

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED\*

L/465

1 December 1955

Limited Distribution

CONTRACTING PARTIES

Tenth Session

## REPORT OF WORKING PARTY 8 ON BALANCE-OF-PAYMENTS RESTRICTIONS

### I. Consultations

1. The Working Party was instructed to conduct the consultation initiated by the Governments of Australia, Ceylon, New Zealand, the Federation of Rhodesia and Nyasaland and the United Kingdom under the provisions of paragraph 1(g) of Article XIV on the deviations from Article XIII still in force pursuant to the provisions of paragraphs 1(c) of Article XIV or of Annex J and on their continued resort to such provisions. In conjunction with the consultation with Australia, the Working Party also conducted the consultation initiated with that Government under paragraph 4(b) of Article XII on the substantial intensification of its import restrictions on 1 October 1955. The consultation with New Zealand was extended to cover the consultation required under the Decision of 20 January 1955 regarding New Zealand's obligations under paragraph 6 of Article XV. Annex I contains the Summary Notes which record the main points of discussion during these consultations. This Annex contains certain information which is considered to be of a confidential nature, and therefore it should not be subject to the normal procedure of derestriction. The Working Party recommends that it be recorded that the above-mentioned consultations have been concluded.

2. 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 accordance with the agreed procedures the Fund supplied the CONTRACTING PARTIES, except in the case of New Zealand, with the results of its latest consultations with the governments concerned and the background material prepared by the Fund staff in connexion with those consultations. In addition the Fund had prepared supplementary factual data reviewing the developments since those consultations. In the case of New Zealand, which was not a member of the Fund, the Fund prepared a background paper specially for the assistance of the CONTRACTING PARTIES in its consultations with that Government. In the course of the consultation with New Zealand under the Decision of 20 January 1955, the Working Party took note of a statement by the representative of the International Monetary Fund that the Fund after examining the information had found nothing to cause it to comment on the question as to whether New Zealand's action in exchange matters was consistent with the Fund's principles. The data supplied by the Fund were referred to and taken into account by the Working Party in the course of the consultations, and

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\* A part of this document is classified as confidential.

the Fund representative participated in the discussions. The Working Party wishes to record its appreciation of the assistance thus rendered by the Fund.

3. When referring these consultations to the Working Party the CONTRACTING PARTIES called its attention to a "plan" for consultations under Article XII:4 which had been used by the Working Party conducting the consultation with Australia under Article XII:4(b) in June-July 1955. In conducting the present consultation with Australia under Article XII:4(b) the Working Party broadly followed that plan. Before beginning the consultations under Article XIV:1(g) the Working Party formulated a similar plan which was used experimentally in the consultations that were conducted under Article XIV:1(g) with the contracting parties mentioned in paragraph 1, and was modified as the consultations progressed. In the view of the Working Party the use of this plan has contributed to making the consultations more effective. The texts of the two plans are reproduced in Annex II. The Working Party is of the opinion that future consultations would be greatly facilitated by advance preparation and by the use of such plans. However, in view of the diversity of circumstances, these plans should not be regarded as rigid programmes but might require suitable modifications on each occasion.

4. In the course of the consultations the representatives of the consulting contracting parties provided information under the various headings in the relevant plan and in most cases references were made to the data supplied by the Fund. They answered various questions on the different aspects of the restrictions and generally participated in the discussions on all questions on which members of the Working Party showed an interest. The Working Party wishes to record its appreciation of the frank and cooperative attitude of representatives in supplying the information requested.

5. In the light of the provisions of the waiver for Czechoslovakia from the obligations of paragraph 6 of Article XV, an exchange of views took place. A further exchange of views will take place in 1956.

## II. Sixth Annual Report on Discrimination

6. As instructed by the CONTRACTING PARTIES, the Working Party prepared a text of the Sixth Annual Report required under paragraph 1(g) of Article XIV on the discriminatory application of import restrictions (Annex III). It recommends that this be adopted by the CONTRACTING PARTIES.

7. In preparing that text the Working Party noted that no information was supplied for that purpose by four contracting parties, namely Brazil, Burma, Chile and Uruguay as requested by the CONTRACTING PARTIES, and the information supplied by Italy arrived too late to be made use of by the Working Party. A communication from the Brazilian delegation on the position of Brazil is noted in paragraph 2 of that Report, and a communication from the Chilean delegation will be found in Annex IV. The Working Party wishes to take this opportunity of noting its appreciation of the assistance rendered by the Fund in connexion with the preparation of the report.

III. Procedures for Article XIV Consultations and the Report in 1956

8. In accordance with its terms of reference the Working Party considered the appropriate procedures which should be adopted by the CONTRACTING PARTIES for the preparation of the Seventh Annual Report on Discrimination and for the conduct of consultations under Article XIV:1(g) in 1956.
9. The Working Party considered that some changes should be adopted in the next annual report so as to take adequate account of changes that are occurring in the use of discriminatory restrictions and that in order to make this possible there should be some improvements made in the questionnaire which contracting parties applying restrictions are asked to answer. In particular, the Working Party found it difficult to determine in quantitative terms the extent of progress that had been made in the liberalization of imports from the dollar area in the past year. It also found that, where statistics are used to indicate the amount of dollar trade so liberalized, these statistics often covered only trade with the United States and Canada.
10. Some members of the working Party also considered it essential that the CONTRACTING PARTIES have available more detailed information on bilateral agreements, especially those under which the partners accord to each other guaranteed quotas or in other respects grant treatment more favourable than that granted to other countries or groups of countries where this distinction is not based on balance-of-payments considerations.
11. In the light of these considerations the Working Party has drawn up a revised questionnaire for the purpose of obtaining information for the preparation of future annual reports (Annex IV).<sup>1</sup> The Working Party recommends that this be approved and that in other respects the present procedure for the preparation of annual reports on discrimination be continued in 1956 without change. Accordingly the ~~governments applying restrictions~~ should be requested to provide the ~~fullest~~ possible answers to the specific questions asked, which would be used, together with information from other sources including the Fund's annual report on exchange restrictions, for the preparation of the Seventh Annual Report. As in the past, such replies should be sent to the Executive Secretary three months prior to the opening of the Eleventh Session (three copies by air mail and fifty copies by surface mail).
12. In order that the secretariat may be kept aware of any changes in import restrictions and in order that the provisions of the Agreement may be effectively implemented, the CONTRACTING PARTIES should also call the attention of the contracting parties once again to the requirement that any contracting party modifying its import restrictions should furnish detailed information promptly to the Executive Secretary.
13. As for the 1956 consultations under Article XIV:1(g) the Working Party proposes that any government which wishes to initiate such consultations in 1956 should notify the Executive Secretary in March 1956 so that he may inform

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<sup>1</sup> In discussing the questionnaire a proposal was made for the inclusion of a question on discriminatory restrictions and arrangements other than quantitative import restrictions which affected trade. The Working Party decided not to include such a question, and the representatives of Cuba and India reserved their positions

the contracting parties and invite, on behalf of the CONTRACTING PARTIES, the International Monetary Fund to consult in connexion therewith. Any such consultations initiated should take place at the Eleventh Session.

14. While discussing the procedures for the implementation of the provisions of Article XIV:1(g) in 1956, the Working Party considered the situation that would occur if the revised provisions of the Agreement resulting from the Review at the Ninth Session should enter into force before the Eleventh Session. The Working Party noted that because of the provisions of paragraph 8(c) of the Protocol Amending the Preamble and Parts II and III<sup>1</sup>, the provisions of the existing Article XIV:1(g) are of uncertain duration. However, it does not seem necessary at this time to change the existing procedures for the report and consultations called for by the present text of Article XIV:1(g). If the review of balance-of-payments restrictions provided for in paragraph 4(b) of the revised Article XII were initiated in 1956, the report and consultations required by the existing Article XIV:1(g) could, of course, be dealt with in conjunction with that review.

Points for decision by the CONTRACTING PARTIES

Conclusion of the consultations:	Paragraph 1
Adoption of the Annual Report:	Paragraph 6 & Annex III
Procedure for future reports:	Paragraph 11 & Annex V
Procedure for 1956 consultations:	Paragraph 13

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<sup>1</sup> Page 101 of the volume containing the Final Act adopted at the Ninth Session, etc.

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ANNEX I

CONFIDENTIAL NOTES ON THE CONSULTATIONS

I. AUSTRALIA

Introduction

1. The consultations with Australia were pursuant to the provisions of paragraph 4(b) of Article XII concerning the intensification of its import restrictions on 1 October 1955; and pursuant to paragraph 1(g) of Article XIV concerning the continued resort to the provisions of Article XIV:1(c). In conducting these consultations the Working Party generally followed the plans adopted and covered all the subjects mentioned therein. On a number of questions, particularly those concerning Australia's basic economic and commercial policies and long-term measures to raise productivity and export capacity, the Working Party noted, however, that a full discussion had been held at the consultation in June-July last. For these questions, the Australian representative therefore referred to the Working Party report on the June-July consultation (L/370) and supplied supplementary information on certain points. The present notes represent a summary of the major points of discussion and broadly follow the pattern of the plan for consultations under Article XII:4(b). Some questions which are exclusively relevant for the consultation under Article XIV:1(g) are dealt with in paragraphs 18 and 19.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Australia. As relevant, the Fund transmitted the results of its 1955 consultations with Australia together with the background material prepared by the Fund staff for that consultation. These documents were referred to and taken into account by the Working Party in the course of the present consultations.<sup>1</sup>

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<sup>1</sup> The results of the Fund's consultations with Australia (W.10/6/Add.1) and the text of a statement made by the Fund representative during the Working Party consultation are appended at the end of these notes.

Circumstances leading to the intensification

3. In opening the discussion the Australian representative called attention to the statement made by the Head of his delegation at the plenary meeting on 7. November 1955, on the circumstances leading to the intensification of import restrictions on 1 October. The text of that statement was circulated in W.10/7. Reference was made therein to a statement by the Australian Prime Minister on 27 September in which he gave a comprehensive review of the Australian economic situation, announced the Government's decision to tighten import restrictions and outlined the measures to be taken in the internal field to help restore equilibrium in Australia's balance of international payments and to preserve stability in the economy. The text of that statement was made available to contracting parties in L/414/Add.2.

4. The Australian representative explained that the major development since the June-July consultations affecting Australia's balance-of-payments prospects was the decline in wool prices at the current season's auctions which opened in August last. The average price per lb. had declined by about 11d. as compared with the previous year and each fall of one penny meant a loss of some £A 5 million in export income. Because of marketing difficulties arising from the current world wheat situation receipts from wheat exports were also expected to be some 20 per cent lower than in 1954-55. Taking into account these altered prospects for Australia's two major export products, it now seemed likely that Australia's total exports in 1955-56 would not exceed a figure of about £A 730 million. The net deficit on invisible items in 1955-56 was not expected to be much less than the figure of £A 173 million recorded in 1954-55. Assuming a possible net surplus of £A 50 million on capital account (which could prove optimistic) it would appear that over the financial year running from 1 July 1955 to 30 June 1956 Australia's international reserves would decline by roughly the amount by which imports exceeded £A 625 million.

5. The import restrictions operating from 1 April 1955 were expected ultimately to bring imports down to an annual rate of £A 730 million but, owing to the time lag between the issue of licences and the importation of the goods, this annual rate would not be achieved in 1955-56 and, before the October restrictions, the total value of imports in 1955-56 was expected to be about £A 770 million. If no further measures had been taken reserves, which stood at £A 428 million at 30 June 1955 would, as far as could be seen, have fallen by something of the order of £A 140 million by 30 June 1956. While such a decline would still leave reserves at a substantial figure the prospect, before the October measures, was that imports would still be coming in at an annual rate of £A 750 million which, on present export prospects, would imply a continued heavy drain on reserves. Because of these factors the Australian Government had felt it had no alternative but to introduce further import restrictions to operate from 1 October 1955. The new restrictions were expected to reduce imports by £A 80 million in a full year

but, as they would not be reflected in reduced imports until the June quarter of 1956, the reduction in 1955-56 imports was estimated at only £A20 million. 6. This meant that, even after the October restrictions, imports in 1955-56 were expected to reach the comparatively high total of £A730 million. By the June quarter of 1956, however, the restrictions would, it was expected, have brought imports down to an annual rate of about £A650 million - a rate which it was hoped could be maintained without a further serious decline in reserves.

7. In reply to a question as to whether the Australian Government had in mind any particular figure for a "safe minimum" level of reserves, the Australian representative said that what was more important than the absolute level of reserves was the direction and rate of prospective future movements in reserves. In the words of the Australian Prime Minister: "it would not inevitably be disastrous if by the end of next year our reserves were somewhat below £A 300 million but it would be disastrous if that point were reached with nothing done to check the downward fall in reserves".

8. In answer to questions asked by various members of the Working Party the Australian representative said that the pressure of demand for imports which had arisen from the high level of internal prosperity and the rapid rate of development within the country extended to all categories of imports including consumer goods as well as machinery, raw materials and other producers' goods. The Working Party discussed the extent to which the decline in reserves was due to excess demand within Australia for consumer goods. The Australian representative pointed out that, as the statement of the Australian Prime Minister (L/414/Add.2) indicated, the Australian Government was fully conscious of the need for complementing the new import cuts by internal measures to reduce the inflationary pressures in the economy. This was noted by the Working Party and the detailed measures other than import restrictions adopted by the Australian Government are discussed more fully in the following section of these notes.

#### Alternative and supplementary measures to restore equilibrium

9. In introducing the discussion on alternative and supplementary measures taken by the Australian Government to restore equilibrium the Australian representative recalled that at the June-July consultations it had been pointed out that it remained the Australian Government's "firm ... intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done and ... internal policies would be designed to assist towards that end"(see L/370 para.35).

10. The Australian representative said that the first major opportunity for his Government to take action in the internal field was presented by the introduction of the Federal Budget on 24 August 1955. He summarized the Australian Treasurer's budget speech which generally reviewed the Australian economic situation at that time and gave the background to the budgetary measures adopted. Although the previous budget year had ended with a substantial surplus the Government had decided that, in view of the reemergence of inflationary pressures in the economy and the continuing deficit in the balance of payments, no taxation concessions could be given and no new forms of expenditure approved. The 1955-56 Budget, after making provision for all the Commonwealth Government's capital works to be financed from revenue, provided for a surplus of £A48 million which was to be devoted largely to assisting in the financing of the works programmes of the various Australian State Governments.

11. At the time of the presentation of the budget the new season's wool auctions had not begun. When the auctions opened at the end of August and the sharp fall in wool prices became apparent the Australian Government decided upon a further series of measures in the internal field which were announced by the Australian Prime Minister on 27 September 1955 at the same time as the announcement was made of the new import restrictions to operate from 1 October (see L/414 Add.2). These internal measures, which were discussed in some detail in the Working Party, are briefly listed below:

- (a) Bank Advances. A new central bank directive has been issued to the Australian trading banks requesting them:
- (i) not to approve new or increased accommodation of any magnitude for capital expenditure; and
  - (ii) not to enter into any new commitments involving increased accommodation for financing imports.

The banks were also asked to undertake a comprehensive review of large overdraft accounts.

- (b) Hire Purchase. Because of the limitations imposed by the Australian Federal constitution the Commonwealth Government lacks the power to intervene directly to control hire-purchase transactions. However, following an appeal by the Australian Prime Minister the major Australian hire-purchase companies have agreed upon a policy of voluntary restraint which is expected to limit the rate of expansion of hire-purchase financing.
- (c) Federal Government Capital Works. Provision was made in the August Budget for expenditure totalling £A 104 million during 1955-56 on Federal Government capital works projects. The Government had, however, decided to reduce the 1955-56 works programme by £A 10 million by deferring various projects. The review of the works programme is still continuing but the Working Party was given details of works totalling £A 21 million which are to be deferred with a cash saving in 1955-56 of £A 4 million.
- (d) Measures to promote exports. The measures contemplated by the Australian Government include:
- (i) an intensified trade publicity drive;
  - (ii) strengthening of the Australian trade commissioner service;
  - (iii) financial aid to trade missions sent abroad by exporting interests;

- (iv) consultation with farming and other export interests on ways and means of improving the efficiency of production and marketing;
  - (v) the setting up, if a system suited to Australian conditions can be evolved, of an export credit guarantee scheme.
- (e) Other measures. In addition, the Australian Prime Minister in his statement of 27 September 1955 (L/414/Add.2):
- (i) made a general appeal to responsible elements in the community to practice voluntary restraint;
  - (ii) announced the deferment of a proposed review of Parliamentary salaries and allowances; and
  - (iii) announced that in future an Annual Economic Report (and other periodical reports) would be issued on the facts of the economic situation to assist in obtaining better public understanding and co-operation in meeting economic problems as they arose.

12. It was noted that action taken in certain other countries to meet similar situations would not be practicable in the Australian case either because of differences in circumstances (e.g. the absence in Australia of a short-term money market) or because of the limitations imposed by the Australian Federal Constitution (e.g. the limited power of the Federal Government to intervene directly in the field of capital issues and hire purchase transactions).

#### Nature and extent of the intensification

13. A description of the measures of intensification introduced on 1 October 1955 was given by the Australian representative. It was stated that in general the intensification applied to all categories of goods. For import licensing purposes goods were classified in four broad groups. The reductions in import quotas for the goods included in each of the groups were listed in L/414 and set out in more detail in L/414/Add.1. On a limited range of goods the restrictions were not applied on a quota basis, and import licence applications were dealt with on a case by case basis. As goods in this category included, in general, machinery and raw materials the restrictions applicable to them were as a rule less severe than those applicable to goods subject to quota.

14. In the administration of the import licensing measures a distinction is made between goods of dollar origin and goods of non-dollar origin. For a description of the more restrictive measures which were applied to goods of dollar origin, the Australian representative referred the Working Party to his Government's successive replies to the questionnaire on discriminatory restrictions (a brief note on these measures will be found in the Annex to the Sixth Annual Report under Article XIV:1(g)). With regard to goods from countries outside the dollar area importers were free to elect the source of supply, except that a ceiling is placed on the amount of the importer's quota that may be used to import certain goods from Japan. The most

significant change in the element of discrimination which resulted from the new restrictions introduced in October was the provision for a system of issuing licences for a list of basic materials which would permit the licence holder to purchase the materials from any country regardless of currency considerations. A list of these basic materials was given on page 2 of L/414. The total value of imports of these materials in the year 1954-55 was £A57 million. Of this amount, £A28 million was imported from the dollar area during that year. This formal move in the direction of non-discrimination was an extension of the policy that had been followed for some time of modifying the criteria used in the administrative system of licensing dollar goods so as to give greater weight to price considerations and earlier delivery dates.

15. Several members of the Working Party expressed particular interest in the Australian Government's decision to widen the area of non-discrimination in its import control by licensing the listed materials on what amounted to a "world global quota" basis. The view was expressed that the experience of other countries had shown that moves in the direction of non-discrimination could contribute towards overcoming balance-of-payments difficulties by improving the cost structure and competitive position of the countries taking such steps. The Australian representative said that his Government was very conscious of these considerations and hoped it might be practicable progressively to add to the list of items licensed on a non-discriminatory basis. In common with the governments of other countries associated with the "collective approach" towards a freer system of trade and payments, the Australian Government's policy was to play its full part in working towards the achievement of the conditions which were a necessary prerequisite to the attainment of convertibility of currencies and a wider multilateral trading system. The Australian representative concurred with the suggestion of one member of the Working Party that to the extent that discrimination in import controls could be reduced before a formal move to convertibility the adjustments that would then be necessary would be facilitated.

#### Effects of the restrictions on the trade of contracting parties

16. The Australian representatives provided information on many aspects of the incidence of the new restrictions about which questions were asked by various members of the Working Party.

17. In discussing the treatment given to goods subject to "administrative control" (which applies to practically all dollar goods and to non-dollar goods in the "administrative" category) the Australian representative said that the cut of 12½ per cent would not be applied uniformly to each item. The practice was to draw up quarterly import licensing budgets making allocations for the individual commodities in accordance with the needs and surrounding circumstances prevailing at the time. Some items would not be cut at all and might even receive increased allocations while others would be cut much more than 12½ per cent. One important factor was the stock position at the time the allocation was being considered. The Australian licensing authorities were always willing to discuss with the trade representatives of interested countries any points they might wish to raise from time to time in connexion with the licensing of goods in this "administrative" category. Members of the Working Party expressed appreciation of the Australian Government's attitude on this point.

18. In answer to questions about the effect of the restrictions on dollar goods in particular, the Australian representative said the types of goods Australia imported from the dollar area are in the main essential requirements and it could be taken that no commodity at present being imported would, as a result of the recent intensification of restrictions, be so severely cut as to damage trade connexions. He added that finished consumer goods represent a relatively small proportion of Australia's total imports from the dollar area but that they would not be eliminated. The capital goods sector would have to take a relatively large cut because first priority had to be given to imports of raw materials required to maintain current production. This may mean some slowing up of the rate of industrial development.

19. Certain members of the Working Party contended that their countries' exports to Australia would suffer disproportionately from the new restrictions because their export trade was almost wholly made up of consumer goods which fell within the "B" category in the Australian licensing system and were thus subject to a greater degree of restriction. The delegate of Italy stressed in particular that about 50 per cent of the balance-of-payments deficit of his country occurred on account of trade between Italy and Australia. He therefore felt that arrangements should be made between the two countries for the purpose of alleviating the serious effects which restrictions imposed on category "B" items have on Italian exports. This would make it possible to avoid that Italy might have to apply discriminatory restrictions that would be contrary to the objectives of the GATT. The Australian representative said his Government was always prepared to discuss bilaterally with the representatives of any contracting party any special difficulties arising for its trade as a result of the Australian system of import control. In view of its balance-of-payments difficulties, however, the Australian Government must continue to avail itself of the right recognized in Article XII:3(b)(ii) of the General Agreement to determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products or classes of products in such a way as to give priority to the importation of those products which are more essential in the light of its domestic policies of full employment and rapid development of resources.

20. In response to a question about the twenty-year old agreement between Australia and Belgium providing for the establishment of quotas for the importation of sheet glass into Australia (see L/370 paragraph 16) the Australian representative explained that, although this agreement preceded the GATT and was still in force, there was no discriminatory element in it. Import quotas were established for all supplying countries on the basis of the proportion of the trade each held in a previous representative period. He indicated, without attempting to define the present legal position, that inasmuch as the agreement did not relate specifically to restrictions applied for balance-of-payments reasons, it would probably require re-examination when the GATT was applied definitely.

21. The Working Party also discussed the measures taken by Australia to minimize the protective effects of import restrictions imposed on balance-of-payments grounds. These measures were also discussed at the June-July consultations and an account of them will be found in paragraph 19 of document L/370.

Discriminatory aspects of Australia's system of import control

22. As relevant for the consultation under Article XIV:1(g) the Australian representative stated that apart from the special treatment accorded to a limited number of imports from Japan, discrimination in the application of Australia's import restrictions was against the dollar area only. The discriminatory application of restrictions is pursuant to the provisions of paragraph 1(b) and 1(c) of Article XIV. He stated that, in determining its policy on discrimination, Australia has had to take into consideration its deficits on dollar account, indicated in the statistics supplied by the International Monetary Fund, and the fact that such deficits have been met by increased drawings on the sterling area's dollar resources.

23. The Japanese representative on the Working Party expressed his appreciation of the reduction that had taken place in the area of discrimination against Japanese goods in the Australian system of import control. There was nevertheless still some residual discrimination against certain important Japanese export products. As the General Agreement was not applicable as between Japan and Australia it would not be appropriate to pursue discussion of this question in the Working Party. The Japanese delegation would be glad to accept the suggestion made by the leader of the Australian delegation in the plenary meeting that any points of difficulty be discussed privately between representatives of the two countries concerned. The Australian representative confirmed his delegation's willingness to participate in such discussions.

General policy objectives

24. The Australian representative said that the general policy objectives of his Government remained as set out in paragraph 35 of document L/370 recording the June-July consultations. His Government continued to attach the highest importance to the maintenance of full and productive employment, the rapid development of the economic resources of Australia and to the maintenance of a high rate of immigration. It remained at the same time a major policy aim to achieve economic stability and to work towards the objective of removing the need for quantitative import restrictions.

APPENDIX TO THE NOTES ON THE CONSULTATION WITH AUSTRALIA

Statement by the Representative of the  
International Monetary Fund

"The International Monetary Fund's 1955 consultation with Australia had not been completed when the October intensification of import restrictions became effective. The Fund has therefore prepared two background papers which together give the picture of recent developments, including the October intensification.

"The results of the Fund's consultations have been distributed to the Working Party. With respect to the question of alternative measures to restore equilibrium, the attention of the delegates is called to this paper, particularly paragraphs 4 and 5. The Fund had no additional alternative measures to suggest at this time.

"With respect to item eleven, relating to Article XII:2(a), I am authorized to say that the general level of restrictions of Australia which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

Results of the Fund's 1955 Consultations with Australia

- "1. 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.
- "2. Although production continued to expand in 1954/55, signs of pressure on resources became evident as immigration increased and investment and consumption were both at higher levels. Wages and salaries rose and the increase in bank advances offset the contractionary effect of the external deficit on the money supply. The budget for 1954/55 showed a current surplus which, together with long-term public borrowing, was sufficient to finance government investment. Prices were stable during the first half of 1954/55 but showed an upward tendency in the second half.
- "3. The external position deteriorated in 1954/55 owing to a large increase in imports and to a fall in export receipts resulting mainly from a decline in wool prices. Wool prices in the opening months of the 1955/56 selling season declined further. Although there was a relatively large net inflow of capital, international reserves declined considerably in 1954/55, and continued to decline in the early months of 1955/56. With a view to arresting the decline in reserves, the Australian authorities intensified their import restrictions on 1 April and 1 October 1955. The intensification of 1 April applied only to imports from the non-dollar area and the intensification of 1 October applied in varying degrees both to dollar and non-dollar imports. Steps were also taken on 1 October 1955 to introduce a non-discriminatory system of import licensing for specified commodities.

"4. The Australian authorities have indicated that the deterioration in Australia's external position is largely due to the pressures of domestic demand and have emphasized the need to take measures to reduce this demand. The budget for 1955/56 provides for a current surplus and the programme for capital work is less than in 1954/55. Measures have been taken to restrain bank lending activities and to curb instalment credit.

"5. The Fund believes that the intensifications of restrictions by Australia in April and October 1955 were warranted in the light of its balance of payments and reserve position, and in this connexion welcomes the steps taken to reduce the incidence of discrimination against the dollar area and expresses the hope that further progress will be made in this direction. Australia is eager to encourage immigration and to develop rapidly its economy. Large variations in export proceeds, especially from wool, add to its difficulties in maintaining external equilibrium. Under these conditions special efforts are needed to relate demand to available resources, and thus to reduce the need for recurrent intensification of restrictions. The Fund, therefore, welcomes the measures being taken to achieve this end. The Fund considers that Australian domestic policies should aim at creating conditions which will make possible the reduction and eventual elimination of restrictions and the avoidance of renewed inflationary pressures. This would facilitate the balanced development of productive resources at a high and stable level of employment and real income.

"6. In concluding the 1955 consultations the Fund has no other comments to make on the transitional arrangements maintained by Australia."

C O N F I D E N T I A L

2. CEYLON

Statement by the Ceylon Delegate

1. In opening the consultation, the Ceylon representative referred to the background papers supplied by the Fund which comprehensively surveyed the developments in Ceylon. Consequently, instead of describing in detail the balance-of-payments position and the movement in external reserves, the Ceylon representative gave a general exposé, underlining the significance of the nature and magnitude of the changes that have occurred during the period under review. It was noted that there had been a continuous improvement in general in Ceylon's balance-of-payments position including its position with the dollar area during the past one and a half years. In 1954 Ceylon's balance-of-payments position reflected a substantial surplus as compared with the heavy deficits incurred in the previous years. The current account surplus, amounting to Rs. 300 m., mainly resulted from a very favourable trade balance, which was a little more than Rs. 450 m. In spite of increased deficits on invisibles, a sizeable overall surplus was maintained. The improvement in Ceylon's payments position was the result of larger earnings from tea exports due mainly to rising tea prices and reduced import payments mainly due to lower prices.
2. As a consequence of these developments, the foreign reserves position had shown an upward movement since January 1954. After a serious decline during 1953 reaching the low level of Rs. 605.5 m., Ceylon's external assets at the end of December 1954 had steadily risen to the level of Rs. 895 m. Apart from the fortuitous circumstances which helped to increase export earnings, the monetary and fiscal measures introduced with the 1953-1954 budget went a long way to correct the disequilibrium in the economy. The effects of these measures were beginning to be felt towards the end of 1953 and became clearly noticeable during 1954.
3. The favourable balance-of-payments position had continued in the early part of 1955. In the first quarter of 1955 the surplus on merchandise account amounted to Rs. 198 m. and the current account surplus stood at Rs. 160.5 m. But unfortunately the market for tea deteriorated and the price reached low levels that had not been experienced for a long time. By the second quarter of 1955 the balance of payments began to feel the impact of this deterioration. The favourable trend in Ceylon merchandise transactions was reversed. The very substantial trade surplus of nearly Rs. 200 m. and the current account surplus of Rs. 160 m. in the first quarter of 1955 were followed by a mere Rs. 51 m. and Rs. 10 m. respectively in the second quarter. This clearly illustrated the problem faced by countries whose economies were heavily dependent on the export of a few commodities. The sudden deterioration in Ceylon's balance of payments during the second quarter of 1955 tended to

reduce the rate of increase in her external reserves. The aggregate external reserves continued to rise but at a slower pace. With the recovery in tea prices and the emergence of higher rubber prices in the world market the trade surplus showed signs of improvement during the subsequent quarter.

4. The price of tea had tended to be stabilized and had even shown increases in July and August. However, very recent reports indicated that there had again been a setback for certain types of tea and prices fell considerably at the Colombo auctions. While it was not unlikely that the average price in the second half might at least tend to get stabilized at a slightly higher level than the low prices of the second quarter, previous heights could not be expected to be reached again. The rubber market was rather unsettled. The general price trend had been rising particularly with the resumption of Russian buying in the world market. The recent successful negotiations with China had enabled a firmer outlook for rubber, and on the whole the conditions were not likely to be depressed in the months ahead. As regards the three major coconut products - copra, coconut oil and dessicated coconut - the prices had remained relatively stable in the recent past. Present indications showed that there were adequate supplies of comparable products in the world market and it would be unreasonable to expect any significant improvement at least for copra and coconut oil during the coming months. Prospects for dessicated coconut were by no means bright and there were no indications of any marked upward change in the price of this product. On the whole, there had been favourable factors during 1955, but the outcome for the whole year would ultimately depend on the price and volume of exports of tea, rubber and coconut in the coming months.

5. In keeping with the improvements in Ceylon's balance-of-payments position, the Ceylon Government had taken measures to reduce overall import restrictions and to scale down considerably the discriminatory restrictions that had hitherto been strictly enforced. For obvious reasons Ceylon could not afford on the basis of temporary and sudden improvements in the payments position completely to eliminate these discriminatory restrictions. Fully conscious of its obligations as a contracting party to GATT, Ceylon had always responded to improvements in the balance-of-payments situation by reducing its restrictions to the extent considered prudently possible. The Ceylon Government could not, however, with any degree of assurance indicate the trends of the future. For countries like Ceylon now in the process of economic development, the need was not merely to maintain balance-of-payment equilibrium but to build up adequate reserves so vital for ensuring the fulfilment of its development programme. The country had had the bitter experience in the past of finding that excessive liberalization had brought with it dangerous consequences. The Ceylon representative concluded that nevertheless it was his Government's intention, as and when conditions permitted, progressively to relax the restrictions, which in their present form were in effect of a very marginal nature.

Consultation with the International Monetary Fund

6. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with their consultation with Ceylon. As the Fund had not, by the time of the Tenth Session, held its 1955 consultations with Ceylon under Article XIV of the Fund Agreement, it referred the CONTRACTING PARTIES to the results of, and the background material from, its 1954 consultations with that Government, and in addition provided the CONTRACTING PARTIES with factual material reviewing developments since those consultations. Consequently, in conducting the present consultation, the Working Party had before it the Fund's background material dated 17 January 1955, and a supplementary paper dated 13 October 1955 showing subsequent developments, as well as the following results of the Fund's 1954 consultations:

"1. The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"2. There has been a marked improvement in Ceylon's economic and financial situation since the middle of 1953. Internal stability has been achieved through monetary and fiscal policies. In the second half of 1953, Ceylon's balance-of-payments position began to improve, largely as a result of rising prices for tea exports, and in 1954 the external accounts are estimated to have been in over-all surplus, including a surplus with the dollar area. There has also been a rise in Ceylon's international reserves during the past year.

"3. The Fund notes with satisfaction the determination of the Ceylon Government to maintain internal stability and co-ordinate the undertaking of investment and economic development projects with the availability of domestic and foreign resources.

"4. The Fund also notes that, during 1953 and 1954, Ceylon has responded to improvement in its position by relaxing restrictions and reducing discrimination, and the Fund will expect a continuation of this policy, especially with respect to the dollar area, if Ceylon's balance-of-payments position continues favourable.

"5. In concluding the 1954 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon."

7. At the request of the Working Party the Ceylon delegation supplied the balance-of-payments figures relating to trade for the first half of 1955. These are summarized as follows:

(Rs. million)

1955	With Dollar Area	With Sterling Area	With Other Countries	Total
First quarter	60	70	68	198
Second quarter	45	- 22	29	52
First half	105	48	97	250

8. In explaining the general trends in Ceylon's trade and payments the representative of Ceylon indicated that in 1954 not only was the surplus on merchandise account substantial, but surpluses consistently accrued in every quarter of the year. In contrast to this, wide fluctuations appeared in 1955 and the surplus for the second quarter was only one-quarter the size of that in the previous quarter. Taking account of invisible items the net surplus on current account for the second quarter was Rs. 10 m. However, in view of the improvement in tea prices and the recent negotiations with China concerning rubber and rice, some improvement was likely in the second half of the year. It had been estimated that a trade surplus of about Rs. 75 to 80 m. might be achieved for the third quarter, and though this represented some improvement on the results of the second quarter, it would still be far below the high level reached in the first quarter of 1955.

9. Questions were asked in the Working Party on the level of discriminatory restrictions against the dollar imports being maintained by Ceylon in relation to the substantial surplus it was earning through transactions with the dollar area. The Ceylon representative explained that Ceylon's restrictions on dollar goods were not maintained only on the basis of its own balance-of-payments position with countries in the dollar area, but took account of Ceylon's position as a member of the sterling area. In this connexion he noted that a large proportion of Ceylon's surpluses with the dollar area did not lead to dollar receipts by Ceylon which could be used to augment Ceylon's dollar reserves. The restrictions being maintained on dollar imports affected mainly those types of goods which were not essential to the Ceylon economy. Capital goods such as machinery and equipment which were needed for industrial development were freely admitted.

10. The representative of Italy referred to Ceylon's substantial surpluses with non-dollar countries, to the decline in imports into Ceylon from OEEC countries, and in particular to Italy's substantial trade deficit with Ceylon. In the light of these developments the Italian representative wished to explore with the Ceylon delegation the possibilities of expanding Italian exports to Ceylon with a view to achieving a better balance of trade between the two countries. The Ceylon representative replied that all imports into Ceylon from OEEC countries were free from restriction, and that the reductions in imports from OEEC countries only reflected a general trend of falling imports in the past year as a result of internal economic policies and the expansion of domestic production in certain fields. Consequently it was not within the power of the Ceylon Government consistently with its obligations under the Agreement to increase its imports from non-dollar countries. At the request of the Italian representative a description was given by the Ceylon representative of the trade agreement between Ceylon and China under which rice was imported from the latter country, and the Italian representative expressed the wish to have an opportunity to explore with the Ceylon Government the ways and means of exporting Italian rice to Ceylon.

11. A discussion took place on the question of the "Ceylonization" of the import trade in Ceylon. It was explained by the representative of that country that the purpose of this measure was to induce local businessmen to engage in the import business. It was purely a domestic licensing procedure, and in view of the fact that the level of trade was in no way affected by it there could be no question of it being considered as involving any restriction on imports.

12. A member of the Working Party asked whether external reserves of Ceylon, which stood at about Rs. 900 million at the end of 1954 was considered in comparison with the current level of imports, as an adequate level. The representative of Ceylon replied that the reserves had been as low as Rs. 605 million at the end of 1953 and it was only through the combined effect of internal fiscal and monetary measures and a very favourable market for some of Ceylon's export products that the external assets had reached the present level. While purely from the angle of imports this might be satisfactory the general adequacy of the external reserves depended on other factors as well.

13. A member of the Working Party referred to the "monetary ceilings" set for the licensing of certain goods from the dollar area and suggested that in the interest of the trading community these should be made public; in case it should be found difficult to publish definite figures, even an indication in terms of percentages of previous imports might be of value. The Ceylon representative stated that his delegation would be glad to convey this suggestion to his Government for consideration. The Ceylon representative added, however, that most of these ceilings had not been availed of by importers, and applications for licences fell short of the monetary ceilings except for one commodity. With reference to a note in the Fund paper stating that special treatment was accorded as of 30 June 1955 to imports from Germany and Japan,

a member of the Working Party enquired whether this remained the situation. The Ceylon representative reaffirmed that since the second half of 1954 no restrictions had been maintained on imports from any OEEC or other non-dollar countries.

14. In answer to a question the Ceylon representative explained that the statement in the Fund paper to the effect that tinned plate was added on 6 April 1955 to the open general licence for imports from all countries except dollar area, etc., only meant that as from that date individual licensing requirement was withdrawn for that item when imported from non-dollar countries. It carried no implication that imports of that item would not be permitted under licence from the dollar area.

Nature of the discriminatory restrictions and the effect on trade

15. The only discrimination in Ceylon's import control was against the dollar area. Some members of the Working Party pointed out that prior to the intensification of restrictions in 1952, the level of discrimination in Ceylon for import restrictions had been very moderate, and that despite successive relaxation of restrictions the earlier situation had not been restored. In view of the improvement in the balance of payments, serious consideration in their view should be given by the Ceylon Government to reduce further the level of discrimination. In this connexion they referred to paragraph 4 of the results of the Fund's 1954 consultations with Ceylon quoted in paragraph 6 above, and to the effects of Ceylon's internal monetary and fiscal policies. The representative of Ceylon considered that the present margin of discrimination could not be regarded as substantial. In effect, only seventeen items of imports remained under restrictions which were discriminatory against the dollar area, namely:

- Fruits, fresh and dried
- Articles of food and drink, n.e.s.
- Tobacco, unmanufactured
- Cotton, raw
- Cotton, waste
- Glass tumblers, bottles, lamp-chimneys and globes
- Clocks and watches
- Wireless goods and apparatus
- Refrigerators (domestic)
- Textiles
- Motor cars and station wagons
- Small arms and parts thereof
- Musical instruments, gramophones and records
- Vegetables, preserved or tinned
- Photographic goods
- Manufactures of paper and cardboard
- Imitation jewellery

These were the only goods for which monetary ceilings were in force for imports from the dollar area. However, as mentioned above, except for one item, namely textiles, the monetary ceilings set for the past year had not been used in full, and consequently these restrictions could not be regarded in effect as being restrictive. A member of the Working Party suggested that the fact that the ceilings had not fully been used was an indication that Ceylon could move further in the direction of relaxing its restrictions against the dollar area. A further list, containing some nine items, were subject to licences issued at the discretion of the control authorities, but licences for these imports from the dollar area were issued liberally on demand. A few items subject to prohibition from the dollar area were not items which would normally be imported from that source anyway. The low level of dollar imports in the past year should be attributed to the effectiveness of the internal measures which had been taken to stabilize the economy rather than to discriminatory import restrictions. The Ceylon representative further assured the meeting that Ceylon's policy concerning import restrictions was kept constantly under review, and that the Government would not miss any opportunity of reducing the level of restrictions, discriminatory and otherwise, consequent upon any further improvement in Ceylon's balance of payments.

16. On the question of bilateral agreements, the Ceylon representative informed the Working Party that only two such agreements were in force - one with China providing for the export of rubber and imports of rice, and the other with Egypt. In the view of the Ceylon representative, neither of these agreements in any way involved discrimination or restrictions affecting imports from other countries.

17. Certain members of the Working Party expressed satisfaction over the measures of relaxation that had been taken by Ceylon in the past year and stressed the view that the removal of import restrictions, especially those of a discriminatory nature, whenever possible, would be in the essential interest of the country concerned. Among other things it would enable importers to obtain goods from the cheapest source which would be in the ultimate interest of consumers as well as of producers using imported materials.

18. The Working Party discussed with the representative of Ceylon the question of measures which might be taken by his Government to minimize the protective effects of the restrictions and to avoid unnecessary damage to the commercial and economic interests of other contracting parties. The Ceylon representative explained that the measures currently in force did not result in any unnecessary damage to the commercial or economic interests of other contracting parties nor would the Government sponsor or encourage any activity in this direction. However, due note was taken by the Ceylon representative of the views expressed by the other representatives participating in the discussion.

C O N F I D E N T I A L

3. NEW ZEALAND

New Zealand Statement

1. In conducting this consultation the Working Party had before it a background paper on the New Zealand economic situation and restrictive system which had been prepared by the International Monetary Fund especially for the CONTRACTING PARTIES as a part of its consultation with them under Article XV of the General Agreement. In addition, detailed factual data concerning the system of New Zealand's restrictions had been supplied by the New Zealand Government in its reply to the questionnaire relating to the preparation of the Sixth Annual Report under Article XIV:1(g).

2. In opening the discussion, the New Zealand representative observed that New Zealand's continued resort to discriminatory measures was not of its own choosing and that the policy was being liberalized as rapidly as circumstances permitted. New Zealand's overall balance of payments was in an adverse position, there being a substantial overall deficit as well as the deficit with the dollar area. In spite of this, the New Zealand Government had made notable efforts to move towards a liberal policy. A substantial reduction in the discriminatory element of the import restrictions had been made in the past year, through the following means:

- (a) continuation of the more liberal attitude which had been adopted since 1954 in licensing imports of essential plant and equipment and industrial raw materials from the dollar area;
- (b) extension of the World Exemption List so that more items were now exempt from licensing requirement when imported from any source; a major increase had been made to that list and it now included many important items;
- (c) reduction of the list of "scheduled countries." These countries now comprise mainly the dollar area and Japan.

3. The New Zealand Government considered that it was moving away from discrimination as fast as the sensitive and precarious balance-of-payments position allowed. New Zealand was also conscious of its responsibility in this matter as a member of the sterling area.

Trade and Payments Position

4. The New Zealand representative referred to the statistics on merchandise trade in the background papers prepared by the Fund, which provided an indication of the developments in New Zealand's trade with each of the main currency areas. The figures showed:

- (a) that the United Kingdom continued to take the largest proportion of New Zealand's exports; in 1954 about 67 per cent of New Zealand's exports went to that country;
- (b) that the second most important markets for New Zealand's exports were the OEEC countries, whose share in 1954 was about 16 per cent of the total; exports to OEEC countries had grown continuously in recent years;
- (c) chiefly owing to reduced exports of wool to the United States, the value of total exports to the United States and Canada had fallen substantially, New Zealand's export of wool to the United States in the past four years being:

	<u>£ million</u>
1951	19.9
1952	16.3
1953	9.8
1954	6.4

These figures reflected a decline in United States wool imports generally. Another factor was that the market for dairy products in the United States was now virtually closed to New Zealand except for a limited amount of cheese. Efforts had been made to promote the sale of other New Zealand exports to the United States, namely hides and skins, casein, crayfish and seeds, but the prospects of an increase in the total returns remained slight.

5. On the import side, the New Zealand representative noted that a substantial increase was shown in 1954 and that this had continued to 1955. While the general pattern of imports from different sources remained substantially unchanged there had been an increase in the proportion of imports from the United States and Canada, from 8.8 per cent in 1953 to 10.2 per cent in 1954. This increase in imports both absolutely and relatively from the United States and Canada should be taken note of against the declining New Zealand exports to those countries.

6. The overall balance of payments of New Zealand changed from a surplus of £25.2 million in 1953-54 to a deficit of £42 million in 1954-55, and transactions with the United States and Canada had resulted in a dollar deficit of £13.7 million in 1954-55, compared to a deficit of only £4.3 million in the previous year.

7. A member of the Working Party, referring to the statistics in the Fund paper which showed a sharp drop in imports from dollar sources between 1952 and 1953 and a continued low level of imports in 1954, wished to know the causes of the decline and the prospects for the current year. The New Zealand representative explained that the fall in imports in 1953 was largely due to the measures which were introduced in 1952 when the balance-of-payments position began to deteriorate, and which became fully effective in 1953. In 1954, when measures of liberalization were taken, dollar payments began to rise, and in fact import payments to the dollar area in the year ending June 1955 had risen to more than \$30 m compared with \$20 m in the previous year.

8. The Working Party discussed with the New Zealand representative the effects of borrowings from abroad on the country's balance of payments with various currency areas. The New Zealand representative stated that the borrowings from abroad had not been directly related to the balance-of-payments position. Their purpose had been to assist capital development projects, many of which required a substantial import of capital goods. The pressure on the balance of payments arising from development programmes was certainly partly relieved by the capital inflow.

#### Level and Movement of Reserves

9. The representative of New Zealand stated that as a result of the overall deficit position described above, the external reserves of New Zealand declined from £139 m to some £103 m in the twelve months ending June 1955. Seasonal factors were expected to cause a further decline in the second half of the year 1955. New Zealand's external reserves were held virtually all in sterling and the country maintained no reserves in dollars or other non-sterling currencies separately from the reserves of the sterling area as a whole.

#### General Observations on the Need for Discrimination

10. The New Zealand representative stated that the provision of the Agreement under which the discrimination was applied was paragraph 1.(c) of Article XIV. The reason for continued resort to discrimination was apparent from New Zealand's trade and payments position vis-à-vis the dollar area and from its interest in safeguarding the financial resources of the sterling area of which it was a member.

11. In answer to questions, the representative of New Zealand further explained that surpluses earned by New Zealand in its transactions with some non-sterling countries helped to offset its deficit with the sterling area, but such surpluses, including those with the OEEC countries, could not be used to finance imports from the dollar area because the currencies received were not freely convertible into dollars. Payments for New Zealand exports to OEEC countries were made through EPU on sterling account.

System and Method of Discriminatory Restrictions

12. The representative of New Zealand referred to the written data supplied by his Government and the Fund, which provided a detailed description of the system and method of restriction in New Zealand. Under that system most imports were admitted free from licensing requirements from all countries except those listed as "Scheduled Countries", which at present comprised mainly the dollar area and Japan. Except for those items which were on the World Exemption List, all imports from Scheduled Countries required licences. Discrimination therefore occurred in respect of these Scheduled Countries. The list of Scheduled Countries was reduced in July 1955 by the removal of eleven countries (none of which, however, was a contracting party to the General Agreement).
13. The representative of Japan mentioned to the Working Party that despite the fact that payments between Japan and New Zealand were made in sterling, Japan was still included as a Scheduled Country. The Japanese representative expressed the wish of having an opportunity of discussing with New Zealand the possibility of modifying that situation. As the General Agreement was not being applied between the two countries, the Japanese representative was aware that such discussion might have to take place outside the meetings of the CONTRACTING PARTIES. The New Zealand representative replied that discussions had taken place from time to time between his Government and the Japanese Government, and that these could be pursued as appropriate. He added that since the World Exemption List applied to imports from Japan, discrimination in respect of that country had been reduced.
14. As regards changes in the past year, the New Zealand representative stated that the main relaxation of discrimination had taken place in the form of increasing the range of goods subject to global exemption. During the 1955 licensing period the number of items thus released from all import regulations had increased from 95 to 153, including many items which were important in New Zealand's import trade. The policy, adopted in April 1954, to accord more liberal treatment to applications for licences for essential plant and equipment and industrial material from the dollar area has been continued in 1955 and in some cases licences were being issued virtually without restriction. The adoption of these policies had been responsible for the substantial increase in imports from the dollar area in 1955.
15. In discussing the relationship between these measures and New Zealand's general commercial policy, the New Zealand representative stated that the reduction in discrimination in the application of its import restrictions was in line with the Government's long-term policy of moving away from discrimination as soon as circumstances permitted. The liberalization of dollar imports in the past year had also taken place at an appropriate time in relation to current economic conditions of New Zealand.
16. In discussing the factors which were taken into account in determining the discriminatory element in licensing policy, the New Zealand representative

observed that price was not the major consideration in determining discrimination policy. More important considerations included the essentiality of the goods in question and the availability of supplies from other sources. However, the price factor was not ignored, especially since the price of imported goods was an important element in New Zealand's internal cost structure.

17. On the question of discrimination between non-dollar imports, the New Zealand representative noted that no distinction was drawn in the application of import restrictions between the United Kingdom and other members of the EPU, and when licences were granted or exemptions made for imports from non-scheduled countries they applied to imports from all the countries within that category. Some items remained under licence when imported from non-scheduled countries, but this treatment was applied to imports from all such countries without distinction. No bilateral agreements were entered into by New Zealand. In this connexion, the New Zealand representative remarked that the operation of bilateral agreements between other countries often hindered New Zealand's exports to those countries, and that this was a matter of concern for the New Zealand Government.

#### Effects of the Discriminatory Restrictions

18. The New Zealand representative stated that the effects of discrimination had been reduced during the past year by the measures described above. New Zealand did not operate a token import scheme but the system had enough administrative flexibility to avoid any serious damage to the commercial or economic interests of other contracting parties when cases were brought to notice. In some cases where goods from the dollar area were prevented from entering New Zealand, it was often open to the exporters concerned to maintain their interests in the New Zealand market by investing in subsidiary companies to produce similar goods locally. During the past year, the New Zealand Government had taken a number of steps to encourage such investment including more liberal provision for the repatriation of capital and the remittance of profits to the dollar area. As for the protective effects of the restrictions, the New Zealand representative observed that as imports from non-scheduled countries were generally freely admitted, the discriminatory margin in the restrictions could have but little protective effect on local production. Although it might be contended that the possible exclusion of goods from a cheaper source could have some protective effect on domestic production, any such effect would be overshadowed by the general policy pursued by the government in consistently moving away from discriminatory restrictions as fast as circumstances permitted.

#### Prospects for the Elimination of the Restrictions

19. Questions were asked by members of the Working Party concerning the substitution of tariff protection for quantitative restrictions. The New Zealand representative replied that while there were many aspects of the tariff review, some of these were of a complex nature and involved internal and other policies which seemed to be beyond the scope of the present

consultation. The competent body dealing with these problems, namely, the New Zealand Board of Trade, which had an advisory capacity both on tariff questions and on import licensing matters, was fully aware of the problems concerning discrimination and its effects. Consequently, questions of discrimination and its various effects were certainly taken into account by the New Zealand Government in the formulation of the general commercial policy of the country.

20. In concluding the discussion, the New Zealand representative reaffirmed that his Government had taken major steps in the reduction of discrimination during the past year. Further progress would, however, depend not only on New Zealand's own position but on much wider considerations such as developments in the collective approach to convertibility.

21. At the close of the consultation with New Zealand which was the last one to take place at this Session, a member of the Working Party stated that he was impressed by the extent to which the external receipts of Australia, Ceylon, the Federation of Rhodesia and Nyasaland the New Zealand were dependent on the export of one or two commodities. These countries were all undergoing a process of rapid development. In determining what levels of reserves should be considered sufficient for these countries, one therefore had to bear in mind their particularly vulnerable position and the necessity of holding sufficient reserves to ensure a steady fulfilment of their development programmes. The principal consumers of the commodities exported by these countries could greatly contribute to the stability in the foreign exchange situation of these countries through pursuing good-creditor policies and through the adoption of internal policies which aimed at maintaining a high and stable level of economic activity. These views were supported by some other members of the Working Party.

#### APPENDIX

##### Statement by the representative of the International Monetary Fund concerning the consultation with New Zealand under the Decision of 20 January 1955

"The Fund has been requested by the CONTRACTING PARTIES to consult with them in connexion with their consultation with New Zealand under the Decision of the CONTRACTING PARTIES of 20 January 1955. The Fund has had available for this purpose a considerable amount of factual data on the current situation of New Zealand. The authorities of New Zealand have co-operated in making information available and ensuring its accuracy. The Fund after examining the information has found nothing to cause it to comment on the question as to whether New Zealand's action in exchange matters is consistent with the Fund's principles."

C O N F I D E N T I A L

4. THE FEDERATION OF RHODESIA AND  
NYASALAND

1. In conducting this consultation the Working Party had before it the background paper prepared in the International Monetary Fund (dated 13 October 1955) on economic developments in and the restrictive system of the Federation of Rhodesia and Nyasaland. The representative of the Federation, upon requests by members of the Working Party, supplied statistical data on external trade for the first half of 1955. This supplemented the data in the Fund background paper giving payments statistics up to 1954.

System and Method of Import Restrictions

2. The representative of the Federation referred to his Government's reply to the GATT questionnaire for a detailed description of the restrictions in force. It was noted that the Federal Government assumed control on 1 April 1954 over imports into the three territories of the Federation. Licences were required for all imports into the Federation from non-sterling area countries, except that goods for which an open general licence had been issued might be imported freely from any country. Imports subject to licences fell into three categories:

- I. Goods licensed freely from non-sterling countries;
- II. Goods licensed freely when imported from OEEC countries and seven non-OEEC contracting parties;
- III. Goods subject to quota when imported from (a) the dollar area and (b) non-dollar countries outside the sterling area.

For goods subject to quota, quotas were issued for six-month periods and distributed to importers. Goods which were of most importance to the Federation, including capital goods, were in general on open general licence, or in category I above.

3. In discussing recent changes in the system of restrictions, the representative of the Federation stated that as might be seen from the description in the Fund background paper, all the changes in the past year had been in the direction of liberalization. In the first half of 1955 a number of commodities (e.g. steel, agricultural machinery, photographic equipment, etc.)

were added to the unrestricted list. The dollar allocations were about \$1 million higher than the actual imports in the previous half-year. In the second half of 1955 imports from OEEC countries and seven non-OEEC contracting parties were liberalized to the extent of about 90 per cent of total trade with them; all imports from these countries except motor vehicles, certain textiles and certain types of paper were on the unrestricted list, while quotas for certain of these residue items were increased. The representative of the Netherlands expressed satisfaction over the progress made in the relaxation of non-dollar imports, and hoped that further progress could be made in the near future.

4. A member of the Working Party noted that these latest relaxations had not been extended to the dollar area, although the Federation continued to enjoy a favourable balance in its own dollar account. In the course of discussion the representative of the Federation stated that, with the extension of Schedule I permitting free imports from all sources, and with the increase in the allocations for imports from the dollar area, liberalization had covered the dollar area as well as OEEC and other countries. He observed that the Federation was a member of the sterling area and furthermore had a common quota in the IMF with the UK and other territories. (As regards the common quota, the relevance of Article XIV:3(a) was noted by members of the Working Party.) The Federation had a special interest in the strength of sterling and in the trends of the gold and dollar reserves of the sterling area. Thus the Federation's trade liberalization policy had to be linked to its broader interests, although its own dollar account was also a relevant factor. As for the main criteria used in deciding the level of restriction on various goods, the first was the essentiality to the country of the goods in question and the second the prices of supplies from different sources.

5. A discussion took place on the import controls in force in the Federation on grounds other than the safeguard of the balance of payments. These controls, as noted in the Fund paper, affected goods such as wheat, flour, cement, sugar and "motor vehicles assembled of parts manufactured in the United States and Canada". The representative of the Federation explained that these controls were applied non-discriminatorily as between sources of supply, and were maintained for such reasons as the achievement of orderly distribution of goods, marketing, etc. In the case of motor vehicles, however, considerations relating to foreign exchange were involved, as the import of such vehicles in some cases required reimbursement in dollars to the exporter for the dollar element of the goods supplied.

6. On the question to what extent price differences were taken into account in the provision of quotas for imports from different sources, the representative of the Federation explained that applications for licences were dealt with on an ad hoc basis and that no hard and fast rule or definite differentials had been established. In fixing foreign exchange import quotas, a substantial reserve was kept unallocated among the different categories of goods in order to allow the licensing of imports to meet special needs. Any cases of urgent need or hardship that might be brought to the attention of the Government could be met by resorting to these reserved sources.

7. On the question of bilateral agreements, the Federation representative noted that there was only one such agreement in force, under which the Federation undertook during 1955 to authorize imports from France up to £11,000 of specified items which were the traditional exports of that country. On the French side an undertaking was given to authorize import into the French Union of tobacco produced in the Federation. As the French products in question were of the types which were exclusively produced in France, the question of whether licences were issued or withheld for similar imports from other countries was not a practical issue. Payments between France and the Federation were effected through the EPU on sterling account.

#### Effects of the Restrictions

8. A member of the Working Party referred to the rising Northern Rhodesia price index for foodstuffs given in the Fund background paper, and enquired whether discriminative import restrictions had the effect of unduly limiting sources of supply to the domestic market. The representative of the Federation replied that the rising price index had probably mainly reflected the removal in Northern Rhodesia of subsidies including those on maize and flour.

9. A member of the Working Party enquired whether the discriminatory restrictions had to any extent affected the economic development of the Federation. The representative of the Federation replied that imports of capital goods required for industrialization as well as raw materials needed by the local industries, had always been more or less freely imported. Consequently there was no evidence that the economic development of the Federation had been affected by the discriminatory import restrictions.

#### Prospect for Elimination of the Restrictions

10. On this question the Federation representative drew attention to the fact that 88 per cent of the Federation's exports consisted of primary commodities which, with the exception of one item - namely gold, were subject to wide fluctuations on the world market. The balance of payments of the country was therefore particularly vulnerable, and it was difficult to make any forecast except for the very near future. Furthermore, he indicated that the general position of sterling was relevant in this context.

11. The Working Party discussed with the representative of the Federation the relationship between capital imports into that country and their effects on the balance of payments. It was pointed out by the representative of the Federation and by a member of the Working Party that, although the inflow of foreign capital would have the immediate effect of reducing pressures on the balance of payments, from the long-term point of view the question had to be viewed against the country's capacity to service the capital. However, foreign investments in approved fields were always welcome and there was no restriction on the repatriation of such capital or on the remittance of interests or dividends. Only unapproved capital inflow, mainly funds which moved about for speculative reasons, was not permitted to be repatriated within ten years.

12. Members of the Working Party representing contracting parties in the dollar area noted that discriminatory restrictions on dollar imports were still severe and it was hoped that the Federation would further relax these restrictions in the near future.

13. Some members of the Working Party hoped that the Government of the Federation would be prepared to give sympathetic consideration to any representations that might be made by countries affected by the restrictions and that further measures of liberalization might be possible in the near future. The representative of the Federation noted that his Government normally carried out routine consultations in the Federation with overseas trade representatives regarding the administration of its import restrictions. He concluded by stating that it was his Government's policy to work towards the freedom of the Federation's external trade.

C O N F I D E N T I A L

5. THE UNITED KINGDOM

United Kingdom Statement

1. In opening the consultation the representative of the United Kingdom made a statement in which he described the developments in the past two years in the balance-of-payments position of the United Kingdom. It was pointed out that during 1954 the United Kingdom had made considerable further progress with its policy of relaxing import restrictions and of reducing discrimination to the greatest extent permitted by the balance of payments. One important feature of that policy was to extend the greater freedom of choice implied in non-discrimination to those items which would contribute most to the strengthening of the economy, thus preparing the way for further steps towards freedom. The reduction in discrimination was, therefore, most marked in the field of foodstuffs and raw materials. In that period the government also restored to private importing almost all the foodstuffs and raw materials which remained under state trading, and re-opened most of the remaining traditional London commodity markets. Consequently, traders in the United Kingdom were able to buy such dollar commodities as non-ferrous metals, coffee, cocoa, raw sugar and copra for dollars and sell them for sterling. Some \$250 million a year were spent by United Kingdom traders on commodities dealt with in these markets and this helped substantially to reduce the extent of discrimination against the dollar area in the world as a whole. These were some of the major developments in the year 1954 in the process of liberalizing imports from the dollar area. They must be viewed against the background of the general improvement which had taken place during that year both in the internal economy and in the external balance of payments of the United Kingdom.

2. In recent months there has been a change in the fortunes of the country. The considerable increase in imports, mostly necessary to keep pace with a markedly buoyant economy at home, and made possible by the measures of relaxation and liberalization introduced over past years had, in the absence of a corresponding increase in exports, led to a deterioration in the balance-of-payments position, which first became noticeable towards the end of 1954. The excess of total imports c.i.f. over total exports in the first nine months of 1955 had been no less than £676 million as against only £425 million in the same period of the previous year. The gold and dollar reserves had fallen and by the end of October amounted to the equivalent of £821 million compared with their peak figure of £1,078 million in June 1954. Although exports were rising at an appreciable rate and although the reserves figures for October were reassuring, the United Kingdom Government was not satisfied with the country's present share in world export trade or with the way in which the balance-of-payments position had been moving.

3. In the circumstances, such progress as had been made in the past year in the relaxing of restrictions and in the reduction of discrimination could not be expected to be comparable to the achievement of the previous year; nevertheless, the United Kingdom had not retrogressed in its policy of widening trade and moving to a freer system of payments, and some progress had been made. For example, since the beginning of 1955, a number of products, namely, hides and skins, some fats and oils, cotton linters, phosphate rock, some ferro-alloys and aluminium had been added to the list of goods which could be freely imported from any source, and sulphur would be added to that list at the beginning of 1956. In those cases where complete freedom was still not possible progress had nevertheless been made through the establishment of new or increased dollar quotas, or through other arrangements for larger imports. For example, pulp, paper and board were now permitted to be imported within the limits of the quotas from any source. Provision had been made for larger imports of certain other materials for industry including synthetic rubber and newsprint. Quotas had been introduced for hardwood, motorcars, etc., while existing quotas for items including canned salmon, and certain varieties of fruit from Canada, had been renewed.

4. There had also been additions to the list of goods which could be freely imported from OEEC and certain other countries. These newly added items, however, were not items which would add substantially to the cost of United Kingdom imports and the government did not feel able in present circumstances to take the step of freeing certain more costly items so as to bring the liberalization percentage in OEEC to 90.

5. As a result of all the measures taken in recent years, over half of United Kingdom imports from the dollar area were now free from restriction; this was a considerable achievement.

6. In concluding, the United Kingdom representative referred to the speeches made by the Chancellor of the Exchequer at the recent annual meetings of IMF and IERD, and in the House of Commons when introducing his Autumn Budget. It was indicated by the Chancellor that the worst of the United Kingdom's troubles at present was its too buoyant internal economy; that the Government would take all necessary measures to curb demand on the home front; that the United Kingdom would not be able to afford to take major steps forward on the trade front until it was satisfied with the strengthening that had been achieved at home; that on the other hand, it was not by physical cuts in imports that the Government intended to solve its difficulties; and that once by determined effort the recent deterioration in the balance of payments was redressed, the United Kingdom would be glad to take the next step towards freedom.

#### Consultations with the International Monetary Fund

7. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with their consultation with the United Kingdom. As the Fund had not, by the time of the Tenth Session, held its 1955 consultations with the United

Kingdom under Article XIV of the Fund Agreement, it referred the CONTRACTING PARTIES to the results of, and the background material from, its 1954 consultations with that Government, and in addition provided the CONTRACTING PARTIES with factual material reviewing developments since those consultations. Consequently, in conducting the present consultation the Working Party had before it the background material prepared by the Fund staff in 1954 and a supplementary paper showing subsequent developments, as well as the following results of the Fund's 1954 consultations:

- "1. 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.
- "2. United Kingdom production and incomes have continued to rise in 1954. Monetary and fiscal policies have succeeded in maintaining balanced expansion. There has also been an improvement in the balance-of-payments with the dollar and other areas and in the reserve position. A substantial volume of indebtedness has been repaid.
- "3. The Fund welcomes the relaxations of restrictions and reduction of discrimination made since the 1953 consultations and notes with satisfaction the United Kingdom's intention to continue this policy and progress further toward convertibility. While appreciating the United Kingdom's need to maintain a substantial current surplus in its external accounts, the Fund hopes that this objective will not impair the further removal of restrictions, and believes that a continuation of the favourable circumstances now prevailing will permit the present policy of moving towards convertibility to be continued.
- "4. In concluding the 1954 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom."

#### Special problems

8. The United Kingdom representative supplied the Working Party with a table showing the regional current account balances of the United Kingdom in 1952-1954 and in the first half of 1955 (Table I) which collated and brought up to date the figures supplied by the Fund. Referring to those figures, the United Kingdom representative pointed out that although the United Kingdom's current account balance for the year 1954 as a whole showed an improvement, this concealed a marked deterioration in the second half of the year, and that there had been a further deterioration in 1955. Movements in the reserves, of course, were affected not only by the balance of payments on current account of the United Kingdom itself, but also by the current account balance of the

**TABLE I**  
**Regional Current Account Balances of the United Kingdom<sup>1/</sup>**  
(£ million)

	1952	1953	1954		1955
			1st half	<sup>2/</sup> 2nd half	
<b>Dollar Area:</b>					
Exports and re-exports, f.o.b.	410	443	205	213	233
Imports, f.o.b.	- 606	- 519	- 240	- 325	- 354
Trade balance	- 196	- 76	- 35	- 112	- 121
Services	- 121	- 59	18	- 37	- 1
Government transactions	23	20	14	+ 9	+ 12
Current balance	- 294	- 115	- 3	- 140	- 110
Defence aid, net of counterpart	121	102	24	26	33
Current balance, incl. aid	- 173	- 13	21	- 114	- 77
<b>OECE Area:</b>					
Exports and re-exports, f.o.b.	730	760	400	389	417
Imports, f.o.b.	- 738	- 678	- 362	- 397	- 411
Trade balance	- 8	82	38	- 8	6
Services	9	40	23	21	- 8
Government transactions	- 27	- 29	- 13	- 16	- 14
Current balance	- 26	93	48	- 3	- 16
<b>Other non-sterling countries:<sup>3/</sup></b>					
Exports and re-exports, f.o.b.	360	259	146	129	164
Imports, f.o.b.	- 359	- 366	- 177	- 181	- 189
Trade balance	1	- 107	- 31	- 52	- 25
Services	117	88	46	45	30
Government transactions <sup>3/</sup>	- 37	- 40	- 19	- 16	- 14
Current balance	81	- 59	- 4	- 23	- 9
<b>CURRENT NON-</b> excl. aid	- 239	- 81	41	- 165	- 135
<b>STERLING BALANCE:</b> incl. aid	- 118	21	65	- 140	- 102
<b>Rest of sterling area:</b>					
Exports and re-exports, f.o.b.	1325	1209	673	661	717
Imports, f.o.b.	-1241	-1323	- 692	- 633	- 713
Trade balance	84	- 114	- 19	28	4
Services	416	382	177	206	180
Government transactions	- 131	- 109	- 58	- 73	- 65
<b>CURRENT BALANCE WITH R.S.A.</b>	369	159	100	161	119
<b>TOTAL CURRENT BALANCE:</b> excl. aid	130	78	141	- 5	- 16
incl. aid	251	180	165	21	17

<sup>1/</sup> Minus sign indicates debit; no sign indicates credit.

<sup>2/</sup> Provisional.

<sup>3/</sup> Including debits of -6, -9, -4, -13 and -8 to government transactions with non-territorial organizations.

Source: Cmd. 9291.

rest of the sterling area and by capital movements. The gold and dollar reserves, which had risen from the low point of \$1,662 million in April 1952 to \$3,017 million in June 1954, had since that date declined significantly, and by October 1955 they amounted to no more than \$2,297 million. The rate of fall in October was smaller than in the preceding month but nevertheless the decline in the past four months had totalled \$383 million.

9. In discussing the present and future trade and payments position of the United Kingdom, a member of the Working Party suggested that the change in the general attitude towards sterling which had been discernible since the United Kingdom Government's views were clarified at the recent annual meeting of the International Monetary Fund and International Bank for Reconstruction and Development might lead to the United Kingdom regaining the reserves that had been lost through speculative transactions in the preceding months. The United Kingdom representative expressed the hope that the regained strength of sterling would stop any further drain on the reserves through short-term capital movements, but stressed the importance for the United Kingdom of earning a substantial surplus on current account whatever the level of capital movements might be.

10. Certain members of the Working Party, referring to the remarks by the United Kingdom representative noted in paragraph 2 above, considered that the increase in imports which was attributed to trade liberalization might have occurred in any case owing to the buoyant state of the United Kingdom economy. The United Kingdom representative agreed that the increased imports were necessitated by the buoyant internal economic situation and high demand, and that the same volume of imports might in the circumstances have been licensed even if goods now liberalized had remained under licensing control; but the United Kingdom was not in a position at present to dispense with further import controls or to enlarge the coverage of open general licences. Caution was necessary in the present uncertain state of the balance of payments.

11. It was pointed out by a member of the Working Party that the liberalization measures taken by the United Kingdom in 1953 had not increased imports from all dollar countries which showed that relaxation of restrictions did not necessarily increase the risk or burden for the importing country. In the view of that member, the internal measures that had been taken by the United Kingdom Government were of great importance, and it was gratifying to find that such measures were taken instead of the restriction of imports. Another member subsequently commented in similar terms. As regards the movements in reserves, reference was made to the progressively larger deficits in EPU incurred by the United Kingdom in July to September 1955 and it was pointed out that gold and dollar payments through the EPU constituted close to half the total loss in reserves during that period. The United Kingdom representative, while admitting the relevance of these deficits to the recent falls in the reserves, pointed out

that the summer months were seasonally adverse for the United Kingdom, in EPU, partly due to tourist expenditure. Too much should not, therefore, be made of the connexion between these deficits and the fall in the gold and dollar reserves. Whereas deficits in July-September totalled £91 million, the deficit in October was only £15 million.

12. In concluding this part of the discussion, the United Kingdom representative referred to the current account figures given in Table I, which showed the general position and pointed to the reasons for the continued resort by the United Kingdom to the provisions of Annex J.

#### System of discriminatory restrictions and their effects

13. For a description of the system of discriminatory restrictions the United Kingdom representative referred to the successive answers provided by his Government to the questionnaire for the preparation of the annual reports under Article XIV:1(g). The system remained substantially as described in the 1953 answers, and a summary description of that system will be found in the Annex to the Sixth Annual Report under Article XIV:1(g) which is being prepared by the Working Party. Supplementing the written information and in answer to various questions, the United Kingdom representative said that there had been no tightening up of licensing criteria; in fact there had been certain relaxations in the criteria for the licensing of imports not under quota. In particular, more favourable consideration was now given to applications for imports of chemicals from the dollar area. While for certain goods such as machinery consideration would be based on the availability of supplies in the United Kingdom as well as in other non-dollar area countries, for chemicals the chief criterion was the availability of supplies in the United Kingdom alone. This treatment accorded to chemicals was in line with the general policy of giving greater freedom of choice for items which would strengthen the economy. It was not in the United Kingdom Government's interests unnecessarily to increase the strain on the balance of payments by forcing importers to more expensive sources of supply. In determining its import licensing policy the United Kingdom Government paid considerable attention to that fact, which was of special importance for raw materials and other imports affecting substantially costs of production and so the competitive power of United Kingdom exports.

14. In the view of the United Kingdom representative, the general trend in liberalizing United Kingdom imports had only been temporarily arrested in the past year, because of the less favourable balance-of-payments situation, and it remained the Government's intention to undertake further liberalization as soon as the balance of payments permitted. On the question of the policies pursued in the dependent territories of the United Kingdom, the United Kingdom representative felt sure that there was no present danger of such territories embarking on any intensification of discrimination.

15. A member of the Working Party suggested that experience had shown that liberalization of trade, and especially the reduction of discrimination, rather than changing patterns of trade for the country taking such action, might contribute to improving its terms of trade, so as to lessen balance-of-payments difficulties. Commenting on this view, the United Kingdom representative stated that while it was difficult to distinguish the effects of liberalization from other factors affecting the terms of trade and consequently impossible to accept this view without qualification, the argument behind that view was tenable in certain circumstances and was, in fact, one of the ideas behind the re-opening of London commodity markets.

16. It was observed by a member of the Working Party that according to calculations made by OEEC, taking 1953 as a base year, the United Kingdom had by 15 April 1955 liberalized only 5 per cent of its imports of manufactured goods (including producers' goods) whereas the percentage for food and feeding stuffs and raw materials from the United States and Canada had reached 73 and 69 per cent respectively. In this connexion the United States representative stated that the present United Kingdom restrictions created difficult problems for United States exporters of a number of manufactured goods and agricultural products. He suggested that as producers' goods in particular also entered into the costs of production, liberalization of such goods might also contribute to a lowering of costs. The United Kingdom representative, while in general agreement with this view, pointed out, however, that raw materials constituted a higher proportion of the costs of production. Consequently, priority would be given to liberalization of the import of raw materials over other goods, although in the last analysis priority might well be given in the field of manufactures to producers' goods over consumers' goods.

17. On the question of multilateral or regional payments arrangements, the United Kingdom representative stated that, as was well known, the United Kingdom imposed very few restrictions on imports originating in the sterling area. In addition, his Government participated in the OEEC and EPU, and had recently entered into a multilateral payments arrangement with Brazil, Germany, and the Netherlands. The latter arrangement was intended to enable Brazil to use for payments to any one of the three other countries currencies it had earned in any other of these three countries. The United Kingdom representative observed that although it involved four countries only, the arrangement provided for payments facilities much less rigid than under a bilateral arrangement and therefore was considered to be a step towards multilateralism. On the other hand the arrangement would not have the effect

of increasing the transferability of sterling, as this was already transferable throughout the non-dollar world. In reply to an enquiry whether there were provisions in the agreement to ensure that this was a transitional arrangement leading to full convertibility, the United Kingdom representative stated that no special provision was made for settling balances in gold or dollars but that the present agreement was for a limited period.

18. In the view of a member of the Working Party the recent increase in the gold-to-credit ratio for the settling of monthly balances in EPU should have the effect of reducing the need for countries to discriminate in favour of EPU imports as against imports from the dollar area. The question was put whether the United Kingdom Government had re-evaluated its discrimination policy in the light of this change. The United Kingdom representative stated that the implications of that change would certainly be taken into consideration by his Government in reviewing from time to time its policy of discrimination; undoubtedly the change would become an increasingly important factor in future. The fact was, however, that imports from OEEC still cost relatively less in dollars than imports from the dollar area. Moreover, the general balance-of-payments situation of the country had been such in recent months that the United Kingdom had felt obliged to refrain from incurring that additional dollar expenditure which was inseparable from any reduction of discrimination.

19. As regards the extent to which bilateral agreements were used, the United Kingdom representative referred the Working Party to his Government's answers to the questionnaire in 1953 and to the subsequent supplements thereto. Not only had the number of bilateral agreements in force become less in recent years, but their scope had also been diminished. Most of the remaining agreements provided only for a mutual undertaking to issue licences for specified goods up to certain amounts. As more goods were added to open general licences for free importation, the range of goods that could be covered by bilateral agreements was progressively reduced. As noted in the Fund background paper, the United Kingdom had recently entered into an Agreement with Bulgaria, which provided for the repayment of debts and an expansion of trade.

20. As for the effects of the discriminatory restrictions on other countries, one member suggested that such restrictions were harmful not only to the countries whose exports were discriminated against. From the long-term point of view, damage might be done to countries "benefiting" from the discrimination in the short run, through the undermining of their cost structure and competitive position.

21. Referring to the statement by the United Kingdom representative that over half of United Kingdom imports from the dollar area were free from restriction, a member of the Working Party pointed out that such percentage might overstate the liberal nature of the import restrictions. In fact, many important items, including industrial materials, still remained under severe restriction which discriminated against the countries in the dollar area. On this point, the United Kingdom representative assured the Working Party that his Government would continuously review its policy of discrimination and that no opportunity would be missed of reducing the level of discriminatory restrictions as the balance of payments permitted.

22. In discussing measures taken to ensure that discriminatory restrictions did not cause unnecessary damage to the commercial or economic interests of other contracting parties, the United Kingdom representative stated that the measures being taken in the United Kingdom to reduce to the minimum any incidental protective effect of the restrictions were essentially the same as those taken by the Australian Government, which had been discussed in the course of the consultation with that Government, except that in the United Kingdom system no provision was made for the interchangeability of quotas for different goods. He agreed that the most effective way of ensuring that manufacturers realized the true nature of the restrictions was the steady implementation of the policy of progressive reduction and elimination of discriminatory restrictions whenever the balance of payments allowed it, which the United Kingdom Government had adopted.

23. Another member suggested that the Working Party should hear the United Kingdom representative's views on the question of what measures other countries could take to assist the United Kingdom in its progress towards freer trade, and further enquired whether, given increased access to foreign markets, the United Kingdom would be in a position to expand its exports in the interest of its balance of payments. The representative of the United Kingdom replied that it was thought that by reducing the pressure of home demand, resources at present used to meet home consumption could be diverted to export production and that even with the present level of restrictions additional exports were possible. Given greater export opportunities a further expansion should be possible. He therefore emphasized the importance of "good creditor policies" on the part of countries in a strong creditor position.

ANNEX I

A. PLAN FOR CONSULTATIONS UNDER ARTICLE XII:4

I. Circumstances leading to the Intensification

1. Changes in exports and imports;
2. Changes in other external receipts and payments;
3. The resulting changes in gold and foreign exchange reserves;
4. Effects of governmental policies on the balance of payments;
5. Prospects for the future.

II. Alternative Measures to restore Equilibrium

6. Internal fiscal and monetary measures to preserve or restore equilibrium (see Article XII:3(c)(1));
7. Long-term measures, e.g. to raise productivity and export capacity, to reduce structural disequilibrium or rigidities;
8. Measures expected to have more immediate effect on the balance of payments.

III. Nature and Extent of the Intensification

9. Categories of goods affected; changes in quotas and treatment of goods for which no quotas are provided;
10. Treatment of exports from different countries or currency areas; increase or reduction in discrimination;
11. Level of restrictions resulting from the intensification in relation to the need for restrictions (see Article XII:2(a));
12. Expected duration of the intensified restrictions; possibility of alleviation or modification in the near future.

IV. Effects on Trade

13. Expected changes in imports as a result of the intensification (total and from different currency areas);
14. The avoidance of unnecessary damage in accordance with Article XII:3(c)(iii) including steps:
  - (a) to alleviate hardships by admitting goods under firm order placed before the intensification;
  - (b) to preserve the normal channels of trade, through admitting token imports, avoiding total prohibition, etc;

15. Steps taken to reduce the protective effect of the restrictions;
16. Effects of the restrictions on particular commodities of interest to individual contracting parties.

B. PLAN FOR CONSULTATIONS UNDER ARTICLE XIV:1(g)

I. Basis and Background for the Application of Discrimination

1. Trade and payments position and trends with respect to various currency areas.
2. Level and movement of reserves.
3. General position and the reasons for the continued resort to the provisions of Article XIV:1(c) or of Annex J.

II. System of discriminatory Restrictions and their Effects

4. Description of the system of restrictions applying to imports from different areas, countries or groups of countries; changes in the past year.
5. Changes in quotas for imports, or in the criteria used in licensing imports not under quota, from such areas, countries or groups of countries.
6. Price considerations as a factor in determining the discriminatory elements in licensing policy.
7. Participation in multilateral or regional payments arrangements.
8. Extent to which bilateral agreements are used; their nature and scope (whether they provide for the fixing of import quotas, or involve undertaking to purchase goods or to issue import licences, etc.); their effects on the administration of import restrictions.
9. Effects of discriminatory restrictions. Measures taken to ensure that discriminatory restrictions do not cause unnecessary damage to the commercial or economic interests of other contracting parties.

III. Prospects

10. Prospects of eliminating the discriminatory restrictions.

ANNEX III

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

1. 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 permitting the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report has been drawn up by the CONTRACTING PARTIES at their Tenth Session held in October - December 1955. It is based on information supplied by the contracting parties concerned, either in writing or in the course of discussions and consultations at that Session, and on data gathered from other sources, including information supplied by the International Monetary Fund. The report is devoted principally to an examination of the general trend in the field of discriminatory restrictions during the first ten months of 1955. In the Annex a brief description is given of the discriminatory restrictive system of each of the contracting parties concerned, and of the more important modifications introduced during the year.

2. In statements submitted in 1955 at the request of the CONTRACTING PARTIES or in other communications, twenty-three of the thirty-five contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balance of payments and are exercising some degree of discrimination as between sources of supply as permitted under paragraphs 1(b) and/or 1(c) of Article XIV, or under Annex J. These are:

Australia  
Austria  
Brazil  
Burma  
Ceylon  
Chile  
Denmark  
Finland

France  
Germany  
Greece  
India  
Italy  
Japan  
Netherlands  
New Zealand

Norway  
Pakistan  
Rhodesia and  
Nyasaland  
Sweden  
Turkey  
United Kingdom  
Uruguay

Among these, the Government of Brazil has indicated that its system is under study and it is now being considered whether its resort to the provisions of Articles XII and XIV has not ceased with the institution on 10 October 1953 of the exchange auction system under which the licensing of imports is automatic upon closure of bidding by importers for foreign exchange.

3. The Governments of Indonesia and the Union of South Africa have stated that they are not acting under any of the provisions of Article XIV. Ten contracting parties, namely Belgium, Canada, Cuba, Czechoslovakia, Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States, have reported that they do not restrict imports for balance-of-payments reasons. Among these, the Government of Czechoslovakia has stated that state trading in Czechoslovakia is an integral part of the planned economy under which imports are effected to the full extent of the country's requirements and are not restricted for reasons of monetary reserves.

4. It was noted in last year's report<sup>1</sup> that the general improvement in the world dollar situation which began in 1953 had continued in 1954, and that there had remained only a few countries, notably some of those largely dependent upon the export of raw materials, for which the difficulties of preceding years had not been lessened. Although this continued trend was due in part to several special factors of uncertain duration and magnitude, such as the sustained volume of United States off-shore purchases and military and other expenditures abroad, the vigorous recovery of industrial production, especially in Europe, had enabled most major trading countries to withstand the effects of a recession in the United States and to continue to increase their gold and dollar reserves. The general improvement during 1953-54 encouraged a number of the more important trading countries to introduce greater freedom in their international transactions and to reduce the degree of restriction on imports. Especially in 1954 the reduction of restrictions on imports from the dollar area figured more prominently in the measures of relaxation adopted.

5. In 1954 the dollar payments position of the non-dollar world as a whole remained favourable and total gold and dollar reserves continued to increase outside the United States. Toward the end of the year, however, some countries suffered decreases in their gold and dollar reserves and, in general, the growth of such reserves outside the United States tended to slow down. Dollar imports into Western Europe rose substantially. At the same time a number of countries which had been facing difficulties, especially those heavily dependent upon the export of raw materials, suffered further reversals. Latin American exports in particular suffered from a decline in raw material prices and a sharp reduction in sales. In this general context, it is noted that in the fourth quarter of 1954, United States exports (excluding exports financed by military aid) rose to an annual rate of \$14.2 billion from the figure of \$12.5 billion in the previous twelve months, while United States imports remained unchanged at an annual rate of \$10.3 billion.

6. In 1955, however, the trade surplus of the United States has decreased and the gold and dollar reserves of other countries taken as a whole have continued to rise although at a lower rate than in the preceding year. In the first half of 1955, United States exports declined to an annual rate of \$13.9 billion and imports increased to an annual rate of \$11 billion. Preliminary figures for

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<sup>1</sup> Basic Instruments and Selected Documents: Third Supplement, pp.63-77.

the third quarter indicate little further change in these figures. Net receipts of gold and dollars by the rest of the world through transactions with the United States were at an annual rate of about \$1.3 billion in the last quarter of 1954 compared to the level of \$1.5 billion in the previous twelve months. In the first half of 1955, such net receipts of gold and dollars by the rest of the world continued but at a lower annual rate of \$950 million.

7. Most important trading nations, in some cases despite falling reserves, have maintained in 1955 the gains already made in the reduction of discriminatory restrictions on dollar imports.<sup>1</sup> Many countries have even made further progress. Denmark, the Federal Republic of Germany, Greece, the Kingdom of the Netherlands, Sweden and the United Kingdom and several other sterling countries which had in the preceding year substantially reduced their discriminatory restrictions or totally eliminated discrimination, took no retrogressive steps.

8. In a number of cases further measures of relaxation have been taken by governments in 1955. The United Kingdom has continued its policy of reducing discrimination against dollar goods, and in the course of 1955 a number of products, namely hides and skins, some fats and oils, cotton linters, phosphate rocks, some ferro alloys and aluminium, have been added to the list of commodities which may be imported free of licence from all sources. By measures taken in April and May 1955, the Federal Republic of Germany has further extended the scope of its liberalization of imports from the dollar area. In January 1955 Sweden announced a further relaxation of dollar restrictions by enlarging the free list. Effective from 21 February 1955 Denmark established a new general free list and in November 1955 some further restrictions on Danish imports from the dollar area were removed. A number of countries outside Europe also expanded in 1955 their lists of products that might be imported without distinction between the sources of the product. As a result of these measures a substantial quantity of these countries' imports from the dollar area are now free from restrictions. In Austria a new list of liberalized imports from the dollar area was put into force on 15 July 1955, which is of more limited scope.

9. As noted above, the general improvement in the dollar payments situation has not been shared by all countries. The weakening of the reserves position of several countries substantially dependent on the export of primary commodities has led to cases of intensification of import restrictions though not necessarily to increased discrimination. In at least one case, namely Australia, intensification of import restrictions in April 1955, since it applied only to non-dollar imports, had the effect of reducing the level of discrimination against dollar goods. Further Australian measures for restricting imports, introduced in October 1955, affected imports from both dollar and non-dollar countries, but at the same time a move was made in the direction of reducing discrimination by providing for licences for a list of basic materials to be issued on a "world global quota" basis.

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<sup>1</sup> Although recent statistical studies on dollar liberalization have generally been limited to trade with the United States and Canada, measures of dollar liberalization for particular products ordinarily have been applied to all of the "dollar area". Some countries, however, define the "dollar area" more narrowly than others.

10. A brief description of the extent and types of restrictions applied to imports from different sources by each of the twenty-three contracting parties listed in paragraph 2 is given in the Annex. It will be seen that a considerable number of these countries have established either a free list of goods permitted to be imported from any source either without licence or under licences which are freely issued, or a dollar or hard-currency list permitting similarly unrestricted imports from defined dollar areas. Global lists, varyingly referred to as World Exemption List, World Open General Licence, or Unrestricted List, etc., and dollar lists are in force in Austria, Ceylon, Denmark, Germany, Greece, India, the Netherlands, New Zealand, Rhodesia and Nyasaland, Sweden and the United Kingdom. Most dollar free lists have been introduced in recent years, and as mentioned in paragraph 8, for some of these countries such lists cover a substantial volume of their dollar imports.

11. In addition to these formal measures for reducing discrimination against dollar imports there is reason to believe that the degree of such discrimination has in many cases also been reduced in the area governed by individual and discretionary licensing. This inference is drawn from the statements of many governments maintaining such controls and from the reduced incentives, in some cases, toward continued discrimination against dollar goods. Under the renewed European Payments Union, for example, net surpluses or deficits, beginning on 1 August 1955, have been settled on a basis of 75 per cent gold and 25 per cent credit instead of the previous ratio of 50 per cent each.

12. The progress made in the relaxation of restrictions discriminatory against dollar goods has not been uniform as between the different classes of commodities imported. The emphasis in relaxation has been mainly on those goods the import of which could directly contribute to lowering costs of production such as industrial raw materials and other basic commodities. As pointed out in last year's report, in a considerable number of countries a wide range of manufactured goods remains subject to discriminatory restrictions.

13. Even with the qualification that progress toward the relaxation of dollar discrimination has been uneven both as between countries and as between commodity groups, it remains gratifying that this progress has continued at a time when the improvement in the dollar position of non-dollar countries generally has proceeded at a slower pace. Moves in the direction of dollar liberalization by major trading countries before the advent of convertibility of their currencies should make easier the adjustment process following convertibility, and the further progress made in 1955 should therefore facilitate the movement towards convertibility. In addition to the reduction in discrimination in the administration of import restrictions, further progress has been made by some countries in the restoration of "de facto convertibility" through extending the transferability of their currencies or through other measures.

14. Attention is also drawn to the existence in most countries of restrictions applied in a discriminatory manner as between goods imported from different non-dollar countries. The reduction of non-dollar discrimination is an important element in the move towards the objectives of the General Agreement.

15. The liberalization of intra-European trade under the OEEC has freed to a large extent imports within that region from licensing restrictions. Nevertheless the degree of liberalization achieved varies considerably from country to country, and from category to category<sup>1</sup>, and not all members have attained the new targets set for 30 September 1955 of 90 per cent overall and 75 per cent for each category. Although the extent of state trading in agricultural commodities has diminished, the fact remains that state trading is still widely practised and liberalization of agricultural products remains at a substantially lower level than that of other categories. Moreover, it may be noted that in the area of European trade which is not covered by liberalization, imports are often affected by bilateral trade agreements involving quotas. In recent years the entire sterling area participates, through the United Kingdom, in the payments mechanism of EPU and most other sterling area countries do not maintain any restrictions which discriminate in favour of sterling imports as against imports from EPU countries, while some maintain a few such restrictions. While a number of Western European countries extend to the sterling area the liberalized treatment granted to other EPU members, this does not apply to all the OEEC countries listed in paragraph 2.

16. Continued resort to bilateral agreements between countries in the non-dollar area, if not in all cases resulting directly in discrimination, has tended to preserve conditions favourable to discrimination and to delay the time when the selection amongst sources of imports will be determined by competitive factors. A substantial part of the trade between certain European countries on the one hand and countries of Asia and Latin America on the other, as well as a part of the non-liberalized portion of intra-European trade, is still governed by bilateral trade agreements. The number of such agreements entered into differs from country to country and changes from time to time, but in many European countries a considerable number of agreements are in force, although the volume of trade covered may often represent a small proportion of the total trade between the countries concerned.<sup>2</sup> It is only in exceptional cases that countries in the sterling area maintain bilateral agreements. Bilateral agreements often establish favourable quotas for the importation of goods by one partner from the other or provide some other form of favoured treatment. For example, some OEEC countries extend OEEC treatment to imports from outside countries with whom they have trade or payments agreements and not to countries with whom such agreements do not exist. Some

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<sup>1</sup> The categories are: food and feeding stuffs, raw materials and manufactures.

<sup>2</sup> Some further information on this subject will be found in the country notes in the Annex.

countries which have established regimes of Open General Licence for most non-dollar goods nevertheless withhold this treatment from the goods originating in certain countries.

17. However, with a wider transferability of currencies countries using inconvertible currencies are finding it more difficult to obtain from their trading partners those reciprocal advantages without which bilateral quota arrangements would serve little purpose. The widening of the transferability of currencies is making it less necessary for countries to discriminate among non-dollar currencies.

18. In spite of the decreasing need for bilateral agreements for balance-of-payments reasons some countries have been reluctant to relinquish their resort to them. Some countries see in such agreements a means of maintaining exports that are important in their trade, and sometimes of preventing a decline in the prices of these exports. Even when no present advantage is to be derived from such arrangements, and when clear advantages are manifest in a policy of freer trade, some contracting parties hesitate to deprive themselves of this means of protection so long as non-contracting parties which are their competitors have not renounced the use of bilateral arrangements.

19. The further dismantling of discriminatory restrictions which has taken place over the past year has made even more relevant the repeated urgings of the CONTRACTING PARTIES that governments applying balance-of-payments restrictions should minimize their protective effects. Difficulties are being encountered in liberalizing certain sectors of trade between members of regional arrangements. Some members of regional payments groups have not extended to certain non-members the same degree of liberalization of trade as is extended to fellow members. Countries which are in the process of liberalizing imports from the dollar area have encountered difficulties in extending these liberalization measures to all categories of goods. It is generally recognized that balance-of-payments restrictions may have incidental protective effects. Contracting parties are again urged to take every opportunity of minimizing these protective effects and in particular to avoid action which will generate pressures for the maintenance of discriminatory restrictions over a wider area of trade than, and beyond the period in which, they can be justified on balance-of-payments grounds.

20. There has been an encouraging tendency by countries faced with balance-of-payments difficulties to seek solutions through measures other than the introduction of further restrictions on trade. Emphasis has been placed on

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<sup>1</sup> On 22 June 1955 the International Monetary Fund adopted a policy decision on bilateralism which is relevant to this paragraph. The text of that decision is annexed to the Fund's Annual Report for 1955.

internal fiscal and economic measures as a means of dealing with such difficulties. By relieving undue pressures on domestic prices and demand, internal measures can make a fundamental contribution to the alleviation of a country's balance-of-payments difficulties not only by moderating the outflow of payments but also by enhancing the country's ability to export. In this connexion, the observations of the CONTRACTING PARTIES in the Third Report on the Discriminatory Application of Import Restrictions appear relevant:

"Discriminatory restrictions cannot 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."

21. The General Agreement permits the use of discriminatory restrictions in certain situations where a contracting party is faced with a payments disequilibrium. Under the Agreement, contracting parties are expected to dismantle restrictions, including discriminatory restrictions whether such discrimination results from bilateral quota agreements or other measures, as rapidly as their balance-of-payments situations permit. This reflects the underlying principle that freer non-discriminatory trade will enable contracting parties to achieve a fuller and more efficient use of resources. The maintenance of discrimination by one country increases the difficulty that others face in the adoption of non-discrimination and the establishment of currency convertibility. If each country delays action in this field until all risk is removed the achievement of ultimate non-discrimination and the full benefits of multilateral trade is certain to be postponed indefinitely.

#### ANNEX TO THE ANNUAL REPORT ON DISCRIMINATION

(This Annex containing country notes on the twenty-three contracting parties listed in paragraph 2 has been circulated separately to delegations in W.10/30 with the request that they notify the secretariat if they consider any changes should be made in the notes relating to their respective countries. It will be annexed to the report when this is published in the Fourth Supplement to the Basic Instruments and Selected Documents.)

ANNEX IV

Communication received on 18 November 1955  
from the Delegation of Chile

"Despite our intentions, we have been unable to report to the CONTRACTING PARTIES on the deviations maintained by our country under Article XIV of the General Agreement. The serious inflation which is being experienced by Chile is having a concrete effect on all aspects of our financial, economic and trading activities, etc., and is bringing about frequent modifications in the various factors which should be included in our report. These circumstances might mean that the data we have previously communicated to the CONTRACTING PARTIES are no longer accurate.

"To remedy the situation, the Government of Chile has engaged a commission of international experts who are at present in Chile, where they will be concerned with a study of the problem in all its aspects and will report back to the Government. I trust we shall then be able to supply detailed information to the CONTRACTING PARTIES."

ANNEX V

QUESTIONNAIRE FOR THE COLLECTION OF INFORMATION FOR THE  
PREPARATION OF ANNUAL REPORTS UNDER ARTICLE XIV: (g)  
ON THE DISCRIMINATORY APPLICATION OF  
IMPORT RESTRICTIONS

General Notes

1. This questionnaire should be answered by all contracting parties which are applying import restrictions under the provisions of Article XII. Those contracting parties which are not applying such restrictions need only notify the CONTRACTING PARTIES to that effect. Those contracting parties whose import restrictions do not deviate from the provisions of Article XIII should so state and need not answer those questions relating to discrimination.
2. The term "import restrictions" is meant to include restrictions made effective either directly or indirectly through state trading operations including the operations of enterprises to which the contracting party has granted formally or in effect exclusive or special privileges.
3. Contracting parties should furnish information and date also in respect of restrictions applied to imports into their non-metropolitan territories to which the General Agreement applies.
4. Replies to this questionnaire should be accompanied by copies of laws, decrees, etc. not previously furnished to the secretariat which are relevant to the restrictions (as well as public notices or licensing instructions issued in connexion with these restrictions). Copies of bilateral agreements (excluding state trading contracts) relevant to question 8 directly affecting imports should be supplied. Where the requirements of this paragraph would place an undue burden on the reporting government (for example, where laws and agreements are not available in one of the official languages) a summary of the pertinent provisions should be supplied.
5. Replies should be submitted not later than three months prior to the opening of the session at which the report is to be drawn up. The replies should be prepared in English and/or French. At least three copies should be sent to the Executive Secretary in Geneva by air mail and fifty copies should follow by surface mail.

A. THE SYSTEM AND TECHNIQUE OF RESTRICTION

Question 1: Methods of Restrictions

Describe the methods employed in applying the restrictions (e.g. individual and discretionary licensing without the fixing of quotas, the fixing of global quotas, prohibitions, any techniques other than those covered by question 11 below).

If different methods apply to different products, name the groups of products to which each method applies and show the proportion of total imports affected by each method in the last full year for which information is available.

Question 2: Non-discriminatory Administration of the Restrictions

With respect to restrictions which involve no deviation from the provisions of Article XIII, describe the methods of allotting shares in quotas to countries of supply, either by unilateral action, special arrangements, or through consultation with supplying countries.

Where the shares in quotas are allotted on the basis of "previous representative periods" state the period selected and give, by products or by group of products, the basis used for the choice (cf. Article XIII for relevant provisions).

B. DISCRIMINATORY APPLICATION OF RESTRICTIONS

Question 3: Policy of Discrimination

With respect to restrictions not administered in accordance with the rule of non-discrimination in Article XIII, describe the policy pursued and describe the classification of countries, or groups of countries, or areas for the purpose of discriminatory application of the restrictions. List the countries in each group or area.

Question 4: Methods of discriminatory Restriction

This question should be answered separately with respect to each of the groups or areas referred to in question 4.

Describe in detail (cf. the examples mentioned in question 1) the methods of restrictions applied to each of those countries, groups or areas. Name the groups of products subject to each method when imported from each country, group or area, and show for each method the proportion of total import-trade from each in the past year.

Question 5: Measures taken to reduce the Restrictions

Describe the changes made in the past year in the policy pursued and any measures taken for the relaxation of restrictions from any of the countries, groups or areas.

If any free list, open general licence, or other list of goods exempted from licensing requirements is in force, specify the countries, groups of countries or areas to which the list applies, the proportion of imports on the basis of the trade of a previous year which is covered by such exemption, and the volume of imports which have been admitted in the past year under such régime of liberalization.

Question 6: Effects of the Discriminatory Administration of the Restrictions

Furnish trade statistics including those for the latest available year which may help to indicate the effects of the restrictions on imports from each of the countries, groups or areas referred to in question 3.

Question 7: Considerations affecting the source of the Imports

State the considerations which are taken into account in determining the sources of the imports, including any recent changes in the emphasis given to each consideration.

Contracting parties operating under Annex J should describe in addition the implementation of (i) and (ii) of paragraph 1(a) of that Annex, giving, if possible, illustrative examples with regard to (i). Contracting parties whose operations are governed by paragraph 1(b) or 1(c) of Article XIV are requested to describe the rôle played by price and other commercial considerations in determining their policy of discrimination.

Question 8: Bilateral Commitments

Describe each type of bilateral arrangement or agreement, with contracting parties or other countries, in respect of the importation of goods subject to import restrictions, and the extent to which each affects the pattern of trade or involves discrimination against imports from third countries (e.g. whether it provides for special quotas in favour of the partner country, guarantees that a specified quantity will be admitted from the partner country within a broader quota, provides any limitation on the country's freedom to establish, revise or eliminate quotas, provides treatment to the partner country more favourable than that accorded to other countries in the same group or area, etc.).

List the partner countries with which each type of agreement is in force.

Show, as far as possible, in terms of proportions of total trade or in absolute terms, the volume of trade covered by agreements of each type entered into by the contracting party.

C. STATE TRADING

Question 9: Import Restrictions through State Trading

Provide a general statement showing which products or groups of products are imported by the State or by the enterprises to which exclusive or special privileges have been granted. (Products imported for immediately or ultimate consumption in governmental use and not otherwise for resale or use in the production of goods for sale need not be included.) Show the proportion of such imports to total imports. Indicate whether the imports of such commodities are restricted for balance-of-payments reasons. If no, outline the methods and criteria in determining the volume to be imported. Describe any element of discrimination that may be exercised through the application of restrictions to the purchasers of state or monopoly enterprises, and the rôle of price and other commercial considerations in determining the source for which such imports are obtained.

D. PROTECTIVE EFFECTS OF RESTRICTIONS

Question 10: Incidental Protective Effects of the Restrictions

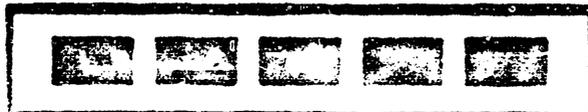
Describe the steps taken to minimize the incidental protective effects of the restrictions. (Note inter alia the recommendations contained in paragraphs 18 and 19 of the CONTRACTING PARTIES' Report on the "Use of Quantitative Restrictions for Protective and other Commercial Purposes".)

Question 11: Action to avoid damage to trade of other contracting parties.

Describe any action taken to allow:

- (a) the import of goods in minimum commercial quantities where their exclusion would impair regular channels of trade (with reference to the countries or areas to which such measures apply);
- (b) the import of commercial samples.

Describe action designed to avoid, in the application of import restrictions, unnecessary damage to the commercial or economic interests of other contracting parties.



E. FUTURE PROSPECTS

Question 12: Current Programme and the Prospects

Describe the policy and the programme for the current year and if possible for the coming year in relation to the countries, groups or areas referred to in question 3.

Describe the prospects for the near future in general terms and add any general observations or comments which the contracting party wishes to be taken into account in the preparation of the annual report.

