

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

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WORKING PARTY D ON QUANTITATIVE RESTRICTIONS

TECHNIQUE FOR MINIMIZING THE PROTECTIVE  
INCIDENCE OF RESTRICTIONS IMPOSED FOR  
BALANCE OF PAYMENTS PURPOSES

Memorandum submitted by the United States Delegation

The United States Delegation has followed with considerable interest the deliberations of the Working Party regarding the protective aspects of import restrictions. To the extent that it is possible to define any consensus in the Working Party at this early date, it appears to the United States Delegation that the views of the group may perhaps be roughly summarized as follows: Apart from Article XVIII, the Protocol of Provisional Application, and certain minor exceptions, the provisions of the Agreement clearly prohibit the use of quantitative restrictions on imports for protective purposes. In the course of this discussion, the Working Party members have turned to the question of techniques for minimizing the protective incidence of balance-of-payments restrictions. In this discussion, most members have disregarded the question of the initial intent of the restrictions and have concentrated on their end effects.

The United States Delegation has welcomed this extension of the Working Party's deliberations as most constructive and realistic. It concurs strongly in the proposition suggested by another delegation that, in view of the provisions of the Agreement which call for a relaxation of restrictions as conditions improve, countries imposing such restrictions must constantly concern themselves with preparing their respective industries for such relaxation.<sup>1/</sup>

Accordingly, the United States suggests that the Working Party continue to review the various techniques which different members have suggested as means of minimizing the prospective

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<sup>1/</sup> Note the provisions of Article XII 2(b), which provide: "Contracting Parties applying restrictions under sub-paragraph (a) of this paragraph shall progressively relax them as such conditions improve, maintaining them only to the extent that the conditions specified in that sub-paragraph still justify their application. They shall eliminate the restrictions when conditions would no longer justify their institution or maintenance under that sub-paragraph."

incidence of balance-of-payments restrictions, and determine whether there is enough unanimity within the Working Party so that these techniques can be recommended with approval to the Contracting Parties. If a basis for agreement proves to exist, the Contracting Parties collectively might then commend these techniques to the individual contracting parties, as useful means for minimizing the protection which may be resulting from balance-of-payments restrictions.

In the recollection of the United States Delegation, the following techniques were suggested by various members of the Working Party:

1. One practice, emphasized by several delegates, was that the encouragement of investment should be avoided if it is of a type which could not survive without undue measures of protection beyond the period in which such restrictions were legitimately being imposed. Among other things, this would reduce the possibility that there might be a dearth of capital available for export industries.

2. Another suggestion was that responsible Government officials should seize every occasion to impress upon industries protected by balance-of-payments import restrictions, the impermanence of those restrictions and the fact that they could not be expected to remain beyond the period of balance-of-payments difficulties.

3. Still another suggestion was that the administration of balance-of-payments restrictions should be kept on an extremely fluid basis and should be adjusted to the changing balance-of-payments situation, thereby impressing upon the protected industries the impermanent character of the protection incidentally afforded by such restrictions. 2/

4. Another suggestion was that small amounts of products which otherwise would be excluded should be admitted in any case, in order to keep domestic producers "on their toes". 3/

Still other possibilities along these lines have occurred to the United States Delegation, which the Working Party might well include in its report. Among these are:

1. Avoiding allocated quotas, to the extent that such avoidance is possible in the light of the balance-of-payments position of the particular country, in favour of quotas which may be filled by more than one country. This practice will tend to maximize imports from the source willing to offer its product at the lowest price, and thereby will tend to discourage the development of less economic production among all the countries concerned.

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2/ These proposals are, indeed, implicit corollaries of Article XII 2(b).

3/ See Article XII 3(c)(ii)

2. Avoidance of narrow classifications and restrictive definitions of products eligible to enter under any given quota. Thereby, countries desiring to do so could concentrate foreign exchange expenditures on certain general classes of products which they consider most essential for the domestic economy, without giving undue protection to particular elements of domestic industry falling within the general class.