GENERAL AGREEMENT ON TARIFFS AND TRADE

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RESTRICTIONS BY AUSTRALIA ON IMPORTS FROM THE DOLLAR AREA

(To be read in conjunction with the submission by the United Kingdom Government describing the deterioration in the Sterling Area dollar position prior to July, 1949).

1. The recommendations of the Conference of British Commonwealth Finance Ministers held in July 1949 were formally approved by the Australian Government on 20th August, 1949.

2. As a first step towards implementing the recommendations relating to dollar import expenditures, the previously approved dollar import licensing budget, which covered all dollar goods other than petroleum products, was carefully reviewed and cut to the lowest figure practicable without repudiating commitments already entered into and without reducing the rate of issue of dollar import licences so steeply as to cause disruption of Australian industries.

3. In announcing these decisions in his Budget Speech on 7th September, 1949 (the relevant extracts from which are attached as Annex A), the Australian Treasurer said that although the full cut in dollar import expenditure could not be achieved immediately, the issue of dollar import licences would be tapered off in ensuing months so as to reduce the level of imports of goods included in the dollar budget to not more than 75% by value of the 1948 level as soon as possible.

4. He announced, at the same time, that the Government had also decided to explore the possibility of securing additional dollar finance outside the resources which were counted upon in the review of the Sterling Area dollar position made during the July 1949 Finance Ministers' Conference.

5. In October, 1949, the Australian Government arranged a drawing of $20m. from the International Monetary Fund. An extract from the statement made by the Australian Prime Minister in the House of Representatives on 20th October, 1949, announcing the drawing from the Fund and explaining its relationship to the recommendations of the July 1949 Conference is attached as Annex B.

6. A further statement attached as Annex C reproduces the table containing estimates of Australia's balance of payments with the Dollar Area which has been supplied to the International Monetary Fund in connection with the consultation with the Contracting Parties. A footnote to the table gives the f.o.b. value of imports into Australia from the Dollar Area in the first and second quarters of 1950.

7. An important point to be borne in mind in considering the level of Australia's imports from the Dollar Area since July 1949 is that, apart from any decisions to reduce the rate of issue of import licences, the flow of dollar imports would in any case have been affected by

(a) the price changes resulting from the September exchange rate movements; and

(b) the increasing availability of essential goods from Australian production, the United Kingdom and soft currency sources of supply.

ANNEX A

EXTRACT FROM 1949/50 BUDGET SPEECH BY THE AUSTRALIAN TREASURER IN HOUSE OF REPRESENTATIVES ON 7th SEPTEMBER, 1949

Under the (Marshall) Plan valuable progress has been made by the countries concerned and this could be expected to continue. But special difficulties have arisen. Although they have more goods to export, participating countries have not been able to sell as much as they had hoped, either direct to the dollar area or to countries which can pay in dollars. The position has been worsened by the business recession in the United States, which has made selling there more difficult, and in particular by smaller earnings from sales of raw materials, such as wool, cocoa, rubber and tin from which dollars are normally obtained.

The United Kingdom, which has led the way in post-war recovery and has herself given substantial aid to countries in Europe and elsewhere, has felt the full impact of these developments so that, despite great progress in her overall trade position, her dollar position in the past few months has seriously deteriorated. Both the value and the volume of her sales to dollar countries have fallen and so too have sales of certain raw materials from the Colonies which are an important source of earnings for the dollar pool.

When these adverse changes had become apparent, the Prime Minister of the United Kingdom, Mr. Attlee, invited Ministers from the Sterling Area countries of the British Commonwealth and from Canada, to attend a Conference in London in July at which the position would be reviewed. Following this invitation but before the Conference, there were discussions in which United Kingdom and Canadian Ministers and the Secretary to the United States Treasury, Mr. Snyder. had a part.

At the London Conference, where Australia was represented by the Minister for Defence and Post-War Reconstruction, Mr. L.J. Dedman, long-term aspects of the problem were considered and agreement was reached as to major objectives which should be pursued. In particular, it was thought that the central aim of all countries should be the achievement of a pattern of world trade in which the dollar and non-dollar countries should be able to operate within a single multilateral system, and that the strength and stability of sterling as an international currency should be a major goal.

The Conference also considered the immediate problem of stopping the drain on the gold and dollar reserves of the United Kingdom which are the central reserves for the whole sterling area. The United Kingdom Government had previously announced its intention to cut expenditure on dollar imports in 1949-50 by 25 per cent. as compared with the 1948 level. Representatives of the other sterling area countries agreed to recommend to their respective Governments action designed to achieve comparable results.

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The Government has decided to adopt the recommendations of the London Conference and, as already announced, has reduced allocations of licences in the September quarter for imports of goods from the dollar area. The aim is to reduce dollar expenditure on imports to 75 per cent. of the 1948 level as quickly as possible. This means that there will have to be a substantial reduction in dollar expenditure by Government Departments as well as cuts in practically all the major categories of commercial dollar imports. Dollar imports were already severely restricted in 1948. The reductions in the September quarter were the largest which could be applied immediately without causing severe disruption in Australian industries.

But the full 25 per cent. saving in dollar import expenditure will not be possible of achievement in 1949-50 because of the commitment represented by outstanding licences. Australia must play its full part in avoiding a further drain on the limited gold and dollar reserves of the United Kingdom and the Government is examining the possibilities of borrowing as a means to provide additional dollars. The Government recognises that this course may present difficulties. Generally, it has been adverse to increasing the long-term dollar commitments of Australia. There are various possible sources of dollar borrowing, and the matter will be decided in the light of all the circumstances.

ANNEX B.

AUSTRALIA'S DRAWING ON INTERNATIONAL MONETARY FUND

Extract from Statement by Prime Minister in House of Representatives on 20th October, 1949.

When Marshall Aid began in 1948, the gold and dollar reserves of the United Kingdom which are also the central reserves of the sterling area as a whole were $2,000,000,000. It was the declared objective of the United Kingdom Government to maintain reserves at about that level throughout the Marshall Aid period. However, during the June quarter of this year, there was a sharp increase in the sterling area dollar deficits. By the 30th June, the reserves had fallen to about $1,650,000,000.

It was this development which led to the calling of the conference of British Commonwealth finance ministers in London in July. This conference discussed the longer-term measures, which would be needed to correct the balance in trade and payments between the sterling area and the dollar area. The delegates of all countries represented recognised, however, that in the short-term the only means of checking the drain on reserves was to cut sterling area dollar expenditure to a level which could be financed from the dollar receipts currently available. The statistical survey made at the conference indicated that in 1949-50 the dollars currently available for the purchase of imports would not be sufficient to buy more than 75% by value of the goods bought from the dollar area in the calendar year 1948. The United Kingdom Government announced its decision to cut dollar imports into the United Kingdom in 1949-50 to 75 per cent of the 1948 level, and the representatives of other sterling area countries agreed to recommend to their respective governments that action be taken to achieve comparable results.

When introducing the budget on the 7th September, I informed Honourable Members that, in view of the extreme gravity of the position, the Government had accepted that recommendation. It was also accepted by all the other sterling countries of the British Commonwealth. However, as I also explained in the budget speech, a full 25 per cent saving in expenditure on dollar imports into Australia will not be possible of achievement in 1949-50 because of the commitment represented by outstanding licences. To have attempted to achieve so steep a reduction during the remaining months would have involved severe disruption to Australian industries. Given a somewhat longer period in which to make the necessary adjustments, however, it is considered that it will be practicable to reduce the rate of expenditure on dollar import to 75 % of the 1948 level without serious damage to our economy, particularly as a result of the increasing availability of supplies from the United Kingdom and other non-dollar sources.

Other British Commonwealth countries are, of course, confronted with somewhat similar difficulties, and it was agreed that any country which wished to do so could seek a dollar loan as an alternative to applying the full cut of 25 % in dollar import expenditure in 1949-50. Accordingly, the Government decided to explore the possibility of obtaining additional dollars from some source which would reduce our call on the gold and dollar resources of the United Kingdom. Various possibilities were considered, but the Government finally decided that, in all the circumstances, the most appropriate course would be to purchase from the International Monetary Fund the dollars required to meet a proportion of our current commitments. The Fund has agreed to an initial drawing by Australia of $20,000,000 which will be made available immediately to meet commitments falling due. The precise amount of additional dollar finance, which will be needed during the current financial year, will depend on the results which are actually achieved in limiting expenditure on dollar imports during the remaining months of the year. The position will be kept under close review by the Government and the question of further drawings will be considered as necessary.

I emphasise that the purchase of dollars from the Fund will do no more than enable us to meet commitments arising from the present restricted dollar import programme. Although it is proper to employ the dollars drawn from the Fund to provide temporary assistance while we are adjusting ourselves to greater dollar economies, we cannot regard them as permitting the purchase of additional dollar goods beyond those already provided in our present programme.

ANNEX C

AUSTRALIA'S BALANCE OF PAYMENTS WITH THE DOLLAR AREA

U.S. $ million.

	1947	1948	1949 I	II	III	IV	Total
Imports f.o.b. ∅	289	181	55	50	52	40	197
Other Payments	116 x	95	18	22	42	24	106
Exports f.o.b.	135	152	35	30	22	39	126
Other Receipts	52	31	19	8	9	9	45
Deficit	218	93	19	34	63	16	132
Gold Sales to U.K.	27 x	32	8	7	9	8	32
I.M.F. Drawings	-	-	-	-	-	20	20

∅ 1950 Imports f.o.b. have been as follows:-

1st Quarter - $39 million

2nd Quarter - $42 million

x Includes $12m. gold shipped to United Kingdom to meet I.M.F. and I.B.R.D. obligations