the re-establishment of sterling convertibility, cannot rest upon discriminatory access to export markets. Whatever immediate support the United Kingdom balance of payments might appear to derive from discrimination would, according to the provisions of GATT, be abruptly removed when South Africa overcame its current difficulties, or decided that its interests would be better served by discontinuing discrimination. In any event, to the extent that the United Kingdom increases its gold receipts through a preferred position in the South African market, South Africa, whose financial difficulties are the central question under consideration in this consultation, would lose by securing fewer imports for its gold.

35. The United States representative further pointed out that, in his view, the considerations set forth in paragraph 32 likewise provide no justification for discrimination. Whether or not South Africa discriminates in its favour, the United Kingdom would have the same incentive to maximize its net claim on South Africa for gold, since its deficit in convertible currencies at present far exceeds any possible gold receipts from South Africa. There is no basis in the GATT for quantitative discrimination in favour of South African imports, so that the United Kingdom would not be free to regulate specially the quantity of imports from South Africa, whatever policy South Africa followed in the administration of its import restrictions. The same necessity for restricting capital movements in order to maximize gold receipts would be present, whatever South Africa's import control policy might be. Indeed, the reference to the adverse effects of capital movements from the United Kingdom to South Africa on the current gold receipts of the former

suggests the desirability of efforts to stimulate capital movements from countries in surplus rather than from a country itself in deficit. In this connection, the United States representative called attention to the fact that South Africa now permits sterling area investors freely to repatriate their capital, while denying the same opportunity to non-sterling area investors, thereby discouraging capital movements from the most available sources. Thus, the arguments set forth in paragraph 32 would appear to be irrelevant to the question of the wisdom of, or the justification for, discrimination on the part of South Africa, unless, indeed, they do suggest a "bargain" for mutual discrimination, either in trade or in capital movements. To seek to promote gold earnings by arrangements which essentially constitute mutual discrimination is to use a method which leads toward a bilateral structure of world trade, rather than multilateralism which offers the only real opportunity for countries now in deficit to balance their accounts at a level which will yield the highest living standards for their people. In general, it was submitted that the policies implicit in the argument set forth in paragraphs 31 and 32 of this report would hinder and delay the maximum development of multilateral trade, and would postpone the attainment of financial equilibrium on a sound and lasting basis, for the countries directly involved as well as for other countries affected. As the last sentence of paragraph 32 wisely suggests, South Africa should use its gold and convertible currency resources to its own best advantage, which, in the judgment of the representative of the United States, would be for the settlement of residual liabilities which cannot be liquidated through the use of less valuable inconvertible currencies available. With such an allocation of foreign exchange resources, there would appear to be no need for discriminatory measures to hamper the free selection of source of supply by South African importers under conditions of full and free competition. The views expressed in paragraphs 34 and 35 were shared by certain other members of the Working Party.

36. Token imports. At the opening of the consultation with South Africa in April, it was pointed out by some of the contracting parties that the South African Prohibited List did not make provision for the importation of the prohibited goods in minimum commercial quantities (Article XII, 3 (c) (ii)). The announcement made by the South African Acting Minister of Economic Affairs on 23 May (GATT/CP.3/31) indicates that at least in the early months after 1 July many more consumer goods, in addition to the products now in the Prohibited List, will be banned completely from importation into South Africa. When this matter was raised in the Working Party, the representatives of South Africa recognised the obligation in this respect contained in Article XII and indicated that they planned as soon as possible to make "due provision.......for token imports......as far as it is administratively possible to do so." (GATT/CP.3/WP.3/12). The Working Party recognised the administrative difficulties involved in the establishment of a token import procedure, particularly at a time when South Africa will find it necessary to make a major change in the administration of its import regulations. However, South Africa was urged to make arrangements at the earliest possible moment to permit minimum commercial quantities of otherwise excluded products to the extent necessary to prevent the impairment of regular channels of trade. With respect to the imports of commercial samples and of copies or samples needed for compliance with patent, trademark, copyright, and similar procedures, the South African representatives indicated that their Government was already meeting these requirements of the General Agreement.

37. Allocation of preliminary permits. Certain members of the Working Party called attention to the feature of the South African plan described in paragraph 24 of this Report which involves granting preliminary permits for the July-December 1949 period equal to 25 percent of 1948 imports

from the sterling area and 16 2/3 percent of imports from other areas. They recognised that the impact of licensing measures upon individual importers was essentially a matter of domestic concern. However, they pointed out that a quota allocation dependent upon the individual importer's choice of foreign source of supply in a past period necessarily had an impact on the future competitive opportunities of other countries in the South African market.

38. The South African representatives assured the Working Party that the existing procedure for allocating preliminary permits was simply designed as a quick method of getting the proposed plan of import controls into operation and while considering that the distribution of import permits between individual importers was wholly a domestic matter they intended to apply their import restrictions in such a way as to avoid unnecessary damage to the commercial or economic interests of any other contracting party.

B) Other possible methods for the application of import restrictions.

39. Although the Working Party agreed that a drastic reduction in imports would be necessary to correct the present disequilibrium in South Africa's balance of payments, strong doubts were expressed by some members of the Working Party as to the need for a discriminatory application of such corrective measures, while other members maintained that such need was clear. The Working Party noted that the South African representatives consired that their proposals set out in paragraphs 13 - 25 would be consistent with Article XIV paragraph 1 and Annex J of the General Agreement. The Working Party was divided on that issue.

40. In the course of that discussion, the following suggestions were put forward by various members of the Working Party:

a) non-discriminatory import measures.

(i) open licence system

41. Certain members of the Working Party suggested to South Africa that its problem of excessive imports could be met by the allocation of foreign exchange resources estimated to be available to categories of imports in the light of their essentiality through an open licencing system, whereby importers would be free to choose the source of supply. Such a procedure would fully meet the requirements of Article XIII, and would therefore not raise questions of discrimination.

42. The South African representatives stated that this procedure would be unacceptable, since they feared that the resulting pattern of imports might run so heavily in favour of imports from sources requiring payment in convertible currencies as to exhaust the available gold and convertible resources of South Africa, while leaving it with unexpendable balances of inconvertible currencies. This view was strongly supported by certain members of the Working Party.

43. In reply, other members stated that their computations indicated that, in the past, South Africa's convertible foreign exchange availabilities have always been large enough, proportionately, to meet the distribition of imports by source under unregulated conditions. Therefore, these members could see no basis for the fears expressed by the South African representatives. It was, however, suggested in the Working Party (without implying recommendation of such a change) that, if South Africa's payment arrangements were changed so that the proceeds of its exports to various countries with inconvertible currencies could not be used for purchases in other countries with inconvertible currencies, South Africa might be faced, in the case of particular inconvertible currencies, with balances which would tend to accumulate if import regulations were on an open licence non-discriminatory basis.

(ii) allocation of quotas on the basis of a representative period.

44. The Working Party further explored the possibility that South Africa could allocate country quotas under the provisions of paragraph 2 (d) of Article XIII.

45. The South African representatives took note of that possibility but considered that, except for a few bulk products, the administration of such quotas might present great difficulty. They also feared that allocation by quota would introduce an element of rigidity in their sources of supply which would militate against procurement from the cheapest source. They attached great importance to this latter consideration and held that their own proposals, which would provide for absolutely free purchase of approximately half their intended imports, afforded much better protection in this respect.

b) discriminatory import measures.

46. Some members of the Working Party pointed out that South Africa would be entitled under paragraph 3 (b) of Article XIV to adopt measures which would discriminate in favour of another country whose economy had been disrupted by war, provided that those measures did not depart substantially from the provisions of Article XIII and that they would be terminated by 31 December 1951. It was pointed out also that recourse to the provisions of paragraph 3 (b) of Article XIV would not prejudice the question whether recourse might not equally well have been had to other possibilities for discrimination provided for in the General Agreement, or preclude access to them. Various opinions were expressed as to the construction to be placed on the phrase "not involving substantial departure": whether and to what extent it would limit departures in terms of the number of countries whose exports would be favoured, the amount of trade affected or the margin of discrimination (price differences), or some or all of these.

47. The South African representatives undertook to submit to their Government the suggestions put forward by various members of the Working Party. They were confident that their Government would give serious consideration to those suggestions, taking due account of the administrative implications of the alternative methods proposed and of

the possible effects of the adoption of such proposals on the economy of South Africa.

VI <u>CONSULTATION WITH THE INTERNATIONAL MONETARY FUND</u>:

48. The new scheme which the Government of the Union of South Africa contemplates introducing on 1 July 1949 may involve certain changes in the exchange restrictions already approved by the International Monetary Fund. The representatives of the Union of South Africa confirmed the intention of their Government, as expressed in paragraph 8 of the interim report dated 12 May 1949, to discuss with the Fund any aspects of the scheme which affect exchange control.

49. The representative of the Fund stated that at this stage the Fund can only present the facts and data relevant to the balance of payments position of South Africa. Moreover, the Fund determines that, owing specially to the increased use of sterling exchange, the serious decline in the Union's reserves which occurred in 1948 has continued during the past months of 1949 and strong immediate remedial measures are necessary.

50. But with regard to the other financial aspects of all matters covered in this consultation and with regard to the possible frustrating effects which the contemplated trade measures may have on the intent of the provisions of the Fund's Articles of Agreement, the Fund cannot at this stage give a final opinion without having more detailed information about the plans that the South African Government may ultimately decide to adopt. Any conclusions the Fund may come to with regard to these matters will be communicated to the CONTRACTING PARTIES at the earliest possible moment.

51. The representative of the Fund declared that the Fund will keep under close review any discriminatory measures the Union of South Africa may ultimately adopt, and it will deal with any exchange or financial aspects these measures may imply in conformity with the Articles of Agreement of the International Monetary Fund.