GENERAL AGREEMENT ON TARIFFS AND TRADE

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WORKING PARTY 8 ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

Report to the CONTRACTING PARTIES

1. The Working Party was asked: (a) to conduct consultations under Articles XII:4(b) and XIV:1(g); (b) to prepare a report under Article XIV:1(g) on the discriminatory application of import restrictions; and (c) to recommend procedures for the preparation of the report and for the conduct of consultations under Article XIV:1(g) in 1954. The present report is divided into three sections each dealing with one of these three matters. There is also an Annex containing more detailed notes on the individual consultations to supplement the general report in Section A.[1]

A. CONSULTATIONS UNDER ARTICLES XII:4(b) and XIV:1(g)

2. The Working Party noted that seven contracting parties had initiated consultations in accordance with the provisions of Article XIV:1(g) on the further retention of the discriminatory measures applied under the provisions of paragraph 1(c) of that Article or those of Annex J. These were Australia, Ceylon, Italy, New Zealand, Southern Rhodesia, the Union of South Africa and the United Kingdom. In addition, three similar consultations initiated in 1952, with New Zealand, Southern Rhodesia and the Union of South Africa, had been deferred at the Seventh Session and had not yet been completed. The consultations under Article XII:4(b) with Brazil, Chile, Finland, New Zealand, Southern Rhodesia, Sweden and the Union of South Africa had also been initiated in 1952 and deferred at the Seventh Session. Those with the Netherlands and Pakistan had been initiated in August this year.

3. Pursuant to the provisions of Article XV the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them regarding these consultations and in each case the Fund had accepted the invitation to consult. In view of the fact that certain consultations had been postponed at the Seventh Session and in anticipation of the possibility of similar occurrences this year, the CONTRACTING PARTIES, before referring these consultations to the Working Party had decided with respect to the consultations initiated in March 1953 and those deferred at the Seventh Session that if it should prove impossible to carry out any of them at the Eighth Session for the same reason that led to the postponement of consultations at the Seventh Session, the obligation on the part of the contracting party concerned to consult should be regarded as having been

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[1] The Working Party suggests that this Annex should not be made public along with the main part of the report upon the "derestriction" of the latter.

fulfilled. The other two consultations had been initiated to take place at the Eighth Session provided the Fund would then be ready to consult with the CONTRACTING PARTIES. The Working Party was therefore asked to conduct only those of the consultations initiated regarding which the International Monetary Fund was ready to consult with the CONTRACTING PARTIES pursuant to Article XV.

4. At the plenary meeting the Netherlands representative had announced that owing to the satisfactory development in the balance of payments and monetary reserve position the Netherlands Government had decided to relax its restrictions on imports from the dollar area. The Working Party was informed that as a first step the Government had published a list of items to be imported free from restrictions and that the quotas for the items remaining under restrictions had been increased. The free list would come into force on 15 October 1953 and other measures were contemplated for the near future. A copy of the list, which included some 75 items, was supplied by the Netherlands delegation for circulation to the contracting parties (W.8/17). The representatives of Canada and the United States welcomed this important announcement by the Netherlands Government and expressed gratification over the greatly improved internal and external financial position in the Netherlands which had enabled the Government to take these steps towards the eventual total elimination of restrictions and discrimination. In the view of the Canadian representative, the relaxations should result in important long-term benefits for the Netherlands economy and create a sound basis for moving to a régime entirely free from trade restrictions. It would also contribute in a significant way towards the achievement of the basic objectives of the Agreement. In view of this development, and having regard to the fact that the short time available since the initiation of the consultation had not enabled the Fund to prepare for that consultation, the Working Party agreed to recommend to the CONTRACTING PARTIES that the consultation be discontinued, and that the Netherlands obligation to consult under Article XII:4(b) be deemed to have been fulfilled.

5. At a special meeting of the CONTRACTING PARTIES on 19 October, the representative of the Union of South Africa announced that as from 1 January 1954 the South African import restrictions would be administered on a completely non-discriminatory basis by the issue of a single type of import permit which would be valid for purchases from any country in the world. The South African representative explained that this step was taken in the interest of reducing the country's cost structure by allowing importers to buy in the cheapest markets. The representatives of Canada and the United States welcomed this important decision of the South African Government, and expressed the view that the more liberal régime would strengthen the South African economy and would facilitate the eventual elimination of all restrictions.

6. The representative of the Fund informed the Working Party that a substantial change had occurred, effective 12 October, in the Brazilian exchange system which had required a further detailed study by the Fund and had made it impossible for the Fund to conclude its Article XIV consultation with Brazil at the time expected. Accordingly, the Fund was not prepared at this time to give the results of its 1953 Article XIV consultation with Brazil. The Fund representative stated that it was anticipated that the material from the Fund's 1953 consultation with Italy

could not be made available to the CONTRACTING PARTIES until around the latter part of October, that the Fund had not completed the preparation of the material on New Zealand, and that, with respect to the Union of South Africa, it was not anticipated that the Fund would be in a position to provide material to the CONTRACTING PARTIES during the Eighth Session. Consequently the Working Party only proceeded with the following consultations:

Under Article XII:4(b)

Chile
Finland
Pakistan
Sweden

Under Article XIV:1(g)

Australia
Ceylon
United Kingdom

Under both provisions

Southern Rhodesia

7. The representative of the Fund participated in all the consultations conducted by the Working Party. The Working Party in each case took into account the results of the Fund's Article XIV consultations with the government concerned and referred to the background material prepared in connection with the Fund's consultation. In the course of the consultations extensive use was made of these data supplied by the Fund.

8. As in last year's consultations, the representatives of the consulting governments were willing to discuss all aspects of their import restrictions, irrespective of the provisions of the Agreement pursuant to which the consultation was initiated. They amplified in the course of the consultations the information furnished concerning the restrictions and their discriminatory application. Questions were put by members of the Working Party on the various aspects of the restrictions and in each case the consulting government's representative showed the utmost readiness to answer these questions and provide additional data. Further, the representatives of the governments whose restrictions were the subject of the consultations indicated that they had taken full note of the views expressed by the representatives of other contracting parties and that these views, in some cases including specific requests and recommendations, would be conveyed to their respective governments for sympathetic consideration. Generally, there was a full and frank discussion on all questions on which members of the Working Party showed an interest. A detailed note on the consultations with each of the eight governments is given in the Annex (these notes contain confidential information).

9. In conducting these consultations, the Working Party has arrived at certain general conclusions. As has been pointed out by representatives at the plenary meeting, there has been a marked improvement in the world dollar situation in the past year. Although this improvement has been achieved with the help of certain temporary and artificial factors, including continued restrictions against imports from the dollar area and the heavy volume of United States off-shore purchases

and military and other expenditures abroad, it appears to have been due in large part to the operation of more fundamental causes. The lessening of inflationary pressures in many countries has reduced the high demand for imports and the supply situation of many goods has been eased owing to increased production in the non-dollar world, where improved productivity and more stabilized costs in many countries have made their products more competitive with those from dollar sources. The falling of non-dollar prices more into line with dollar prices has helped to lessen the risks of moving towards the non-discriminatory application of restrictions. At the same time, the sustained high level of economic activity in the dollar area has maintained and expanded imports from the rest of the world. Some of these more fundamental factors to which the improvement can be attributed seem likely to be enduring and to this extent should provide an opportunity for making an advance towards a system of international trade free from restrictions and discrimination. On the other hand, if the goal of world trade on a fully balanced and self-sustaining basis is to be achieved, both creditor and debtor countries will have to pursue appropriate policies. It is gratifying to note that serious consideration is being given by the governments of certain important countries to the formulation of consistent policies in this field, and that a renewed and vigorous determination to pursue policies leading to the achievement of the basic objectives of convertibility and multilateral trade has been manifest both in the pronouncements and action of many governments.

10. In reaching these general conclusions the Working Party noted that not all countries shared in the overall improvement in the world payments situation. In particular some of the countries dependent on the production and export of primary commodities have in fact experienced a deterioration in their external financial position associated with a decline in the prices of their basic exports. These countries have been unable to make rapid adjustments in their demand for imports in the face of a decline in their export earnings. The Working Party noted that these difficulties became more acute in cases of countries which were engaged in large development programmes.

11. The Working Party noted the endeavours which had been made in the past year by those contracting parties whose balances of payments had improved, to reduce restrictions and discrimination. However, it also noted that there are further steps that many of the governments applying restrictions might be able to take to reduce the harmful effects of the restrictions. For example, a complete prohibition is still maintained by many countries on the import of certain "non-essential" goods, especially from the hard-currency areas, in spite of the obligation undertaken by the contracting parties "not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade."

12. The 1952 report on the discriminatory application of restrictions had noted that discriminatory restrictions could not in themselves be regarded as providing a satisfactory solution to balance-of-payments difficulties. "At most, they may prevent a further deterioration in a country's reserve position (or in the case of a contracting party with very low monetary reserves, permit it to achieve a

reasonable rate of increase in its reserves,) pending the adoption of fundamental corrective action. When maintained for long periods, their effect on a country's industry and trade may even accentuate the balance-of-payments difficulties and prolong them". That report also drew attention to the relationship between internal monetary and fiscal policies pursued by governments and their balance-of-payments position. In several cases, substantial improvements in the external financial position had been noted consequent upon the introduction of policies aimed at achieving and maintaining internal economic stability. The Working Party was gratified to note that in the period now under review these conclusions had been further confirmed by developments in an increasing number of countries. It is no accident that those countries which have been most successful in controlling inflation should have made the greatest progress in overcoming their external economic problems. Last year's report also stressed the undesirable effects of import restrictions and the inherent dangers of discrimination. The Working Party was of the impression that in the past year those contracting parties which pursued policies of reducing discrimination and import restrictions, especially in the fields of raw materials and basic foodstuffs, obtained substantial benefits by way of lower import expenditure and increased competitive power, with a favourable effect on their overall balances of payments.

13. The Working Party hereby reports that the consultations enumerated in paragraph 5 above, have been concluded, and recommends that it be recorded that the obligation of all the contracting parties named in paragraph 2 to consult under Articles XII and/or XIV, has been fulfilled.

B. REPORT UNDER ARTICLE XIV:1(g) ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

14. Under paragraph 1(g) of Article XIV, the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of the Agreement allowing the discriminatory application of import restrictions maintained for balance-of-payments reasons. The Working Party was instructed, in paragraph 2 of its terms of reference, to draw up the report on behalf of the CONTRACTING PARTIES. The present section of the Working Party's report has been drafted on the assumption that, upon approval by the CONTRACTING PARTIES, it will constitute their 1953 report required by Article XIV:1(g).

15. In the statements submitted by them in the middle of 1953 in response to a questionnaire, twenty-two of the thirty-three contracting parties to the Agreement stated that they maintained restrictions on imports to safeguard their balances of payments and were exercising some degree of discrimination between sources of supply as permitted under paragraph 1(b) and/or 1 (c) of Article XIV or under Annex J; these were:

Australia	France	Norway
Austria	Germany	Pakistan
Brazil	Greece	Southern Rhodesia
Burma	India	Sweden
Ceylon	Italy	Turkey
Chile	Netherlands	Union of South Africa
Denmark	New Zealand	United Kingdom
Finland		

The Governments of Czechoslovakia and Indonesia have stated they do not resort to the provisions of Article XIV of the Agreement. Nine contracting parties, namely Belgium, Canada, Cuba, Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States, have reported that they are not restricting imports for balance-of-payments reasons.

16. This section is based on material supplied by the International Monetary Fund, statements received from the governments applying discrimination and data gathered from other sources, as well as on discussions with the delegations attending the Eighth Session of the CONTRACTING PARTIES in October 1953. Another source of information has been the consultations taking place between the CONTRACTING PARTIES and individual governments during the Eighth Session pursuant to certain provisions of the Agreement, at which the purposes and policies of the discriminatory restrictions applied by certain governments were elucidated, and the information submitted in writing was amplified or clarified. In order to avoid a repetition of what has been said on this subject on three previous occasions, the section is devoted principally to an examination of the changes that have taken place in the discriminatory practices of governments since the writing of the last report in October 1952.

17. When the third report was drawn up in October 1952, the CONTRACTING PARTIES found that the general trend had been the intensification of import restrictions. In the period covered by the present report, however, the general tendency of intensifying import restrictions was first arrested, and then reversed. Many of the countries which had intensified their import restrictions in the previous year to meet an emergency situation brought into effect various measures to reduce the more sharply felt incidence of the restrictions. As the year went by, definite steps of relaxation were taken by some countries whose balances of payments had improved. However, this trend was not universal, as the external financial position of some countries did not improve and new restrictions were in some cases introduced.

18. Among the sterling area countries, the United Kingdom began a process of relaxation with the announcement of the quotas for licensed imports from soft-currency countries for the first half of 1953 and a further step in this direction was taken in April 1953 when imports from Western Europe were further liberalized, and increased quotas were provided for the second half of 1953. In taking these measures, the United Kingdom Government had particularly in mind the importance of the traditional trade with Western European countries and the need to relieve the difficulties then experienced by France and Italy

partly as a consequence of the United Kingdom restrictions. In the case of Australia, some relaxations of the import licensing restrictions took place towards the end of 1952 and at the beginning of 1953. Further relaxations were introduced in April 1953, when the percentages of permitted imports were increased. Additional relaxations of the same nature took effect in July and October. In Western Europe the trend continued in the direction of liberalization of soft-currency imports. Most countries were able to maintain the level of liberalization previously reached and in certain cases, increased percentages of liberalized imports were announced.

19. The relaxations mentioned above related almost exclusively to imports from countries outside the dollar area. With the improvement in the general dollar payments position the administrative control of imports from the dollar area in some cases has been applied with less severity and conditions for the granting of licences have been less stringent. Public announcements of a change in the dollar import policy have been made by relatively few governments. However, Greece was able to dispense completely with licensing restrictions on imports irrespective of origin, and the Netherlands announced in September 1953 measures to relax its restrictions on dollar imports. The United Kingdom continued its policy of reducing discrimination in the import arrangements for essential food and raw materials. In the raw material field, by September 1953 unrestricted importing from all sources had been permitted for softwood, pitwood, copper, lead, zinc and a number of minor raw materials. A similar policy has been introduced for some foodstuffs; for example, the trade in cereals has been returned to private import arrangements under non-discriminatory open licences. The import of raw cotton from the dollar area has remained controlled but the proportion of raw cotton taken from the dollar area has increased. Most other raw materials subject to control have been licensed more freely than before and some, e.g. aluminium and nickel, have been returned to private import. Furthermore, the re-opening of the London Metal Exchange for international commodity dealings has enabled unhampered trade in copper, lead and zinc irrespective of sources of supply or destination. In July 1953 Southern Rhodesia relaxed its restrictions and reduced their discriminatory incidence; a wide range of goods was placed on the unrestricted list for importation from any currency area, import quotas for goods remaining under restriction were increased, and new quotas were provided for other commodities. In October 1953 the Government of the Union of South Africa announced the total elimination, effective from the beginning of 1954, of discrimination in the application of its import restrictions.

20. The general improvement in the world payments position was not shared by certain primary commodity producing countries, and in the period under review import restrictions were maintained or intensified by some of them which continued to experience reduced or low levels of export earnings. In the sterling area, Ceylon maintained at approximately the same level the import restrictions which had been intensified in August and September 1952. In the summer of 1952 Pakistan had removed a large number of items from the open general licence. In

November the controls were further tightened by the total cancellation of the OGL. The import schedules announced in March 1953 indicated that the restrictions had been intensified, and imports from the dollar area were limited to highly essential goods. In Latin America, Brazil tightened its import restrictions by several steps in 1952 and 1953. Due to the necessity to make speedy repayments of trade arrears and despite the sacrifice to the country, the Government announced in July 1953 that imports in the following six months would be reduced to well below the level of the country's essential requirements. In the case of Chile, the fall in the earnings from copper exports continued, and the Government adopted a comprehensive plan embracing both short-term and long-term measures for dealing with the difficulties. In the meantime, severe import restrictions were being maintained to limit external spending to essential imports. In Europe, Finland and Sweden were faced with the same problems of declining or low export earnings. Among them, Sweden had to continue to maintain its restrictions on dollar imports although it had been able to liberalise its imports from soft-currency countries. In the case of Finland, the restrictions remained severe and were generally applied to all imports.

C. ARRANGEMENTS FOR THE PREPARATION OF THE REPORT AND CONSULTATIONS UNDER ARTICLE XIV:1(g) IN 1954

21. Pursuant to paragraph 3 of its terms of reference, the Working Party considered that the appropriate procedures which should be adopted by the CONTRACTING PARTIES for the conduct of consultations, and for the preparation of the fifth annual report on discrimination, under Article XIV:1(g) in 1954.

22. The Working Party considers that the arrangements made for the preparation of the fourth annual report in 1953 have worked satisfactorily, and that similar arrangements should be made in 1954. For the preparation of the 1953 report, governments applying discriminatory restrictions were asked to provide a comprehensive reply to the questionnaire drawn up at the Seventh Session. For the report of 1954, the Working Party considers that it will be sufficient if these governments will provide a supplementary statement at the appropriate time to bring up to date the information they supplied in 1953. The Working Party therefore recommends that the contracting parties continuing to apply restrictions in a discriminatory manner be asked to submit a statement three months prior to the opening date of the Ninth Session on any changes and developments which may have taken place since the submission of their replies to the questionnaire of 1953.

23. Governments continuing to take action under the provisions of Article XIV:1(c) or of Annex J beyond March 1954, will be required to consult with the CONTRACTING PARTIES pursuant to Article XIV:1(g). It is proposed that the CONTRACTING PARTIES adopt for the conduct of any such consultation which may be initiated in March 1954, the same procedures that were used in 1952 and 1953. Such governments should initiate their 1954 consultations in March 1954. The Executive Secretary should be instructed to inform the contracting parties and the International Monetary Fund at the end of March 1954 of the governments which

initiated consultations and to invite the Fund to consult with the CONTRACTING PARTIES in connection with these consultations pursuant to Article XV. It is again considered that these consultations could be more effectively carried out if, before the opening of the Ninth Session, the Fund would make available to the CONTRACTING PARTIES the results of its own 1954 consultations with the same governments, together with the background papers prepared in the Fund in connection therewith.

ANNEX

REPORTS ON THE CONSULTATIONS UNDER ARTICLES XII:4 (b) and XIV: 1 (g) CONCLUDED AT THE EIGHTH SESSION

AUSTRALIA

Consultation under Article XIV: 1 (g)

1. The Working Party heard a statement by the representative of Australia on the difficulties in its balance of payments which made it necessary for Australia to continue to have recourse to the provisions of Article XIV and to maintain the discrimination in its restrictions against imports from the dollar area. As the Fund had pointed out in the results of its 1953 consultations. Australia remained in deficit with the dollar area despite the improvement in Australia's overall balance of payments. Latest estimates showed that Australia's dollar deficit in 1952/53 was lower than in 1951/52, but was still substantial at $64 million. United States and Canada purchases amounted to $150 million compared with $193 million in 1951/52. Exports of Australian wool to the United States totalled only 268,000 bales valued at $67 million, as against 548,000 bales valued at $130 million in the previous year. Australian imports from the dollar area amounted to $240 million in 1952/53 compared with $302 million in 1951/52. The improvement in invisibles was due to a combination of factors including reduced freight expenditure on the lower level of imports, larger receipts from premium gold sales and a smaller dollar component in Australia's imports of petroleum products. The increase on capital account was also due to various factors and seemed to have included a small net inflow of private capital. During the year a purchase of $30 million was made from the Fund and drawings amounting to $38 million were made under Australia's two loans from the International Bank. Net drawings on the sterling area dollar pool amounted to $12 million.

2. Australia's dollar import restrictions continued to be administered in the manner previously described to the CONTRACTING PARTIES. Licences for imports from the dollar area were issued only for essential goods which were not available from other sources in adequate quantities or on reasonably comparable cost and delivery terms. Australia's dollar imports had, however, suffered much less than non-dollar imports from the import restrictions put into force in the first half of 1952. Dollar imports in 1952/53 were 20 per cent less than in 1951/52, but non-dollar imports had been 56 per cent less. Compared with 1950/51 non-dollar imports had been 39 per cent less, but dollar imports actually 37 per cent greater; the dollar area had supplied 11 per cent of Australian imports in 1950/51 and 12 per cent in 1951/52, but in 1952/53 it had supplied 21 per cent. The progressive relaxations of non-dollar import restrictions in 1953 might be expected to restore the geographical pattern of imports. During 1952/53, the Australian authorities had paid particular attention to the relative costs of dollar and non-dollar imports. As the overall balance of payments problem and the anti-inflationary policy made it more desirable to keep the cost of imports

low, dollar licences for essential goods were not withheld when substantially higher prices prevailed in other sources of supply. This policy had been made less difficult, however, by the marked tendency for non-dollar prices to fall into line with dollar prices.

3. Prospects for Australia's dollar position in 1953/54 were not yet clear. The country's dollar outlook was bound up with the outlook for the whole sterling area. As for Australia's own bilateral dollar balance of payments, the prospects depended chiefly on American demand for wool and the price at which the purchases would be made. In 1951/52 wool had accounted for 73 per cent of total Australian exports to the dollar area, and more than 50 per cent in 1952/53. Whilst it was hoped that American purchases would be larger than last year, it was too early to form a view, because United States buyers at the Australian auctions did not begin their main operations until later in the season when the types of wools they required came on the market in larger quantities. The Australian representative concluded his statement by assuring that it was the policy of the Australian Government to keep the restrictions on dollar imports continuously under review and to make such modifications as were necessary in the light of developments in the balance of payments with the dollar area.

4. The representative of the International Monetary Fund informed the Working Party of the results of the Fund's 1953 consultation with Australia pursuant to Article XIV, Section 4, of the Fund Agreement, which had been transmitted to the CONTRACTING PARTIES as relevant for their consultation with Australia, together with a background paper prepared in the Fund. These results were as follows:

> The Government of Australia has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
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> In the financial year of 1952/53 there was a considerable improvement in the Australian balance of payments and a marked increase in reserves. Despite the over-all improvement, Australia remains in deficit with the dollar area. Australian international reserves are held largely in sterling, and are no longer low. This improvement was in part achieved by the severe intensification of import restrictions against the non-dollar world imposed in 1952.
>
> The Fund notes that, as a result of monetary, fiscal and other measures taken by the Australian Government, internal inflationary pressure has abated and a state of near balance in the economy was achieved in 1953. The Fund notes the rise in money supply and bank liquidity which might give rise to inflationary pressure in future. It recommends the continuance of monetary and fiscal policies designed to prevent the resurgence of inflationary pressure.

The Fund notes that the Australian Government has responded to the improvement in its position vis-à-vis the non-dollar world by relaxing restrictions against imports. It notes that restrictions against the dollar area are being reviewed. It welcomes the renewed assurance of the Australian Government that it regards its restrictions as temporary and that it attaches great importance to the achievement of convertibility and multilateral trade on the widest basis. It considers that if the Australian balance of payments and reserve position continues to develop favourably, there will be scope for the further relaxations of restrictions.

In concluding the 1953 consultations, the Fund has no further comment to make on the Australian restrictions maintained under Article XIV of the Fund Agreement.

5. It was suggested by a member of the Working Party that the problem of the dollar deficit would be more advantageously solved by an expansion of exports to the dollar area rather than by the continued restriction on imports therefrom. The Australian representative commented on some of the difficulties experienced in expanding Australia's exports to the dollar area.

6. In discussing the discriminatory application of Australia's import restrictions, the representatives of Canada and the United States referred to the fact that in spite of the general improvement in its balance of payments, a marked increase in reserves and a reduced dollar deficit, Australia had apparently not taken any measures of relaxation regarding imports from the dollar area. They noted that the import of a wide variety of "non-essential" goods remained completely prohibited from the dollar area. Under the provisions of Article XII:3(c) the contracting parties applying import restrictions were expected not to prevent unreasonably the import of minimum quantities of goods the exclusion of which would impair regular channels of trade, and to avoid unnecessary damage to the commercial and economic interests of other contracting parties. The readiness with which Australia had responded to the improvements in its general balance-of-payments position by relaxing restrictions against non-dollar imports was most encouraging and it was noted that it was the policy of the Australian Government to keep the dollar restrictions constantly under review. It was hoped that a scheme of token imports or some similar arrangements for minimum quantity imports could be introduced for dollar goods so as to avoid further impairment of regular channels of trade and any permenent distortion of the normal trade pattern. The United States representative further pointed out that the recent fall in the prices of non-dollar goods more into line with those supplied from the dollar area would ensure an easier working of the normal market mechanism and reduce the risks involved in relaxing dollar import restrictions.

7. The Australian representative thought that it was incorrect to say that there had been no relaxation of dollar import restrictions. Dollar import control in Australia was effected through administrative consideration of individual applications for licences. When the dollar position was at its worst goods obtainable from non-dollar sources could not be licensed for importation from the dollar area even in cases where the cost of the non-dollar goods was much greater. With the relative improvement in the dollar situation, however, this policy had been modified and, so far as essential goods were concerned, licences were not now refused for imports from the dollar area unless equivalent non-dollar goods were available at competitive prices. The call on Australia's dollar resources had been heavy on account of the urgent need for the developmental types of goods from the dollar area and the Government had up to now not considered it justifiable to introduce a token import scheme for goods of dollar origin. The representative of Australia stressed that the import programme was kept constantly under review, and stated that he would bring the views of the United States and Canadian representatives on minimum commercial imports to the attention of his Government for consideration.

CEYLON

Consultation under Article XIV:1(g)

1. The Working Party heard a statement from the representative of Ceylon in which he outlined the balance-of-payments position of the country, the internal financial measures recently adopted by the Government and the discriminatory import restrictions. It was stated that in the critical year of 1952 the external assets of Ceylon had fallen rapidly, by Rs.357 million to Rs.890 million at the end of the year, the lowest level ever reached in the postwar years. The fall continued in 1953 and the reserves had reached the low level of Rs. 719 million by the end of June. This loss of reserves was mainly due to the heavy deficit of Rs. 493 million on current account in the eighteen months. The most striking phenomenon had been the change from a trade surplus of some Rs. 330 million in 1951 to a deficit of about Rs. 200 million in the following year, and this was attributable to the lower prices of Ceylon's exports and higher prices for its imports. The price of rice, the largest single item in the import bill, was 38 per cent higher in 1952 than in 1951, and in general, the terms of trade worsened from 104 in 1951 to 75 in 1952. Although the adverse trade and payments conditions had become evident early in 1953, the Government had hesitated taking any drastic measures until the third quarter of the year. The intensification of import restrictions in August and September 1952 had been the subject of a consultation at the Seventh Session.

2. It would be recalled that under the favourable circumstances of 1951 Ceylon had almost completely removed all import restrictions. The restrictions imposed in the summer of 1952 had since remained in force and so had the other measures taken at that time, namely the increase in import duties on less essential products, the surcharges on income tax and the strict control placed on government expenditure. The Government had found that the restrictive measures in themselves could not, and in fact did not, deal effectively with the fundamental causes of the disequilibrium in the external financial position of the country, and other measures were therefore taken in the fiscal and monetary fields. The proposition that an imbalance in the external payments position must be solved in a large measure by pursuing correct internal fiscal and monetary policies rather than by taking restrictive measures alone was of particular relevance to a country such as Ceylon, where the import pattern is such that the scope for restricting imports was strictly limited. Of the Rs. 1,700 million imports into Ceylon in 1952, Rs. 1,400 million were essential imports such as food, clothing, building materials, fertilisers and vehicles. Of the remainder, almost Rs. 200 million represented semi-essential imports and only Rs. 100 million (i.e. about 6 per cent of the total) could have been subjected to import restriction without causing serious disruption to the economy.

3. One of the important internal fiscal measures recently taken by the Ceylon Government with a view to removing the fundamental causes of the external disequilibrium was the elimination of subsidies. One of the largest items of governmental expenditure in recent years had been the subsidies on essential foods, mainly rice; in 1952 Rs. 300 million, equivalent to almost 30 per cent of total revenue, were spent on food subsidies alone and this

sum had not been derived from taxes but from a budget deficit. The decision of the Government to stop supporting a level of consumption beyond the means of the country, though justifiable on sound financial grounds, was nevertheless a politically courageous act. The recent elimination of the subsidies had resulted in an increase of over 200 per cent in the retail price of rice. In addition, steps had been taken to scale down social services, to slow down the pace of development, to increase income taxes and other sundry revenues. These measures were expected to enable the budget to be balanced and to dampen inflationary pressures.

4. The discriminatory element of Ceylon's import restrictions consisted in the more severe restriction of imports from the dollar area, and also, to a lesser extent, of imports from the EPU countries. The restrictions against imports from the dollar area were largely in respect of non-essential items such as confectionery, beer and ale, radio receivers, musical instruments and similar types of goods, and in respect of textiles on account of alternative sources of supply being available. Ceiling values were fixed for these restricted items on the basis of the imports of the respective goods in previous years. The reasons for maintaining these restrictions in spite of a dollar surplus were, first, to assist the Central Bank of Ceylon to build up an independent dollar reserve, and, second to meet the uncertainty in the food supply situation. In the past there had been occasions when substantial quantities of rice had to be purchased from the dollar area and this uncertainty, as well as the anticipated demand for dollar goods for developmental purposes, required cautious expenditure of the country's dollar availabilities. The discrimination against imports from the EPU area had been imposed because of the payments difficulties which had been experienced with those countries. As the position had now shown an improvement, the whole question of restrictions against EPU goods would be reviewed at the end of this year. In conclusion, the Ceylon representative drew attention to the fact that in spite of the improved payments position in 1953, there would almost certainly remain a substantial deficit on the overall balance of payments.

5. The representative of the International Monetary Fund referred to the results of the Fund's 1953 consultation with Ceylon, which had been transmitted to the CONTRACTING PARTIES as relevant for their consultation with that Government, together with a background paper prepared in the Fund in connection with its consultation. The results of the Fund's consultation were as follows:

> The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangement.
>
> The Fund notes that there was a serious deterioration in Ceylon's balance-of-payments position in 1952 and the first half of 1953, resulting in a sharp decline in its international reserves. Ceylon was in approximate equilibrium with the dollar area during the first half of 1953 with the

possibility of a small surplus by the end of the year. Ceylon at present is only slowly emerging from serious balance-of-payments difficulties and the equilibrium in its dollar position has only been achieved with the aid of intensified restrictions. In these circumstances the Fund considers that Ceylon needs to continue restrictions for the time being.

The Fund welcomes the vigorous fiscal and monetary measures recently undertaken by the Ceylon Government to achieve domestic equilbrium and improve the balance of payments position.

In concluding the 1953 consultations, the Fund has no further comments on Ceylon's restrictions maintained under Article XIV of the Fund Agreement.

6. The representatives of Canada, the United Kingdom and the United States expressed sympathy with the Ceylon Government on the continued difficulties in its balance of payments. They recognised that in the face of the seriously worsened terms of trade and the low monetary reserves, the Government was fully justified in maintaining the present import restrictions and discrimination. The representatives of Canada and the United States expressed satisfaction that the Government of Ceylon was fully aware of the limitations of import restrictions alone as a means of dealing with the difficulties in its external financial position and that it had taken steps to redress the fundamental causes of financial instability. The Ceylon Government should be congratulated for its courage in taking these difficult and unpopular measures, and it was to be hoped that they would before long contribute to a lasting solution of the difficulties confronting the country.

7. The representative of the Netherlands referred to the data supplied by the Fund which showed that Ceylon had in the first half of 1953 a surplus on current account with countries other than the American Account and sterling area countries. He expressed the hope that the promised re-examination of the discriminatory restrictions against imports from the EPU area would result in a conclusion favourable to these countries.

8. The representative of Brazil expressed the view that the difficulties confronting Ceylon, in common with those experienced by all under-developed countries, were fundamentally of a long term nature and could not be met by purely fiscal or monetary operations. The cure lay in a vigorous development of the resources of the country through industrialisation and diversification of production in order both to meet the domestic requirements and for international exchange. This being the case it was regrettable to see the progress of economic development projects of Ceylon to have been retarded by the recent deterioration in the external payments position, and developmental expenditure considerably scaled down.

9. Certain questions were put forward by the representative of the United States concerning the administrative aspects of the import restrictions. In reply to these questions the representative of Ceylon states that for those imports from the dollar area which it was the intention of the Government to restrict by quantity or value, ceiling values were fixed in advance and reviewed periodically. Although other dollar imports were also subject to licensing control and licences were said to be issued at the discretion of the comptroller, licences were in fact issued without limitation. Such goods were kept under licensing control for a variety of reasons, such as to ensure a close surveillance of the transactions, to enable prompt changes to be made in the import policy in case of need, and to collect statistical information. The representative of the United States suggested that in accordance with the provisions of Article X of the Agreement as much publicity as possible should be given to the ceiling values as well as any administrative regulations, and that if this were considered impracticable it would still be useful to publish, at the expiration of each licensing period, accounts of the actual imports of the items remaining under restriction. The representative of Ceylon agreed to the usefulness of such information, and pointed out that the latter suggestion of the United States representative was being met by the very prompt publication in Ceylon of detailed customs returns which gave indication of the value of goods imported as well as the sources of supply and by the fact that the items under restriction were common knowledge.

CHILE

Consultation under Article XII:4(b)

1. The representative of Chile made a statement in which he informed the Working Party of certain recent developments in Chile's internal and external economic position, the difficulties confronting the Government and measures taken or planned to overcome them. The principal preoccupations of the Chilean Government were to adjust imports in accordance with the exchange available for payments, and to direct investments in the interest of the basic and developmental needs of the country. Import restrictions had been relaxed as circumstances permitted; for example, the replacement in 1951 of the earlier import control by a new system had eliminated a considerable part of the restrictive element. In the 1952 foreign trade budget, 47 per cent of the allocations had been for imports free from restrictions.

2. In April 1952, the trade prospects had become uncertain as the sale of copper and the production of nitrates had shown signs of weakening. In view of this, the free import of goods had to be suspended; the imports previously classified for free importation were transferred to the other groups, and became subject to licence. This retrogression in the face of compelling circumstances could not be strictly regarded as an intensification. By taking over the selling of copper and by other measures the Government was able to raise the price of the product, and the increased receipts had enabled a substantial increase of imports. The international payments were balanced, foreign debts were serviced regularly, and the monetary reserves also increased. The situation was, however, obviously not a durable one. The price of copper had collapsed at the end of the Korean war and stocks had accumulated to about 100,000 tons. According to unofficial information the negotiations with the United States to find a solution had been made on the basis of a price of 29 cents per lb. which was 6.5 cents lower than the price estimated in drawing up the 1953 foreign trade budget, in which the total exchange receipts had been calculated at about $400 million. For this account alone and assuming that neither the price nor the volume would not fall below these levels there would still be a diminution of receipts by about $45 million. This loss of dollar earnings entailed a reduction in imports which meant among other things a loss of exchange profits and customs revenue. These ramifications would reach disquieting proportions if, as had been predicted by certain experts, the price of copper should fall below 29 cents in 1954.

3. The situation was all the more grave as almost the whole of Chile's dollar earnings was derived from the export of copper. In the foreign trade budget of 1953 the net exchange receipts from copper represented about 60 per cent of the estimated total external income. Furthermore, about 40 per cent of the exchange receipts were in non-dollar, mostly non-convertible, currencies. As for other products, neither nitrate, nor any other industrial or agricultural export of Chile was generally paid in hard currencies. This reduced considerably the possibilities of trade and often obliged Chile to confine its trade within limits set by bilateral arrangements, sometimes forcing it to deviate from the

principle of priority for essential imports. The difficulties of exporting these products had increased in the last months and resulted in a reduction of the receipts by about $32 million. In view of this and the expected decline on copper account of at least $31 million, a total reduction to the order of 61 million dollars had to be faced.

4. The instability in the copper market, the compelled selling of other products to non-convertible currency markets and the deficit in the overall balance of payments, were the predominant factors in the determination of Chile's import policy. At present, however, the main preoccupation of the Government was to redress the monetary inflation. Between 1946 and 1952, whereas the index of industrial production had increased by 33.8 per cent and that of agricultural production by 10.5 per cent, the index of cost of living had increased by 213.6 per cent, and that of wages by 254.5 per cent. The national income had increased by 286 per cent and budgetary expenditure by 383 per cent. Apart from its fiscal and economic effects, and its repercussions on political and social stability, the inflation exerted a continuous pressure on the balance of payments through a high demand for imports, especially in the non-essentials sector. The Chilean Government was aware that any action taken to combat inflation, to be effective, must be complete and systematic, covering all aspects of the problem. In this regard, a plan had been prepared, beginning with the replacement of the multiple exchange rate system with a single rate of exchange, fixed at 110 pesos per dollar. This rate had already been applied to imports, and the unification of exchange rates for export purposes would be effected as soon as legislation had been completed to compensate for the loss of revenue at present derived from exchange differentials, and to assist certain marginal exports at present enjoying preferential rates of exchange. Control of prices and distribution had been introduced for certain consumer goods whose prices were expected to rise as a result of the exchange rate adjustment, and provision was also made for an increase of wages by 15 per cent to cover the higher cost of living.

5. Apart from these immediate measures a long-term programme had been adopted, for the elimination, on a permanent basis, of the ills of inflation. In all these plans, emphasis was put on the fiscal and monetary measures, and one of the first steps to prevent the rise of prices was to reform the tax system. The second step was to reduce public expenditure by eliminating subsidies previously granted indiscriminately through the preferential exchange rates and through direct contribution by the Government to public enterprises. These measures would render possible a blaanced budget for 1954 and would enable the Government to avoid having recourse to the Central Bank. The monetary policy of the Government envisaged a strict restriction of currency circulation and bank deposits as well as a selective direction of credit. The latter objective would be achieved through instructions given to commercial banks to avoid granting credits for non-essential speculative purposes. At the same time, the State Bank would provide long and medium-term credits for investments in essential production.

6. The representative of Chile concluded that the situation in Chile remained critical and required great efforts to be made in the budgetary, fiscal and credit fields, with considerable patience, caution and sacrifice. While all these measures were being put into effect, it remained essential for Chile to limit its foreign expenditures to the level of the country's exchange earnings.

7. The representative of the International Monetary Fund referred to the results of the Fund's 1953 consultations with Chile, which had been transmitted to the CONTRACTING PARTIES as relevant for their consultation with that Government, together with two background papers prepared in the Fund in connection with its consultation. These results were as follows:

> The Government of Chile has consulted the Fund under Article XIV, Section 4 of the Fund Agreement concerning the further retention of its transitional arrangements.
>
> In the course of this consultation the Chilean Government presented to the Fund its general programme of monetary stabilization. This programme is intended to deal with the inflationary pressures which have continued to prevail in the Chilean economy, which have resulted in an intensification of trade and exchange restrictions. The Fund notes that a broad and co-ordinated programme of action in combatting inflationary pressures is being put into effect in Chile and considers that in general this programme is well conceived. However, the Fund is not in a position, at this time, to judge the efficacy of all the specific steps taken, or proposed, in various fields and wishes to emphasize that firm and energetic implementation will be essential, particularly as to adequate measures in the budget, fiscal and credit fields, to assure success of the plan. The Fund will closely follow the developments in Chile with particular reference to the stabilization plan.
>
> The Fund notes that during 1952 Chile was able to secure a moderate improvement in its balance-of-payments position as the result of an increase in export prices coupled with an intensification of import restrictions. The balance of payments continued in equilibrium during the first half of 1953; the prospects have deteriorated owing to the difficulties in selling Chilean copper at the prices obtained in the past. Under existing circumstances, it is necessary for Chile to limit its foreign expenditures to the level of the country's exchange earnings. The Fund understands that Chile is taking measures to export its commodities at world market prices.
>
> As part of Chile's general programme of monetary stabilization, the Chilean Government has presented to the Fund, for its approval, proposals for a gradual unification of the exchange system. On the selling side, the proposals, which required prior Fund approval, have already been put into effect; they involve the unification of the selling rate for private transactions (with certain exceptions, e.g., payments under certain payments

agreements, tourist expenditures and the imports at the so-called "gold rate") at the level of banking free rate of exchange (currently 110 pesos per U.S. dollar). The remaining items on the selling side will be shifted to the banking free rate in the near future. The structure of the buying rate is also to be unified in due course, after legislative approval has been obtained to the levy of additional taxation to offset the loss for the Government involved in such unification.

The Fund welcomes the progress made by Chile towards the unification of the selling rate and approves the measures taken in that direction. The Fund is looking forward to the prospective elimination of the remaining preferential selling rates and to the unification of the buying rates at the specific level of the banking free rate. Changes in the level of the banking free rate, which has been maintained at 110 pesos per U.S. dollar for some time, will require prior consultation and agreement with the Fund in accordance with the established procedures respecting multiple currency practices.

In concluding the 1953 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Chile.

The Government of Chile has submitted a request to purchase twelve and one half million dollars from the Fund. The Executive Board takes note of the statement of Chile that it will comply with the provisions of the Fund's decision of 13 February 1952. The Executive Board, having considered the request of Chile to purchase twelve and one half million dollars, expressed no objection.

8. The Fund representative informed the Working Party that the Chilean Government had proposed, and the Fund had concurred in, a change in the par value of the Chilean peso. The new par value of 110 pesos per dollar had come into effect on 5 October 1953. In connection with the requirements of Article XV:2 of the General Agreement, the Fund representative added that the import restrictions of Chile which were under reference did not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves which would occur if the restrictions were removed.

9. The representatives of Canada and the United States regretted that a deterioration had taken place in Chile's balance of payments. The difficulties confronting the Chilean economy, were only partly due to the recent decline in export earnings and more basically they were caused by the intense inflation. It was gratifying to note that the Chilean Government was firmly convinced of the need to re-establish internal economic stability and had adopted a comprehensive plan embracing both short-term and long-term measures for dealing with the difficulties. It was to be hoped that the implementation of this plan would contribute in a fundamental way to improving the financial and economic situation, and to developing the basic resource of the country, so that the country would be in a better position to proceed with trade liberalization.

10. In reply to a question on the nature of the direction of credit referred to by the Chilean representative, the latter stated that the direction of credit was aimed at channeling the financial resources of the country into productive and essential investments in the interest of economic development, and at reducing spending on luxuries and non-essential consumption. The tendency to spend on luxury goods was a phenomenon associated with inflation, and it was intended that by directing credit and by limiting the expansion of money circulation, excessive spending contrary to the interests of the economy would be avoided.

11. The Chilean representative agreed with the representative of India that the problem of inadequate reserves was particularly acute for countries dependent on only one or two commodities for their export earnings. In the absence of stability in the international economy the lack of diversified sources of income would entail wide and sometimes violent fluctuations in their external receipts, and whatever reserves might be built up in times of general prosperity could easily be wiped out when foreign demand slackened. The United States representative said that these difficulties were generally recognised. However, while diversification of industry and international price stabilization agreements - both of which might overcome these difficulties - are known to pose formidable problems, countries in the circumstances described do have it in their power, by controlling internal inflationary pressures, greatly to mitigate the damaging effects of fluctuating demand.

12. The United Kingdom representative, referring to the Chilean representative's statement that imports into Chile were restricted in accordance with currency availabilities, enquired whether the criterion was the general level of estimated exchange holdings and earnings, or whether imports from each currency area were regulated in accordance with the payments potition vis-à-vis that area. Specifically the question was whether an increase in earnings of convertible currencies, such as dollars, would be used for making purchases in countries with non-convertible currencies, such as the United Kingdom. In reply, the Chilean representative said that the main criterion in import control was the essentiality of the goods in question. Inasmuch as hard currencies could be used for payments in all areas, materials and capital equipment essential to the economic development would certainly be purchased from any source available under competitive conditions. The United States representative concurred in the view that purchases should always be made from the cheapest source and pointed out that certain essential goods, including agricultural machinery and electricians' tools, were being imported from soft-currency sources while prohibited from dollar countries, which was unjustifiable on currency grounds. The Chilean representative was not in a position to give the reasons for these measures in respect of specific goods, and said that they might be based on considerations of retaining markets for Chilean exports in the countries supplying such goods, of the lack of the currency of the country in which the purchase was made.

13. In the same connection the United States representative called attention to a resolution of the Chilean National Foreign Trade Council directing its local agencies to provide dollar coverage for the purchase of goods in soft-currency markets whose import from the United States was prohibited. The Chilean representative said that not being in possession of precise information on this matter he could only refer to the reply he had given above.

14. With reference to the provisions of Article XII:3(c), the United States representative enquired if the Chilean Government would consider the provision in the near future of exchange for the import of minimum commercial quantities of goods at present under prohibition, so as to avoid disruption of the normal channels of trade. The Chilean representative stressed the extensive urgent needs of the country in relation to the limited dollar earnings at its disposal, which made it not feasible to give an undertaking to import non-essential goods even in minimum quantities, especially those goods which had a high unit value. He would, however, convey the request of the United States representative to his Government for sympathetic consideration.

FINLAND

Consultation under Article XII: 4 (b)

1. The Working Party heard a statement from the representative of Finland in which he described the difficulties in the Finnish balance of payments and the circumstances requiring the continuation of the severe import control and restrictions imposed at the beginning of the war. In 1951 the considerable rise in the prices of the principal exports of Finland, in particular forest products, by favouring the country's balance of payments had enabled a higher level of imports to be admitted. This high level of imports continued well into the first quarter of 1952 when in fact the favourable phase of the export boom had long passed. During the second quarter of 1952 the policy of restricting imports strictly according to means available had to be reverted to. The policy was to purchase, within the limits set by bilateral trade agreements and to the full extent permitted by export earnings, from any source possible, without discrimination. A new development in recent months had been the diminution of the country's holdings of Western currencies coupled with an accumulation of balances on the clearing accounts with the countries of Eastern Europe. At present about one half of the reserves held by the Bank of Finland comprised currencies of these countries. Inasmuch as it was difficult to find suitable goods for importation from Eastern European countries any international measures which would help to increase the scope of currency convertibility would be welcome to Finland as they would increase her ability to import from the West. Though the volume of exports for forest products at present could be regarded as satisfactory, the prices were low and in fact every ton of wood pulp exported represented a loss because of the high costs of production which was one of the fundamental problems confronting Finland.

2. The representative of the International Monetary Fund referred to the results of the Fund's 1952 consultation with Finland, which had been transmitted to the CONTRACTING PARTIES in February 1953 as relevant for their consultation with that Government, together with a background paper prepared in the Fund in connection with its own consultation. In view of the time that had elapsed since that consultation, the Fund had prepared a supplementary paper providing more up-to-date information. The Fund representative pointed out that although the new paper gave no breakdown figures for Finland's foreign exchange holdings in different currencies, it contained a statement on the shift in the past year in the composition of Finland's monetary reserves in favour of the Eastern European currencies. The results of the Fund's 1952 consultation with Finland were as follows:

> The Government of Finland has consulted the Fund under Article XIV, Section 4 of the Fund Agreement concerning the further retention of its transitional arrangements.
>
> The Fund notes that Finland as a consequence of the reduced demand for its export products has suffered a serious decline in its foreign exchange reserves in the course of 1952. The Fund welcomes the various measures adopted by the Finnish authorities to achieve domestic stability and thus strengthen the balance-of-payments position.

> The Fund welcomes the endeavours of the Finnish authorities further to reduce the volume of trade transactions taking place on a compensation basis.
>
> The Fund also takes note of the recent decision by the Bank of Finland to discontinue on December 31, 1952, the retention of foreign exchange on account of exporters' receipts and agents' commissions.
>
> In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Finland.

The Working Party was informed that, pending the Fund's 1953 consultation, the Fund saw no reason to alter the appraisal of the situation contained in these results.

3. The Working Party discussed the compensation accounts arrangements, which in 1951 had accounted for 1.6 per cent of Finnish imports, and which, according to the representative of the United States, now covered 9 per cent of her trade. The United States representative enquired as to the nature of these arrangements, the types of commodities traded under this device, the criteria used in granting licences and the reasons for the higher surcharges imposed on imports from the United States compared with those on imports from other countries. The Finnish representative stated that the present Clearing Centre had been set up in the Spring of 1953 as a co-operative among exporters and importers, without the participation of the Finnish Government. Its purpose was to promote trade, especially to overcome the difficulties caused by the relatively high prices of Finnish exports compared with those in its export markets, and by the shortage of Western currencies needed to finance imports. The Finnish Government believed that the arrangements did not involve any discrimination as between sources of supply, and that they did not in any way interfere with the normal flow of trade, which in the absence of the Clearing Centre's operations would have been at a much lower level. The higher compensation percentage for United States exports referred to by the United States representative was however not known to the Finnish Government and Finland was at present importing from the United States as much as it could possibly do under any other system or arrangement. The Finnish representative then described the manner in which import finance was handled through the Clearing Centre: the Centre obtained at regular short intervals from the Central Bank of Finland the information as to the exchange available at a premium rate, and importers were invited to apply for allocation. In view of the shortage of Western currencies, the amount was always immediately taken up by importers and the system therefore in no way restricted imports or discriminated between sources of supply.

4. The Finnish representative stated that the Clearing Centre had originally been set up as a purely temporary measure, to be abolished as soon as Finland's balance of payments with the West improved, and it remained the intention of the

Finnish Government to terminate the system at the earliest possible date as it was by no means a welcome device to the Government.

5. The Fund representative said that the matter had been referred to in the Fund's consultation with Finland in 1952 and it was noted in the results of that consultation that "the Fund welcomed the endeavours of the Finnish authorities further to reduce the volume of trade transactions taking place on a compensation basis". The situation existing at that time was noted in the Fund's 1952 background paper and the Fund had no details on developments since that time.

6. In reply to a question by the United States representative, the Finnish representative stated that the re-organisation of the Licensing Board, taking effect on 1 September, was a purely administrative operation undertaken with a view to improving the efficiency of that agency.

7. The representative of Canada emphasized that artificial devices such as barter and clearing arrangement, necessary as they were at times to meet a difficult situation, would not contribute to solving the basic problem of disequilibrium, and enquired whether the Finnish Government were contemplating the adoption of measures in the internal fiscal field, to redress the fundamental maladjustments in the economy. The representative of Finland stated that his Government was in general agreement with the view that internal economic stability would help to redress the imbalance in the country's external payments and was, in fact, taking steps in that direction with a view to reducing the costs of production in Finnish industries. The Government had proposed legislation for the reduction of budgetary expenditure and taxation, and these draft laws had been under consideration by the Legislature. These measures, if adopted, would help stabilise prices and to lower the costs of production, and would make Finnish products more competitive with the products of other countries. The Finnish Government was convinced that the clearing arrangement and other similar practices should be abolished at the earliest possible moment.

8. In reply to a question by the Belgian representative as to the main difficulties of expanding Finland's exports to Western countries, the Finnish representative stated that the main items at present exported to Eastern markets consisted of ships, machinery, prefabricated houses, and other similar products, which were being taken up in significant quantities by countries in Eastern Europe and which, for various reasons, could only be put onto the Western market in very limited quantities. The selling of standard wood products to the Western countries had also met with difficulty. An attempt was being made by Finland to enlarge its entrepôt trade by trans-shipping to the Western countries products which it could obtain from Eastern countries. The demand for Western goods remained at a high level, and it had been estimated that a much higher level of imports from the West could easily be absorbed, should it be possible to find the means to finance them.

PAKISTAN

Consultation under Article XII:4(b)

1. The representative of Pakistan stated that the material submitted by the International Monetary Fund provided a full and fair account of the situation in Pakistan. He pointed out that it was only as a last resort that the Government of Pakistan had decided to apply further restrictions on its imports, and that these were not introduced until it had been found by actual experience that the other measures introduced earlier had not proved equal to the occasion. With the unprecedented fall in the prices of the principal export commodities, namely jute and cotton, and with the failure of food crops in two successive years, the position had become untenable and it became clear that unless stringent measures were applied the country's foreign exchange reserves would soon fall below the level of safety. The OGL was cancelled late in 1952 on account of the significant fall in the exchange reserves. The Government of Pakistan had thus been applying the minimum restrictions which were essential to cope with the progressively deteriorating position and the existing restrictions were a true reflection of the present payment difficulties.

2. Efforts were being made to strengthen the exchange resources by increasing domestic production and by expanding exports. The import tariff and the production of export materials and food grains were kept under review for any adjustments which might be deemed necessary in the interest of the balance of payments. The Government of Pakistan was fully aware of the desirability of keeping trade free from controls and had demonstrated its liberal trade policy by relaxing restrictions at every opportunity. With the present reduced external earnings the country was in no position to afford a higher level of imports. The exchange reserves had not yet reached a level consistent with the margin of safety required by an under-developed country depending mainly for the procuring of its vital needs on the export of a limited number of primary commodities. The restriction of imports had fallen heavily on consumer goods. But, because of the heavy imports of such goods under the Open General Licence and under individual licences issued freely up to the end of June 1952, and because of the considerable amount of licences issued after the cancellation of the OGL to cover firm and genuine commitments, fairly large stocks of these goods were believed to be available in the country. Moreover, the increased production of certain goods, e.g. textiles, cigarettes, cement and the development of domestic production had been helped by the continued import of capital goods. Although shortages and increases in prices were therefore not expected to occur, the Government had nevertheless introduced a system of price control to deal with any untoward price developments. These measures were designed to help to restore the balance of payments and should contribute to the elimination of restrictions.

3. The present restrictions had not disturbed the normal distribution of imports among various currency areas, except for certain limited changes. The restrictions applied to imports from the dollar area were necessitated by the persistent deficit in Pakistan's payment with that area. It was hoped that with the development of new industries dollar earnings would increase in the near future. Meanwhile, the fact remained that Pakistan's exports to the dollar area had to face two problems: firstly, the instability in the world market prices of primary commodities and secondly, lack of sufficient demand in the dollar area for the products of Pakistan. The former tended to cause disruption in the economy of countries such as Pakistan and the latter stood in the way of expanding exports to the dollar area. The difficulties of countries like Pakistan which exported basic commodities to the dollar area would not be solved unless the imports by dollar countries were kept on a stable basis. No appreciable assistance in this regard had so far been discerned in the policies of certain dollar countries. The general policy of the Pakistan Government had been, therefore, to continue to reduce its dollar deficit through limiting its imports from the dollar area to the essential requirements which could not be obtained elsewhere under comparable price and other conditions.

4. In conclusion, the Pakistan representative emphasised that the objective of the Government in adopting the present policy was ultimately to attain, with the shortest possible delay, a régime of balanced trade through a full and economic exploitation of the country's basic resources, and by curtailing, in the immediate future, non-essential imports so as to lessen the burden on the meagre exchange availabilities.

5. The representative of the International Monetary Fund referred to the results of the Fund's 1953 consultation with Pakistan which had been transmitted to the CONTRACTING PARTIES as relevant for their consultation with that Government, together with a background paper prepared in the Fund in connection with its consultation. The results were as follows:

> The Government of Pakistan has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
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> The Fund has noted the efforts by the Pakistan Government to meet the situation arising out of the marked decline in foreign exchange earnings resulting from the fall in prices, especially of jute and cotton. In particular, the Fund notes the steps taken both to balance the Central Government current budget by curtailing expenditures, while maintaining a high level of taxation, and to bring its external accounts into balance.
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> At the same time, the Fund views with some concern the potential inflationary effects of the expenditures on capital account, the adverse effects on the domestic supply position of severely intensified restrictions on imports of consumer goods, and the present liquid

position of the banking system. The Fund notes, however, the determination of the Government to increase production, to encourage private savings, and to prevent the emergence of inflationary pressures.

Pakistan has achieved balance of payments equilibrium but at a much reduced level of trade, with the intensified use of restrictions and with the continuation of a dollar deficit. Moreover, Pakistan reserves remain low. The Fund recognizes Pakistan's need for its existing restrictions under present conditions, but wishes to stress the need for continuous efforts in the fields of fiscal and monetary policy to maintain domestic stability. The Fund expects that, as the balance-of-payments position improves, the Pakistan Government will, as in the past, gradually relax its present restrictions.

In concluding the 1953 consultations, the Fund has no further comment to make on the transitional arrangements maintained by Pakistan.

6. The representative of the Fund emphasised the difficult balance-of-payments situation of Pakistan and pointed to the rapid and serious decline which had occurred in its reserve. In connection with the requirements of Article XV:2 of the General Agreement, the Fund representative added that the import restrictions of Pakistan which were under reference did not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves which would occur if the restrictions were removed.

7. The representative of Canada expressed sympathy with the Government of Pakistan on the present balance-of-payments difficulties confronting it. The problems for countries dependent on the export of a few primary commodities when their prices declined sharply were accentuated in the case of Pakistan by virtue of its present need to import food grains. The Pakistan Government had taken a number of important measures designed to restore balance in its internal and external economic position. This, together with measures to develop its basic resources with a view to expanding exports, would, it was hoped, provide a long-term solution for its balance-of-payments problems. Pakistan had in the past relaxed its import restrictions as its balance of payments improved, and the Canadian representative was confident that a similar policy of liberalization would be followed in the future consistent with its balance-of-payments position.

8. The representative of Australia drew attention to the most urgent problem of Pakistan, namely the deficiency in wheat production resulting from the adverse climatic conditions of the past year. It was understood that the declining crop had called for the importation of food grains in 1952/53, and that continued imports of wheat might be expected. The Australian representative enquired about the prospect in 1954. The Pakistan representative stated that normally Pakistan had a surplus production of wheat. In 1952 there developed a large deficit and Pakistan had to import large amounts of wheat. The production of food grains had, however, been given considerable attention by the Government and an agricultural enquiry committee had been appointed in 1951

which had come up with certain recommendations for the improvement of agricultural technique and for the implementation of new projects. The acreage sown to wheat had been increased at the expense of certain export crops. It was hoped that the surplus in food grains would be restored before long so that the country would regain self-sufficiency in basic foodstuffs.

9. The representative of Brazil was of the view that the low per capita income in Pakistan and the dependence on a very limited number of basic exports which which were subject to drastic price fluctuations all indicated that the country's destination lay in economic development and the diversification of basic production. Unfortunately, the need to develop a country's industry was most keenly felt only too often at times of declining export earnings and financial difficulty. Whenever internal borrowing was called for to finance projects of industrial development, it might, in the short run, be difficult to avoid some degree of inflation, but the long run effects of the developmental projects would no doubt contribute to the stability of the economy.

10. In discussing the trade aspect of the restrictions, the representative of India sought clarification on certain matters relating to their administration. First, according to official reports, the Pakistan Government had decided to accord, in the licensing period from July to December 1953, a special treatment for French exports in regard to five items, namely cast iron and pipes, gramophone records, rubber manufactures, cotton thread and stationery, while the import of these articles from India was prohibited. India had been the main supplier of these goods. This did not appear to be consistent with Pakistan's statement in its reply to the GATT questionnaire regarding the considerations which determined the sources of its imports. Secondly, it had been reported that whilst the importation of unmanufactured tobacco from such traditional sources of supply as India was being restricted, licences would be issued for the import of this commodity from the dollar area. This was curious, having regard to the fact that Pakistan's international payments remained in deficit with the dollar area. The representative of Pakistan explained that in regard to tobacco the present situation was based on two distinct considerations: first, Pakistan was developing its production of tobacco with a view to becoming self-sufficient in this product, and for this reason and in view of the need to economize on external expenditure, import licences were being restricted for imports of raw tobacco. However, the tobacco manufacturing industry required a certain amount of Virginian tobacco for the purpose of blending which had to be imported from North America. Consequently, the latest import schedule had anticipated that it might be necessary, subject to the required foreign exchange being available, to permit the importation of a limited amount of unmanufactured tobacco from the dollar area. As for the imports from France, Pakistan had, for reasons essential to its exports, concluded a trade agreement with France in which Pakistan undertook to issue import licences for the five specified commodities mentioned by the Indian representative. Furthermore, licences for the import of these goods from all non-dollar countries had been issued during the first

half of 1953 which remained valid for the rest of the year, and the licences which the Government undertook to issue in favour of these imports from France had been explicitly referred to as "additional" licences. A number of representatives objected to the suggestion that a country in balance-of-payments difficulties was required to discriminate against dollar sources of supply. In their view Pakistan was fully entitled to obtain its tobacco requirements on the basis of commercial considerations including price, quality, etc. regardless of sources of supply. The Working Party took note of the full and clear explanation given by the Pakistan representative.

11. The representative of India thanked the Pakistan representative for the explanation given and expressed the hope that it would be possible for Pakistan to relax its import restriction in the following year.

12. The representative of Brazil put forward certain views on the justification of discriminatory application of import restrictions by undeveloped countries undergoing economic development, and on the appropriateness of the present provisions of the Agreement in this regard. The Working Party, however, considered that it was not within its terms of reference to discuss this question.

13. The United States representative expressed the view that, to the extent it was consistent with the stability of Pakistan's economy, it would be in the long-run interest of Pakistan itself to permit the entry of minimum commercial quantities of goods from traditional sources, whether dollar or non-dollar.

SOUTHERN RHODESIA

Consultations under Articles XII: 4 (b) and XIV: 1 (g)

1. The Working Party was informed by the representative of the International Monetary Fund that in its 1952 consultation with the United Kingdom in respect of Southern Rhodesia the Fund had not, as a result of its discussions with respect to Southern Rhodesia, made any addition to its 1952 decision in respect to the United Kingdom. The Fund's 1953 consultation with the United Kingdom also included Southern Rhodesia and the Fund representative said that "the Fund cannot render a determination pursuant to Article XV:2 of the GATT with respect to Southern Rhodesia, independently of the United Kingdom." He therefore invited the attention of the Working Party to the results of the Fund's 1953 consultation with the United Kingdom as relevent for the CONTRACTING PARTIES' consultations with Southern Rhodesia.[1] The Fund representative also drew attention to the two background papers prepared in the Fund in connection with its 1952 consultation in respect of Southern Rhodesia (one of which was revised recently), and to another relating to the Fund's 1953 consultation.

2. Members of the Working Party were invited to discuss the financial aspects of Southern Rhodesia's import restrictions, but no views were put forward.

3. The Southern Rhodesian representative described the changes in the import restrictions in Southern Rhodesia in the past two years: at the end of 1951 the balance-of-payments situation was such that Southern Rhodesia was obliged to take certain corrective measures: dollar quotas were reduced; the restrictions which had previously applied to the dollar area only were extended to other currency areas outside the sterling area; and in 1952 a number of internal measures designed to reduce the inflationary pressures in the economy were adopted. The application of the restrictions did not have immediate effect since orders placed and accepted before the imposition of restrictions were not interfered with and these outstanding orders were at first underestimated. It became apparent in the second quarter of 1952 that the import restrictions had to be intensified if any contribution was to be made to the solution of the problem. Consequently, both dollar and other non-sterling currency quotas were further reduced in the second half of 1952. An improvement was seen in the first quarter of 1953, and might be regarded as a result of the corrective measures taken in 1952, further assisted by a favourable agricultural season and an increased export haul tonnage on the railways. In view of the improvement the Government proceeded to relax the restrictions and to reduce their discriminatory incidence. In July 1953 a wide range of goods were placed on the "Unrestricted List" and became licensable without limitation from any currency area. As far as these goods were concerned there was no longer discrimination nor restriction. In addition, increased quotas were made available for other important commodities and new quotas were provided for commodities which hitherto had received no allocation. Owing to the country's geographical position the full impact of the restrictions introduced at the end of 1951 and early in 1952 was not felt until early 1953 and for this reason imports from non-sterling countries in 1952 remained on the increase.

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[1] See page 40 for the results of the Fund's 1953 consultations with the United Kingdom.

It was expected that imports in the first half of 1953 would decline but following the relaxation of restrictions in July a recovery was expected for the second half of this year.

4. In conclusion, the Southern Rhodesian representative assured the Working Party that as circumstances permitted it was the intention of the Southern Rhodesian Government to enlarge the "Unrestricted List" and to increase the quotas on the items remaining under licensing control.

5. The representatives of Canada and the United States expressed satisfaction over the progress that had been made by Southern Rhodesia in achieving external equilibrium through the adoption of internal anti-inflationary measures. The measures of freeing imports from licensing restrictions and of increasing quotas for goods remaining under restriction represented advances in the right direction and it was to be hoped that further progress could be made in this field so that the country would make a real contribution to the achievement of convertibility and multilateral trade.

6. The Working Party then discussed certain specific aspects of the commercial policy of Southern Rhodesia. Southern Rhodesia's reply to the questionnaire had referred to a bilateral trade agreement entered into in 1952 with France providing for an exchange of Rhodesian tobacco for French wine and brandy. The representative of the United States enquired about the procedure of licensing envisaged under this agreement and the possibility of similar agreements being entered into with other countries. The Southern Rhodesian representative stated in reply that the only obligation on the part of Southern Rhodesia under the agreement was to issue licences for the import of the specified French goods. Applications for licences to import the French goods would be considered only after France had actually purchased £ 100,000 worth of Rhodesian tobacco. The Southern Rhodesian representative was not yet in a position to say whether the purchase had been effected and whether licences for French goods had been issued. It was not the Southern Rhodesian policy to take initiative in negotiating bilateral agreement, but the Government was willing to enter into negotiations whenever approached by other governments. Inasmuch as any such agreements entered would cover only those commodities which normally would not be permitted to be imported by either country, they would have the effect of extending the scope of trade and would have no unfavourable influence on the interests of third countries.

7. In reply to another question of the United States representative the Southern Rhodesian representative informed the Working Party that long-term agreements for the supply of tobacco to Australia and the United Kingdom were concluded by the Rhodesian Tobacco Association and not by the Government of Southern Rhodesia. As far as was known to the Government, the Association was not contemplating the conclusion of similar agreements with any other country, and certainly the Government itself did not intend to enter into any long-term commodity agreement for tobacco.

8. The representative of the Netherlands expressed concern about the continued prohibition of certain imports into Southern Rhodesia. On the basis of 1951 trade figures 12 per cent of the Dutch exports to Southern Rhodesia had been

subject to prohibition prior to the relaxation of restrictions in July 1953. Although the restrictions had been less severe since that time, it would still be appreciated by the Netherlands Government if trade between the two countries could be restored to the 1951 level. In particular, it would be most desirable if the Southern Rhodesian Government would give consideration to making provisions for the import of minimum commercial quantities of goods at present under prohibition, especially such traditional Dutch exports as cigars. The Southern Rhodesian representative pointed out that the "Unrestricted List" now included some traditional exports of the Netherlands, but agreed that the request of the Netherlands representative would be conveyed to his Government for consideration.

SWEDEN

Consultation under Article XII: 4 (b)

1. The representative of Sweden made a statement in which he described the various measures of relaxing restrictions on imports from soft-currency countries and explained the need to maintain restrictions on dollar imports. It was stated that the willingness on the part of the Swedish Government to relax restrictions as far as possible had been sufficiently demonstrated by the successive measures of freeing imports from the EPU area, which included many contracting parties; ninety per cent of Sweden's imports from EPU countries had been freed from restriction; import quotas under bilateral trade agreements were generally high; licences were issued on a liberal basis; and all this despite the difficulties met by Sweden's exports partly caused by the increasing import restrictions in other countries. On the other hand, Sweden had to continue to restrict imports from the dollar area. The first attempt at liberalising dollar imports in the years between the end of the war and 1947 had led to a considerable deterioration of the balance of payments and had cost the country heavily in its monetary reserves. Import restrictions were re-introduced at that time, and careful consideration would have to be given to all factors before any steps could be taken in the direction of freeing dollar imports. In the absence of convertibility and sufficient dollar reserves, there was no alternative to regulating dollar imports according to earnings. The efforts made by Sweden to increase its dollar earnings had not met with any great success. The traditional exports of Sweden to the dollar area consisted mainly of a small number of commodities, including pulp, paper, iron ore and iron and steel, all of which were extremely sensitive to market fluctuations. The attempts which were being made to diversify the composition of exports would, even under the most favourable circumstances, take a long time to produce tangible results. In fact, they had not been helped by the high tariffs and other trade restrictions now maintained in certain dollar countries. The fact that the dollar earnings were the determining factor made it essential that the system of import control should be elastic. Under the Swedish system, an import budget was determined by the Government every six months without, however, fixing any lists of commodities. Applications for licences were considered individually and licences were granted to the extent permitted by the exchange available. There existed at all times a considerable stock of outstanding licences, which, at present, were estimated to be equivalent to about 40 per cent of the total annual licensed imports. This had to be taken into account by the Government in considering any relaxation of import restrictions.

2. In 1952, the low level of reserves held at the Swedish Riksbank had been further reduced as a result of the trade deficit with the dollar area. The development during the first half of that year had been particularly alarming, and the trend changed only during the second half of the year. Although the improvement continued into 1953, the country at present still had a very low level of reserves. Further, the improvement might not be regarded as permanent as it depended so much on the future market condition of a few commodities. The total value of dollar imports in 1951 and 1952 had been about $210 million and

it was expected that approximately the same level would be maintained in 1953. If there should be a slight fall in dollar imports during 1953 it would not significantly affect the pattern of trade as imports from other sources were expected to be slightly lower than in previous years. In conclusion, the Swedish representative emphasized that the situation was kept constantly under examination with a view to finding ways and means to increase imports from the dollar area.

3. The representative of the International Monetary Fund referred to the results of the Fund's 1952 consultation with Sweden, which had been transmitted to the CONTRACTING PARTIES in February 1953 as relevant for their consultation with that Government, together with two background papers prepared in the Fund. In view of the time that had elapsed since that consultation, the Fund had recently supplied the CONTRACTING PARTIES with a supplementary background paper. The results of the Fund's 1952 consultation were as follows:

> The Government of Sweden has consulted with the Fund under Article XIV, Section 4 of the Articles of Agreement concerning the further retention of its transitional arrangements.
>
> Sweden is experiencing in 1952 a small deficit in its over-all balance of payments, Sweden has eliminated almost all of its restrictions on trade and invisibles with the OEEC countries, while maintaining tight restrictions on imports from the dollar area. The present level of gold and hard currency reserves and earnings does not permit substantial relaxation on dollar payments. However, because of the need for dollar imports, Sweden's present policy is to use increases in dollar receipts for increases in payments on dollar imports.
>
> The Fund notes that Sweden has taken measures to achieve domestic stability, including the planning for an over-all budgetary surplus, other fiscal measures designed to discourage private investment, and a tighter credit policy. The Fund feels that in the present circumstances anti-inflationary measures should be continued and, if necessary, strengthened.
>
> The Fund notes that Sweden is engaging in certain foreign exchange transactions some of which involve multiple currency practices, others of which may involve multiple currency practices. The Fund also notes the reasons given by Sweden for the maintenance of these practices. The Fund is informed that Sweden has abolished its retention quota practices related to exports of certain Swedish dairy products. In view of the study now being undertaken by the Fund on dollar retention quotas and other similar practices in member countries, the Fund's conclusions as to these Swedish measures are being deferred.
>
> In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Sweden.

The Working Party was informed that, pending its 1953 consultation, the Fund saw no reason to alter the appraisal of the situation contained in these results. However, the Fund representative pointed out that the penultimate paragraph concerning the retention quotas and similar practices should be read in conjunction with the supplementary material recently supplied to the CONTRACTING PARTIES, as these devices had now been abolished.

4. The representative of Canada found that the balance-of-payments data in the Fund papers provided no breakdown by currencies for the income derived from shipping, and thought that it would be useful to know the dollar component of that income. The representative of the Fund said that the Fund would take note of this and would attempt to obtain the data at its forthcoming 1953 consultation with Sweden.

5. The representative of the United States drew attention to the data on Sweden's current dollar payments position supplied by the Fund in the supplementary background material, which showed that the situation was somewhat more optimistic than that presented by the Swedish representative. The trade deficit with the United States for the first six months of 1953 was only slightly more than one-third of the deficit in the corresponding period in 1952. The monetary reserves of the Central Bank at the end of August 1953 also had shown an increase over the end of 1952.

6. In reply, the Swedish representative said that the improvement of the balance-of-payments situation might be attributed mainly to an increase in the export of pulp to the United States, and the high susceptibility of this product to market fluctuations made it very difficult to prognosticate the future situation; the future price and demand for pulp was not certain, and the trade in this field would be much affected by any lowering of the United States' demand. The lower import budget for 1953 had caused no hardship to importers of essential goods. As for the reserves, the figures for the end of August 1953 in the Fund paper did not give the gold and hard-currency component of the reserves; in fact, a high proportion of these were EPU and other non-dollar currencies.

7. On the question of internal fiscal measures, the Norwegian representative pointed out that it was noted in the Fund background paper that "the economic situation at the present time is still one of internal stability at a high level of activity". He felt that in the absence of excessive demand and inflation, a tight monetary policy would not be appropriate in that it might lead to lower levels of employment and economic activity. Instead, it might be more profitable to concentrate attention on the difficulties of expanding Sweden's exports to the dollar area. The representative of Canada pointed out that the Fund paper also noted that "the Board of the Central Bank recently warned against

financing government expenditures through borrowing from the Central Bank because this might re-create the inflationary pressures". Further, in the results of the Fund's consultation with Sweden, it was specifically stated "in the present circumstances anti-inflationary measures should be continued and, if necessary, strengthened".

8. As for expanding exports to the dollar area the representative of Canada suggested that the importation of raw materials and basic foodstuffs on a competitive basis at world market prices might contribute to improving the competitive position of Swedish exports without any significant additional strain on its balance of payments.

9. In discussing the commercial policy of Sweden, the United States representative referred to the recent discontinuation of the retention quota practices under which the import of a certain amount of "non-essential" goods from the dollar area had been facilitated, even though at inflated prices to the Swedish consumer. The United States Government was anxious to know whether the Swedish Government intended to compensate for the diminution of such imports by the provision of dollar allocations. The Swedish representative emphasized that the dollar import programme was kept constantly under review and that any substantial improvement in the dollar position would be used to enlarge the import programme and might benefit some of the goods in question. Under the present import control system, some reserves were always kept at the discretion of the control authorities for licensing goods which would not be strictly considered as essential, although the amount thus made available might not be regarded as very great. In view of the recent fall of prices for non-dollar supplies most of the goods which had been imported under the retention quota system, and which had therefore been sold to domestic users at premium prices, could now be obtained from other sources at prices comparable to those obtaining in the dollar market.

10. The United States representative, with reference to Article XII:3(c), enquired if the Swedish Government would consider making provisions for the import in minimum commercial quantities of the goods for which no licences were issued at present. The Swedish representative took note of this request and undertook to convey it to his Government for sympathetic consideration.

UNITED KINGDOM

Consultation under Article XIV: 1 (g)

1. The United Kingdom representative made a statement on the changes in the United Kindgom's balance-of-payments and monetary reserve position as well as the successive measures taken to relax import restrictions and to reduce discrimation: it was stated that during the past year the balance-of-payments position of the United Kingdom, aided by favourable terms of trade and other factors, had been relatively healthy. At the Seventh Session attention had to be given to the heavy payments deficit and the high rate of gold loss during 1951. It had seemed likely then that the United Kingdom would have an overall surplus in the first half of 1952 of about £ 100 million. For 1952 as a whole the United Kingdom had a substantial overall surplus of about £ 300 million and there was some recovery of reserves. In 1953 this rate of surplus had fallen. The reserves had continued to rise during 1953, but at the end of June they still stood at some $ 1,500 million lower than the pre-Korean level.

2. Since the Seventh Session the United Kingdom had substantially relaxed its import restrictions and reduced discrimination. As a result of these changes rather less than half of the total non-sterling imports of the United Kingdom, and almost the same proportion of imports from the dollar area, had been freed from control. As for imports from OEEC and specified countries a large range of goods were returned to open licensing in April 1953. The list covered foodstuffs, raw materials and manufactured goods. In the field of foodstuffs and raw materials, the change in import arrangements in the United Kingdom had been spectacular. At the Seventh Session the CONTRACTING PARTIES were informed of the beginning of a new policy of avoiding excessive premium prices by introducing greater freedom for the purchase of essential food and raw materials from all sources. Since then softwood, pit wood, copper, zinc, wheat, coarse grains and protein feeding stuffs, and a number of minor raw materials had been completely freed under open individual licensing arrangements from all sources. The London Metal Exchange was operating as a full terminal market for lead, copper and zinc. In this and other ways London had been given the opportunity to re-establish itself as the trading centre of the world. World global quotas operate for wood pulp for paper, paper and board, and (apart from certain countries) for bladders and casings. Moreover, where more specific forms of licensing applied, the amount of imports licensed, including dollar imports, had been increased in a number of instances so that over the whole range of United Kingdom import trade the amount of restriction and discrimination imposed by import licensing had been substantially reduced. Parallel with these movements there had been a major reduction in the amount of State trading; zinc, aluminium, copper, wheat, coarse grains and protein feeding-stuffs had all reverted to private trading in the last twelve months, and the impending reversion of other commodities, such as dried fruit, had already been announced. Freedom of trade in many commodities had also been effectively increased by the removal of rationing and other restrictions on consumption.

3. In conclusion the United Kingdom representative stated that his Government believed in these policies being in the interest of freer trade and payments arrangements on a world-wide basis and that in regard to import policy, substantial progress had been made in this direction in the past year. At the same time his Government believed that steps should not be taken unless there was a reasonable chance that they could be maintained. The reserve position of the United Kingdom, though much stronger than it had been, still did not permit undue risks to be taken, nor would it be in the interests of freer trade in the world as a whole for the United Kingdom to damage her position by measures not justified by the underlying situation.

4. The Fund representative drew the Working Party's attention to the results of the Fund's 1953 consultation with the United Kingdom and to the background material it had supplied. The results were as follows:

> The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4 of the Fund Agreement concerning the further retention of its transitional arrangements.
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> The Fund notes with satisfaction the greater measure of domestic stability; the improved balance-of-payments situation, especially vis-à-vis the dollar area; and the increase in reserves of the United Kingdom since the last consultations in 1952. It regards it as important that the task of increasing the reserves should proceed, concurrently with the further relaxation of restrictions and a reduction of discrimination, since larger reserves and less restricted trade are essential for the successful achievement of convertibility on a firm basis. To help achieve this objective, it considers that the United Kingdom should continue to pursue policies designed to prevent inflation and to improve productivity so as to maintain and improve the competitive position of the United Kingdom in world markets.
>
> The United Kingdom has relaxed some of the emergency restrictions against OEEC and other non-dollar countries imposed in 1951/52. Furthermore, the opening of certain commodity markets has resulted in a considerable general relaxation of restrictions and a reduction in discrimination.
>
> The Fund notes that during the past year the Government of the United Kingdom has held discussions with other Commonwealth Governments, and also with the United States and other countries, with a view to laying the foundations for a firm move towards sterling convertibility. The Fund welcomes these efforts in view of the importance of sterling as an international currency, and in view of the great advantages which the convertibility of sterling would therefore bring, not only to the United Kingdom itself, but also to other countries.

In concluding the 1953 consultations with the United Kingdom, including Southern Rhodesia, the Fund has no further comments to make on the restrictions maintained by the United Kingdom under Article XIV of the Fund Agreement.

5. The representatives of Canada and the United States expressed satisfaction over the developments in the United Kingdom. In their view it was no exaggeration to say that the measures provided a starting point for a complete reorientation of the commercial policy and it was hoped that further progress would be made in the direction of achieving complete convertibility and multilateral trade. The Canadian representative in particular felt that the effectiveness of internal fiscal measures in helping to restore equilibrium so as to enable trade to be freed from restrictive shackles should be noted by other countries facing similar difficulties.

6. The question was raised as to whether the internal fiscal policies pursued by the United Kingdom had not had an unduly deflationary effect on the economy. The United Kingdom representative said that the Government could not be accused of having deliberately pursued a policy of creating deflation and unemployment. The level of unemployment which had been falling during 1953 was very low by the autumn and production had risen significantly above the level of the previous year.

7. In reply to specific comments and questions the United Kingdom representative concurred with the view that the relaxation of discrimination had undoubtedly had a powerful impact on the price discrepancies in the world, as the reduction in premium prices in soft currency countries might partly be attributed to it. It might also have the effect of improving the United Kingdom's competitive position by the lowering of raw material costs, but it would be some time before the effects of measures taken comparatively recently were reflected in export prices.

8. The Working Party then discussed the methods of administering dollar import restrictions. The United Kingdom representative described the methods in some detail covering both those commodities free from administrative restriction and those remaining subject to licence. Reference was made to the facts (a) that raw material trade had generally been returned to private hands, (b) that trade in essential foodstuffs was still to a large extent conducted on government account with the important exception of cereals and animal feeding stuffs, (c) that machinery and capital equipment were subject to individual licence, (d) that most other manufactured goods were admitted under the token import scheme, and (e) that special arrangements were made for the import of tobacco.

9. The only import remaining under almost complete prohibition from most sources was motor vehicles, but imports were now admitted from France and Germany under reciprocal arrangements and there had recently been a doubling of the small number of private passenger cars from North America which were allowed to be sold in the United Kingdom after being admitted for exhibition purposes.

10. A discussion took place on the long-term purchase contracts for certain agricultural products, such as sugar and tobacco, entered into by the United Kingdom Government. The Cuban and United States representatives contended that these contracts were usually made for an unduly long duration, running far beyond the period in which the world transitional difficulties and the sterling area's financial imbalance were expected to last. The prices provided in these contracts were often much higher than those prevailing on the world market and it was doubtful whether the agricultural industries developed under the stimulus of the assured markets could in all cases, eventually reach a position of self-sustainment. The United Kingdom representative in replying emphasized that the main purpose of the long-term contracts was to build up non-dollar supplies of primary products. They had been initiated as a means of helping to correct both the structural imbalance between the dollar area and the rest of the world and the tendency of world population growth to outrun world supplies of foodstuffs and similar products. It was by no means evident that either of these problems had yet been solved on a lasting basis. The prices provided in the contracts were by no means always higher than free market prices; in important instances they had been lower. Moreover it was misleading to judge whether the prices under the contracts were appropriate or not by reference to the conditions, including free market prices, in any one day or even in any one year; essentially these contracts were a long-term proposition, to be judged by their effects over a period of time. The United Kingdom representative, however, was not in a position to reply to the question whether long-term contracts for development purposes would continue to be negotiated and could be justified within the GATT after the external financial difficulties of the United Kingdom had been solved on a permanent basis.

11. In discussing the prospects for further relaxation, the United Kingdom representative emphasized the need for caution. In taking those measures in the past year, especially in freeing the commodity markets, the United Kingdom had been carefully watching developments in the world financial and market situation. So far no untoward developments had arisen but certain favourable factors had undoubtedly influenced the position: first, the course of world prices had been downwards, and had thus not encouraged speculative buying; secondly, the general strength of sterling had been maintained; thirdly the United States balance of payments had been such that there was no acute world dollar shortage; and lastly the diversion of trade to the London free markets had remained limited because other countries were not severely restricting access by their importers to dollar sources of the commodities in question. Insofar as none of these factors could necessarily be regarded as permanent, further measures of relaxation could not be adopted without due regard to possible developments.