

GENERAL AGREEMENT ON TARIFFS AND TRADE

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FIRST REPORT OF THE WORKING PARTY ON

BALANCE-OF-PAYMENTS RESTRICTIONS

Consultations held at the Eleventh Session

1. The Working Party was instructed to conduct the consultations 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 paragraph 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. The consultation with New Zealand was extended to cover the consultation required under the Decision of 20 January 1955 granting a waiver of its obligations under paragraph 6 of Article XV. The summary reports which record the main points of the discussions during the consultations with these five contracting parties are submitted herewith for approval by the CONTRACTING PARTIES. 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 with certain material relevant to the consultations to be held, which were as follows:

Australia

A background paper reviewing developments since the Fund's 1955 consultations.

Ceylon

The results of the Fund's 1956 consultations and the background material prepared by the Fund staff in connexion therewith.

New Zealand

A background paper reviewing economic developments and changes in the restrictive system.

Rhodesia and Nyasaland

A background paper reviewing developments in the Federation since the Fund's 1955 consultation with the United Kingdom.

United Kingdom

The results of the Fund's 1955 consultation, background papers prepared by the Fund's staff in connexion with that consultation and a supplementary paper reviewing developments since that consultation.

3. The background papers relating to New Zealand and the Federation of Rhodesia and Nyasaland and the supplementary papers concerning Australia and the United Kingdom had been specially prepared by the Fund for the assistance of the CONTRACTING PARTIES. The data supplied by the Fund were referred to and taken into account by the Working Party in the course of the consultations, and the Fund representative participated in the discussions. The Working Party wishes to record its appreciation of the assistance thus rendered by the Fund.
4. In the course of the consultation with New Zealand under the Decision of 20 January 1955, the Working Party took note of the written and oral statements made by that delegation. The representative of the Fund stated during the discussion that the Fund had had available a considerable amount of factual data on the current situation of New Zealand and that the authorities of New Zealand had co-operated in making information available and ensuring the accuracy of the background paper prepared by the Fund. The Working Party also took note of a statement by the representative of the Fund that the Fund, after examining the information, had found nothing to cause it to comment on the question whether New Zealand's action in exchange matters was consistent with the Fund's principles.
5. In the course of the consultations, the representatives of the consulting contracting parties addressed the Working Party on the general balance-of-payments situation of their respective countries and provided information under the various headings in the relevant plans recommended by the CONTRACTING PARTIES for the conduct of the consultations under Article XII:4 and Article XIV:1(g). The representatives of the consulting countries readily 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. In certain cases the representatives stated that they were willing to convey the views expressed by the representatives of other contracting parties on specific points to their governments for consideration. The Working Party wishes to record its appreciation of the frank and co-operative attitude of the representatives.
6. In the light of the Decision of 5 March 1955 granting a waiver to Czechoslovakia of its obligations under paragraph 6 of Article XV, an exchange of views took place in the Working Party. It was agreed that a further exchange of views would take place in 1957.

ANNEX A.REPORT ON THE CONSULTATIONS WITH AUSTRALIAIntroduction

1. The consultation with Australia under paragraph 1(g) of Article XIV had been initiated by that Government pursuant to those provisions in March 1956 and was concerned with its continued resort to the provisions of paragraphs 1(b) and (c) of that Article. At the plenary meeting on 15 October, the CONTRACTING PARTIES agreed also to invite Australia to consult with them under the provisions of paragraph 4(b) of Article XII. In conducting the latter consultation the Working Party paid special attention to the extensive changes introduced in the Australian import restrictions on 1 July 1956 which it understood to be part of a series of measures designed to deal with Australia's balance-of-payments difficulties concerning which Australia had twice consulted in the past eighteen months. The Working Party therefore took into account the reports of the two previous Working Parties which conducted the consultations in June-July and November 1955 (L/370 and L/465). The present report represents a summary of the major points of discussion and broadly follows the pattern of the plan recommended by the CONTRACTING PARTIES for consultations under Article XII:4. Some questions which are exclusively relevant for the consultation under Article XIV:1(g) are dealt with in a section towards the end of the report.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV:2, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Australia. As relevant, the Fund referred to the results of its 1955 consultations with Australia together with the background material prepared by the Fund Staff for that consultation and to the background paper on developments in Australia since that consultation which the Fund had specially prepared for the assistance of the CONTRACTING PARTIES. These documents were referred to and taken into account by the Working Party in the course of the present consultations. The result of the Fund's 1955 consultation with Australia and the text of a statement made by the Fund representative at the Working Party are appended to this report.

Circumstances leading to the changes introduced on 1 July

3. In opening the discussion the Australian representative made a general statement outlining the developments that had taken place in the Australian economy since the consultations at the Tenth Session. At that time it had been hoped by the Australian Government that the additional import licensing restrictions introduced from 1st October 1955 combined with the fiscal and

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monetary measures that had been taken to restrain excess demand would be sufficient to produce reasonable stability internally and to bring the balance of payments into equilibrium by the middle of 1956 so that over the financial year 1956/57 as a whole there would be no further drain on reserves.

4. In fact, however, the Government had found it necessary in March 1956 to introduce further heavy increases in taxation and to allow interest rates to rise in order to reinforce the counter-inflationary measures previously taken. Despite these measures, the full effects of which had not yet been felt, the pressure of demand for imports remained high. By June it had become apparent that the October 1955 import licensing restrictions were working much more slowly than had been expected and that there was in any case no prospect that they would cut the annual import rate to anything like the figure aimed at - i.e. £4650 million. The Australian Government had reviewed the situation in June and, although export prospects were felt to be considerably better than they were in 1955 when the target figure of £4650 million was decided upon, it had reached the conclusion that some additional import licensing cuts were unavoidable if the balance-of-payments position was to be adequately safeguarded. The new measures introduced to operate from 1st July were designed to save some £40 million in a full year but were not expected to save more than £20 million in 1956/57. Even after the new cuts, imports in 1956/57 were expected to exceed £4700 million and, even with the improvement in export prospects, it seemed clear that a further drain on reserves in 1956/57 would be avoided only if net private capital inflow - a highly variable item in the Australian balance of payments over the post war years - remained favourable.

5. To reinforce these new import licensing measures the Australian Treasurer had in August 1956 introduced a Budget which, after providing for the financing of the whole of the Commonwealth Government's £110 million capital works programme from revenue, was expected to produce a surplus of some £108 million. The Treasurer in his Budget speech had emphasised that the Australian Government was fully aware that, if continued for long, import restrictions of the present severity must be damaging to the Australian economy but had said that he could not hold out much hope of early alleviation of the position unless there was a major improvement in Australia's export earnings or unless there was a much greater inflow of capital into Australia than had been the case in recent times.

6. The full text of the opening statement by the Australian representative summarised in the preceding paragraphs is appended to the report.

Recent Australian trade trends

7. Proceeding with the consultation under the headings of the plan the Australian delegate, at the request of a member of the Working Party, provided the following preliminary figures for Australian exports and imports over the past three months.

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<u>1956</u>	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
	(In million f.o.b.)		
July	57.5	65.0	+ 7.5
August	78.7	61.5	- 17.2
September	54.0	61.8	+ 7.8
	190.2	188.3	- 1.9

8. The Australian representative agreed that the surpluses on visible trade recorded in July and September were encouraging but felt no firm conclusions about the underlying trend could be drawn from figures for one or two months. Moreover, net invisibles (including freight and insurance on imports, dividends and royalties, interest payments on overseas debt and tourist expenditure) were always a substantial deficit item in the Australian balance of payments. Accordingly a large visible trade surplus was needed if the balance of payments or current account was to be brought into equilibrium.

9. In response to a question on the prospects for increased exports of manufactured goods from Australia, the Australian representative said that a wide range of goods were manufactured in Australia at costs that would be competitive in export markets. With the general expansion of the economy however, domestic demand had been increasing rapidly and in the great majority of instances absorbed the whole, or virtually the whole, of Australian output. In addition to taking measures to curb demand the Government had been trying with some success to stimulate the interest of Australian manufacturers in the export trade. He could not estimate in any precise way what the increase in exports in 1956/57 might be but expected it might well be "some millions". He mentioned automobiles and trucks as figuring prominently in this expected increase.

Basic Policy and Internal Measures

10. A member of the Working Party said it was clearly brought out, both in the Fund background paper and the opening statement of the Australian representative, that the extremely rapid rate of economic development in Australia was a major factor in the balance-of-payments difficulties Australia had been experiencing. He asked whether any recent measures had been taken to curb the rate of economic development.
11. The Australian representative said that the powers of the Commonwealth Government to control the rate of economic development were limited. However, in the public sector the Commonwealth Government had been successful in stabilising public works expenditure - much of it of a basic developmental character - over recent years. In the private sector two recent steps to curb the rate of expansion had been the increase in company taxation in March last and the rise in interest rates.
12. A field which the Government could influence directly was the rate of immigration. Here, the basic aims were to keep the immigration rate as high as was reasonably possible and to avoid violent fluctuations from year to year. In his Budget speech the Treasurer announced that it had been decided that the gross intake of migrants in the current year would be limited to 115,000, a reduction of 18,000 on the 1955/56 total. For future general planning purposes a figure for net immigration equivalent to one per cent of population per year has been adopted as the aim.
13. A member of the Working Party asked whether the fact that expenditure on personal consumption was contributing strongly to excess demand in Australia had affected the pattern of Australian imports between investment goods and consumer goods. The Australian representative said that there had been an investment as well as a consumption boom in Australia and that demand for both investment and consumer goods had remained high over recent years. The taxation increases imposed in March 1956 had been particularly directed towards reducing personal consumption expenditure.
14. In response to a question on the effects of recent increases in interest rates in Australia the Australian representative said it was not thought that the recent increases would cause any marked increase in capital inflow. However, the lower rates prevailing before the recent increases had, particularly after the increase in Bank rate in the United Kingdom, led to a trend towards capital outflow. For example, traders had tended to switch from the United Kingdom banking system to the Australian banking system for their short-term finance. The raising of interest rates in Australia would it was hoped check that trend.
15. Several members of the Working Party expressed their gratification at the fact that the Australian Government was not relying solely on quantitative import restrictions to overcome her balance-of-payments difficulties but was seeking to remedy the root causes of the dis-equilibrium by taking, within the limits of its constitutional powers, appropriate fiscal and monetary measures.

Changes in the Import Restrictions

16. For a description of the import control system and methods used in Australia, the Australian representative referred the Working Party to documents L/493 and L/493/Add.1, the Australian reply to the questionnaire on discriminatory import restrictions and the background paper supplied by the Fund. It was noted that the changes introduced on 1 July 1956 related only to goods under quota control from non-dollar countries. The general level of licensing of imports from the dollar area was not affected and in response to a question the Australian representative stated there had been no change in the licensing of motor vehicles from the dollar area. Items previously in the "Administrative*" category were transferred to the A and B categories to which the global quota method applied. For more than half of the items in category A quotas remained at 100 per cent of the level in the previous quarter. The majority of the remaining items in Category A were reduced by various percentages up to 30 per cent below the level in the previous quarter. A few were reduced by a third or a half and in two cases, where the demand for imports had become negligible, the quotas were reduced by 80 and 90 per cent. In a small number of cases new quotas for Category A goods were based on the percentages of imports during 1954/55. Goods in the B category were sub-divided into seven sub-categories, known as B(1), B(2) etc. The interchangeability previously existing for the whole category was now applied only to goods within each sub-category. Quotas for these sub-categories were based on a percentage of imports in 1954/55, whereas previously the base year used had been 1950/51.

17. Several members of the Working Party asked questions about the policies followed in licensing goods in the Administrative category. The Australian delegate explained that import licensing budgets for goods in the Administrative category were drawn up each quarter. This permitted flexibility in the allocations but did not mean that trade in the goods concerned was subject to arbitrary variations of a disruptive character. In his press statement of 28 June the Acting Australian Minister for Trade had referred to "some tightening and readjustment of allocations to permit the foreign exchange requirements of essential development programmes to be met". The quarterly budget system provided a means whereby priority could be given to plant and equipment required for important development projects. In the main however the allocations for goods included in the Administrative licensing budgets did not vary greatly from quarter to quarter.

Effects of the Restrictions on Trade

18. The representatives of a number of contracting parties called attention to the fact that the changes introduced in July 1956, owing to the selection of products on which heavy quota reductions were made, particularly affected their exports. The Netherlands delegate, while recognizing that there was no country discrimination in the Australian non-dollar licensing system, said that what might be termed "article discrimination" bore severely on the exports to Australia of some countries, including the Netherlands. The French representative informed the Working Party that on the basis of official data it had been calculated that French exports to Australia, including textiles

motor cars and wines, would be cut by about 15 per cent; 3.5 per cent of the reduction would be borne by 2 per cent of the Australian imports. The Austrian representative referred to a similar situation regarding his country's principal exports of textiles and paper. The Italian representative considered that due to the composition of its exports Italy would be more affected than other countries.

19. The Swedish representative said that paper and paper board which were of particular importance in Sweden's export trade appeared to have been selected for specially severe restriction in the July measures. A number of paper items formerly in Category A had been transferred to the new Sub-category B(5) for which licences were now being granted only on the basis of 33 1/3 per cent of 1954/55 imports. Paper products accounted for only 1.2 per cent of total imports in 1954/55 but it would seem that the new cuts now being imposed on the licensing of paper products would account for no less than 16 per cent of the expected saving of £A40 million a year. The delegates for Austria, Finland and Norway supported the views of the Swedish delegate and in addition the delegate for Norway pointed out that his country's second major export to the Australian market, canned fish, had also been unfavourably classified in the new Australian restrictions.

20. Some of these representatives pointed out that although it was within the right of Australia to choose the products to which to apply its restrictions, the great variation in the level of quotas applied to different sub-categories had the unfortunate effect in practice of discriminating against the exports of certain countries. In applying import restrictions a contracting party had the obligation to avoid any unnecessary damage to the commercial and economic interests of the other contracting parties. In view of the improvement in Australia's export prospects they hoped that the utmost would be done to ease the restrictions on the commodities in the "B" category. In this connexion the Italian representative suggested that even in the interest of Australian exports the restrictions should be reduced as soon as permitted by the balance-of-payments position, and several members of the Working Party expressed the hope that any relaxation of restrictions would begin with the latest import restrictions. Representatives from the dollar area pointed out that acceptance of this procedure would be of serious concern to suppliers from the dollar area since the restrictions on their trade would be the last to be relaxed. They expressed the hope, therefore, that when any relaxations were possible dollar goods would share in them.

21. In the course of the discussion that followed the Australian representative pointed out that despite the previous intensifications of Australian import restriction in April and October 1955 imports into Australia from most European countries had actually increased in value in 1955/56. There always had to be some flexibility in administering any system of import licensing and the fears expressed by the various members of the Working Party might well prove in retrospect later on to have been exaggerated.

22. On the question of paper and paper board, the Australian representative pointed out that not all such items were included in sub-category B(5), for which the quotas had indeed been drastically cut; certain paper items were licensed in the "all countries" budget whilst others were included either in the A or the Administrative categories. In addition some items initially

licensed under Category B(5) were now being licensed in Category A. He also pointed out that the development of domestic supplies would have brought about a reduction in imports irrespective of the new restrictions. In conclusion the Australian representative stated that he had taken note of all the statements concerning the effects of the restrictions as felt by the contracting parties concerned, and of the hope they expressed for an early relaxation of the restrictions. These would be reported to the Australian Government for consideration. The Australian representative also said that his Government was always prepared to discuss with the trade representatives of any contracting party any special difficulties and to make adjustments in an endeavour to meet such special cases wherever it was practicable to do so within the limits imposed by the necessity of protecting the balance of payments. On the question of avoiding unnecessary damage to the trade of contracting parties, the Australian representative called attention to the fact that with minor exceptions in relation to Japan the restrictions on non-dollar imports were applied non-discriminatorily to imports from all countries outside the dollar area. Importers were thus permitted to purchase from any source except the dollar countries which might prove the most advantageous on commercial considerations. In this way possible damage to any particular contracting party was reduced to the minimum.

23. The Netherlands representative took the opportunity to express his Government's appreciation of the fact that in imposing the new restrictions the Australian Government had made special arrangements to permit the importation of goods on firm order.

24. The United States representative said that when restrictions were maintained for a long time it was essential that affected exporters should be permitted to maintain some contact with the market of the country applying the restrictions so that the outlet would not be totally lost to them when the restrictions were reduced and eventually eliminated. The United States Government therefore appreciated the opportunities which had been provided for direct discussion to take place with the Australian Government.

Steps taken to reduce the protective effects of the restrictions

25. On the question of reducing the incidental protective effects of the restrictions, the Australian representative referred to the various statements made by his Government since 1952 on the fundamental policy of not using quantitative restrictions for protective purposes and the repeated warnings given by the Consultative Committee on Import Policy, as well as by the Associated Chambers of Manufactures, that the quantitative restrictions temporarily applied for balance-of-payments reasons should not be relied upon for protection. The interchangeability of quotas within Category B had been conceived as an effective means of reducing the protective effects on any particular domestic industries. In response to a question the Australian representative said that the reduction in the scope of the interchangeability as a result of the July measures might to some extent increase the risk of uneconomic expansion of domestic production, but against this disadvantage

had to be weighed the need for minimising damaging effects on the economy of the trafficking in licences under the old system. In any case as almost all expansion of production required some imported capital goods components or raw materials the licensing authorities could act to prevent the setting up or expansion of un-economic industries.

Discriminatory Aspects of the restrictions

26. 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 drawings on the sterling area's dollar resources.

27. The Australian representative noted that since the consultation in 1955 under Article XIV, the discriminatory element in the restrictions had been reduced in two ways. First, three more items were added to the list of products for which quotas were established on a world-wide basis and for which licences issued were valid for imports from all countries. Secondly, the limitation placed on imports from non-dollar countries as a result of the changes introduced in July 1956 had the effect of reducing the margin of discrimination between restrictions on dollar imports and those on non-dollar imports.

28. ~~Replying to questions, the Australian representative stated that in~~ expanding the area of non-discriminatory quotas, it was likely that further items would be added to the list of world quota products as the financial position permitted. By gradually enlarging that list, it was hoped that discrimination would be reduced and eventually eliminated. On this point certain members of the Working Party said that their governments welcomed such measures to reduce discrimination and hoped that further progress would be made in the near future.

29. On the question of the role played by price considerations in licensing goods from the dollar area, the Australian representative said that while price was only one of a number of factors to be taken into account the Australian authorities were keenly aware of the need to keep costs down in Australian industries both primary and secondary. In general, it was the practice to license essential items from the dollar area wherever there was a significant price advantage to be gained.

30. Representatives of countries in the dollar area said that, in view of comments made by other members of the Working Party about the effects of the Australian restrictions on their trade, they felt it should be pointed out that the dollar countries were the most severely affected. Nevertheless they were fully aware of the difficulties with which the Australian Government was confronted and particularly welcomed the fiscal and monetary measures which had been taken with a view to reducing reliance on quantitative import restrictions.

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31. Members of the Working Party commented that the active participation of representatives of the various countries in the discussion indicated the widespread effects on trade of the Australian restrictions. There was concern that further restrictive import measures had been necessary but sympathy was expressed with the balance-of-payments difficulties with which Australia, as a rapidly developing country, was confronted. It was noted with gratification that the Australian Government had reaffirmed its intention to relax the restrictions as soon as practicable and to pursue internal policies designed to reduce and eventually eliminate the need to rely on quantitative restrictions and hope was expressed that Australia would be successful in reaching the requisite equilibrium for such constructive action.

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APPENDICES TO THE REPORT ON THE CONSULTATIONS WITH AUSTRALIA1. Statement by the Australian Representative
at the Opening of the Consultations

Australia has consulted twice with the CONTRACTING PARTIES under Article XII in the last eighteen months and the general nature of the persistent balance-of-payments difficulties which have confronted us - and still do confront us - will in consequence already be familiar to all members of the Working Party.

The striking feature of the Australian economic scene in recent years has been the rate at which the economy as a whole has been expanding. The population which before the war stood at some $7\frac{1}{2}$ million has now reached almost $9\frac{1}{2}$ million and roughly half of this increase is attributable to the high rate of immigration which has been maintained in the postwar years. Alongside this population growth - and in part induced by it - there has been an extremely high rate of capital investment in both the public and the private sectors of the economy and a rapid increase in the output of both primary and secondary industries. Investment expenditure has, despite the restraints by the Government, tended to continue at a rate which it has not been possible to cover from internal savings and imports of capital from overseas. This in turn has tended to generate an excessive internal demand for goods and services of all kinds and to place a strain on the balance of payments.

For political, strategic and social reasons as well as on economic grounds it has been the aim of Australian Government policy to encourage the maximum rate of immigration and economic development compatible with the maintenance of internal stability and international solvency. The task of the Government in achieving this aim has however been rendered particularly difficult over the past two years by a sharp deterioration in the terms of trade arising principally from a decline in the prices obtainable on world markets for our major export commodities. A further complicating factor is the Australian federal system which imposes constitutional limitations on the powers of the Commonwealth Government.

At the consultations at the Tenth Session a full explanation was given not only of the import licensing measures introduced as from 1 October 1955 - which as members of the Working Party will recall were designed to reduce imports by the June Quarter of 1956 to an annual rate of £A 650 million - but also of the fiscal and monetary measures taken to reduce inflationary pressures and assist

in achieving internal as well as external stability. These measures included budgeting for a surplus of nearly £50 million in the 1955/56 Budget, the curbing of bank advances, a cut in the Commonwealth public works programme, and the acceptance of voluntary restraint by the major hire purchase companies. Action was also initiated to give further assistance to the promotion of exports.

At the time of the consultations there seemed every reason to suppose that the combination of measures introduced would suffice to produce reasonable stability internally and to bring the balance of payments into equilibrium by the middle of 1956 so that over the financial year 1956/57 as a whole there would be no further drain on our already uncomfortably depleted international reserves.

These expectations were however falsified by events.

By March of this year it had become apparent that, despite the measures taken, internal inflationary pressures were mounting. Moreover, although the 1955/56 Budget estimates of revenue and expenditure seemed likely to turn out much as expected loan raisings on the domestic market and overseas had proved disappointing and it had become clear that unless something was done the extra-budgetary commitments of the Commonwealth Government would probably result in a cash deficit over the Government's transactions as a whole of some £30 million for the financial year. The weakening of the loan market had also made it necessary for the Central Bank to intervene heavily on the bond market thus adding to the money supply and to the pressure of demand.

To meet this situation the Prime Minister introduced on 14 March last what amounted to a supplementary budget. Sales tax on motor vehicles and many other classes of goods was sharply increased; the petrol tax was raised; and customs and excise duties were increased on beer, spirits, tobacco and cigarettes. There was no increase in personal income tax but company taxation was raised by a shilling in the pound.

The revenue from these increased taxes was estimated at £115 million in a full year equivalent to an increase of 10 per cent. in total Budget revenue.

At the same time the Central Bank reduced its support for the long-term bond market allowing the yield to rise from about $4\frac{1}{2}$ per cent to something over 5 per cent and, by arrangement, interest rates on bank overdrafts were permitted to be raised from the former pegged figure of 5 per cent to a maximum of 6 per cent (with the understanding that the average rate charged would not exceed $5\frac{1}{2}$ per cent).

It should perhaps be emphasised that these drastic new fiscal and monetary measures were taken primarily for internal reasons and did not arise from any major reassessment of the balance-of-payments situation. During the first quarter of the year the monthly trade figures were distorted by industrial disputes on the waterfront which in turn led to some postponement of wool sales. However, although this meant some deferment of receipts,

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export prospects for 1955/56 as a whole looked rather better last March than they had at the time the October restrictions were decided upon; and, although there may have been some doubts about the import estimates, it was still generally thought that by the middle of the year the import figure would have come down to an annual rate not far in excess of the target of £4650 million.

However, as the monthly figures became available, it became evident that the October import licensing measures were going to be much slower in affecting the flow of imports than had been expected and that in any case there was no prospect of their cutting the import rate to a figure of anything like £4650 million. The annual import rate in the June Quarter was in fact £4811 million.

We have, of course, been looking closely at the reasons for this. We are by no means sure that we have an explanation which we ourselves would regard as completely satisfactory. We do, however, know a number of the contributing factors.

- (a) Australian import licences have an initial period of validity of one year and until recently extensions were normally granted whenever a reasonable prima facie case for extension is presented. Many of the imports coming in during the June Quarter - and indeed subsequently - have been imported against licences that were outstanding before the October 1955 restrictions were introduced.
- (b) In the initial period following the introduction of the October measures some flexibility in administration was necessary to avoid undue disruption of trade and to meet hardship cases affecting both Australian importers and their overseas suppliers.
- (c) Imports of various categories of goods which even after the October measures are being licensed without quantitative restrictions (and in value the most important of these are petroleum products) continued to be imported at a rate well above the estimates compiled officially after consultation with the trade.
- (d) There are various deficiencies in the statistics relating to import quotas and licences arising principally from the fact that the Australian Government has always regarded balance-of-payments import restrictions as temporary measures to be dismantled as quickly as possible and has therefore been reluctant to incur the expenditure in money and manpower required to set up an elaborate system of statistical records.

The continuation of such a high rate of imports nine months after the October restrictions were introduced was clearly something the Government could not afford to ignore. In June a thorough review of the current

balance-of-payments situations and prospects was made as a result of which the new measures which operated from 1 July and which are the subject of the present consultations were decided upon.

It is perhaps a salutary lesson in the difficulty of making balance-of-payments forecasts to look back at the estimates we were using at the time of the Tenth Session and to compare them with the actual outturn for 1955/56.

Then we thought export receipts for 1955/56 would not exceed £4730 million. In fact they totalled £4773 million.

Then we thought that imports would be about £4750 million. In fact they totalled £4819 million.

Then we thought the net deficit on invisibles would be about the same as in the previous year - £4173 million. In fact this proved almost exactly right. The net deficit on invisibles in 1955/56 totalled £4175 million.

This means that we had a net balance of payments deficit on current account of £4221 million.

We thought at the time of the Tenth Session that we might have a net surplus of some £450 million on capital account as a partial offset to the expected current account deficit. In fact we did much better than that. The net surplus on capital account turned out to be £4148 million.

Nevertheless, despite that offset, we suffered during 1955/56 a further decline in our international reserves of £473 million bringing the total down to what the Treasurer has called the "uncomfortably low" figure of £4355 million.

In determining what further action was needed the Government had of course not only to take cognisance of the outturn for 1955/56 but also to look forward to the prospects for 1956/57.

It is still too early to put forecasts for 1956/57 into terms of precise figures. If needed, we have last year's experience to remind us how wide the margin of error can be.

In looking at the prospects for 1956/57 now we have rather more information to go on than the Government had last June. But the picture as we now see it does not differ materially from that which led the Government to the conclusion that some further import licensing cuts were inescapable.

Prospects for exports in 1956/57 are encouraging. The wool clip is expected to be nearly 6 per cent higher in quantity and prices at the opening wool auctions were 5 to 7½ per cent higher than the closing prices at the end of the 1955/56 season. The wheat crop will be smaller but there is a large carry-over available for disposal. Prospects for other primary products vary but there are welcome indications of an increase in exports of manufactured goods.

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The annual rate of imports in the September quarter just ended was still running at £4760 million but we believe the full effect of the October 1955 measures has not yet been felt. The new measures imposed from 1 July, although designed to effect a saving of some £440 million in a full year, could not we think save more than £20 million (and probably less) in 1956/57.

Nevertheless, although no precise estimate can be given we expect imports in 1956/57 to be well below last year's total of £4819 million and with an increase in export receipts, we would expect to have a favourable balance of visible trade in 1956/57.

Apart from covering the f.o.b. cost of imports, however, Australia has to meet heavy payments for "invisibles". The largest items are freight and insurance on imports, dividends and royalties, interest payments on overseas debt and tourist expenditure. As I have already said the net deficit on current invisibles in 1955/56 was £4175 million and we must expect to have to face a similar bill in 1956/57.

The inescapable conclusion is that even after the July measures we shall be able to avoid a further decline in our already depleted international reserves in 1955/56 only if net capital inflow continues on a substantial scale. While the possibility of further governmental borrowing abroad is being explored the funds available overseas for such investment are limited and competition for them is keen. Thus we shall be heavily dependent on sustained private capital inflow - an item which in our experience in the post-war period has been subject to wide fluctuations from year to year.

The Australian Government recognises that, if continued for long, import restrictions at the present degree of severity must be damaging to the economy. It is continuing in full rigour the budgetary and monetary measures introduced to curb excess demand and is doing what it can to promote a higher level of exports.

In view of the scale of the drastic taxation increases introduced last March the Budget introduced by the Treasurer on 30 August last contained only minor revisions and adjustments of the tax level. The full effects of the March measures will however be felt in 1956/57 and in addition to financing the whole of the Commonwealth Government's £1110 million capital works programme from revenue, the Treasurer was able to budget for a surplus of £4108 million for transfer to the Loan Consolidation and Investment Reserve where the funds will be available as required to assist the financing of State Government works programmes or to redeem maturing debt which cannot be refinanced on the loan market.

The Working Party will of course be interested to know what the prospects are for some relaxation of the present severe import licensing restrictions. As to the Government's present thinking on this subject I can do no better than quote the following passages from the Treasurer's Budget Speech:

"Even when imports have fallen to the planned level and even if export earnings this year prove to be appreciably greater than last year, we will still be dependent upon a considerable amount of capital inflow if we are to avoid a further fall in our international reserves. The rate of such inflow... has tended to be ... highly variable ... and to be dependent upon it is not at all a secure position.

"More unsatisfactory still is the thought that a balance in our external trade and payments seems possible at this stage only on the basis of severely restricted imports. In the light of our trade position and the state of our reserves the Government had no choice but to curtail imports; but it would be the last to claim that the present state of things is satisfactory or even tolerable. If continued for long, import restrictions at the present degree of severity must be damaging to our economy and yet, unless there is a major improvement in our export earnings or unless capital inflow is much larger than in recent times, it is difficult to see the position being much alleviated in the immediate future.

"The fact is that we cannot afford a reasonably satisfactory flow of imports unless and until our export earnings rise much higher. We need an export income more like £1,000,000,000 a year than £800,000,000. We also need a steady flow of capital on both public and private account.

"However, although our immediate balance-of-payments problem is difficult, I do not think that, on a rather longer view, we need despair of a solution; and I certainly do not join with those who say that; unless we reduce our rate of economic growth, we must resign ourselves to chronic shortages of foreign exchange and perpetual import restrictions.

"Obviously, of course, a solution depends upon the satisfaction of certain basic conditions and of these some, admittedly, are more or less beyond our control. For example, our export earnings must depend largely upon world prices for our products and also upon the accessibility of markets - as to which much in turn depends upon the trading policies of other nations. On the other hand, quantity of export production also counts, and no one can doubt the physical capacity of this country to yield more and more commodities to meet the world's most basic needs. Even now it can be said that recent achievements in raising the volume of export production, especially rural production, have been highly encouraging. Equally encouraging has been the recent proof that some of our manufacturing industries are capable of entering more largely into the export field and are extremely keen to do so.

"More than this, one need be no great optimist to believe that, locked away in this vast land of ours, are resources capable of enlarging our export potential and diminishing our need for imports. Indeed, scarcely a recent year has passed without something of the kind coming to light. Perhaps as notable an example as any is the growing confirmation of large and rich mineral deposits in Queensland and the Northern Territory. I have been assured that, given adequate development of known fields, new mineral production is capable of adding very substantially to our export earnings within a few years. I may mention here that the Commonwealth Government is now actively exploring with the Government of Queensland the need for improved railway facilities to permit early full-scale development of some of these projects.

"Instances of this kind seem to make folly of the idea that active pursuit of development is necessarily incompatible with a sound-balance-of-payments position. It can probably be agreed that some developmental activity could have taken more fruitful directions in the past. Granted this, however, can it be supposed that our balance-of-payments problem will be solved by cutting down development?

"There are other conditions to be fulfilled. One has been the theme of much the Government has said, and the object of much the Government has done, in recent times - that is, to prevent the occurrence of inflationary demand conditions which lead to excessive importing and a running down of our international reserves.

"A further condition is the preservation in this country of such sound and stable economic conditions as will encourage the investment of more overseas capital, on both public and private account - encourage it not only to come here but to stay here and leave its earnings for investment here

"The kind of measures we have taken are designed to restore a state of general balance in the economy and I think they have had a degree of success in that direction. But inflation is a pervasive thing. It draws upon many sources and is helped along by a multitude of actions on the part of individuals and of groups. This has to be more widely recognised and there must be a common will to resist inflation and do the things necessary to avert it - to produce more, to save more, to look for ways of reducing costs and of economising in resources whatever the line of activity may be. Given such an effort by the whole community, I have no doubt that inflation can be mastered and our economic and social life freed from the dislocations and injustices it entails."

2. Statement by Representative of the International Monetary Fund

The International Monetary Fund's 1956 consultation with Australia has not yet been held. The Fund has therefore prepared a background paper dated 12 September 1956, giving a picture of recent developments, including recent changes in Australia's restrictive system.

In addition, the Fund has supplied copies of the background information and results of its 1955 consultation with Australia. These papers were made available to the Working Party during the Tenth Session.

With respect to the question of alternative measures to restore equilibrium, the attention of the delegates is called to the results of the Fund's last consultation with Australia, particularly paragraphs 4 and 5. The Fund has no additional alternatives to suggest at this time.

With respect to item eleven in the plan for consultations, 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.

3. The Results of the Fund's 1955 Consultation 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 intensification 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.

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ANNEX B

REPORT ON THE CONSULTATION WITH CEYLON

Introduction

1. This consultation had been initiated by the Government of Ceylon in March 1956 in accordance with the provisions of paragraph 1(g) of Article XIV concerning Ceylon's continued resort to the provisions of Annex J for the discriminatory application of its import restrictions. In conducting this consultation, the Working Party generally followed the plan recommended by the CONTRACTING PARTIES for such consultations. The following paragraphs summarize the main points of the discussion.

Consultation with the International Monetary Fund

2. Pursuant to paragraph 2 of Article XV the CONTRACTING PARTIES had invited the Fund to consult with them concerning this consultation. As relevant for the CONTRACTING PARTIES in this connexion, the Fund advised that the Government of Ceylon had consulted with the Fund under Article XIV, Section 4, of the Fund agreement concerning the further retention of the transitional arrangements of Ceylon. The Fund supplied to the CONTRACTING PARTIES the text of the results of its 1956 consultation and the background paper prepared by the Fund in connexion therewith. The results of this consultation read as follows:

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

"2. Ceylon had a satisfactory balance-of-payments surplus in 1955, principally because of the high world prices for rubber and tea. International reserves increased considerably during the year. Principally because of the decline in the prices of rubber and tea, the balance-of-payments surplus has substantially declined and may be eliminated in 1956.

"3. Ceylon has been following sound fiscal and monetary policies. Prices have been stable. A significant deficit in the budget is anticipated for the fiscal year beginning 1 October, 1956. It is assumed that any expansionary pressures from this source will be offset by other measures if needed to maintain monetary stability.

"4. The Fund welcomes the recent measures taken by Ceylon to relax restrictions and reduce discrimination. The Fund notes that bilateralism is not an important feature of Ceylon's exchange policy but suggests that Ceylon keep under review its need for continuing reliance on bilateral arrangements. The Fund believes that there is scope for a simplification of Ceylon's licensing system and for further reduction in discrimination.

"5. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon."

The Balance-of-Payments Position

3. Opening the consultation, the representative of Ceylon stated that in 1955 Ceylon had been in a very satisfactory balance-of-payments situation, which was due to an extremely favourable balance of trade; the recovery which began in 1954 had continued in 1955 and, except for a marginal deficit in the second quarter, the general position had improved considerably. The trade surplus for 1955 amounted to Rs. 532 million, the largest ever recorded. In spite of a deficit on invisibles account of over Rs. 200 million, the current account as a whole showed a surplus of Rs. 323 million. The substantial improvement in the trade balance was due principally to the favourable prices obtaining on the world markets for two of Ceylon's major export commodities, viz tea and rubber.

4. Regionally, the improvement was reflected mainly in the balance of payments with the dollar area and sterling area countries other than the United Kingdom, India and Pakistan. Over 75 per cent of the total surplus on current account was with these two regions. Transactions with the United Kingdom and the OEEC countries also resulted in a surplus, while the position vis-à-vis the rest of the world continued to be favourable due very largely to the considerable surpluses with Egypt and Mainland China. With India and Pakistan, however, Ceylon normally ran a deficit, and in 1955 the deficit proved to be larger than usual.

5. As a result of this substantial improvement in the balance of payments, Ceylon's external reserves has also increased appreciably in 1955. During the year, the country's external assets had increased by Rs. 260 million, compared with an increase of Rs. 288 million in 1954. The position as at the end of 1955 was extremely satisfactory, the external assets having reached at certain points levels comparable to the best situations existing during the boom of 1951. A steady rate of increase was maintained in 1955 as it had in 1954.

6. The position in 1956 was substantially different from that in 1955. Estimates for the first half of 1956 indicated a marked decline in the trade balance and a corresponding weakening of the overall position. The first quarter of 1956 had a trade surplus of Rs. 92 million, which represented a severe decline from the surplus of Rs. 218 million in the corresponding quarter of 1955. This was mainly due to a fall in the value of exports, reflecting a decline in the prices of the major export commodities from the high levels prevailing in 1955. With a steady deficit in the invisibles sector, the balance on the current account fell to Rs. 70 million in the first quarter of 1956, compared to Rs. 172 million in the first quarter of last year. The declining trend continued into the second quarter of 1956, though in comparison with the second quarter of 1955 the position showed a slight improvement. During this quarter the net trade surplus was reduced further to Rs. 69 million and the surplus on the current account to a meagre Rs. 15 million. Taking the first half of 1956 together, there was a surplus on the merchandising account of Rs. 161 million, compared to a surplus of Rs. 270 million in the first half of 1955, and the current account deteriorated from a surplus of Rs. 170 million in the first half of 1955 to one of Rs. 55 million in the first half of 1956.

7. On the invisibles account there were slight increases in outward payments, particularly in private remittances and migrants' transfers as repatriation of capital to India tended to increase. A larger volume of remittances was

expected on this account and their impact on the external reserves would be increasingly felt in the future. An increase in outward payments for foreign travel was also expected in the new basic ration period. In general the deficit on invisibles was expected to be steady and recurrent.

8. The growth of Ceylon's external assets had been considerably slowed down in the first half of 1956. After an almost uninterrupted increase during the past two years, 1956 had begun with a slight drop in the external assets, which had continued to fluctuate since then. A sudden improvement during the second quarter of 1956 had been due to credit payments received during that quarter for exports delivered to Mainland China in 1955.

9. As a result of the sound monetary and fiscal policies followed by the Government of Ceylon, prices and the level of economic activity had been stable. Ceylon's overall balance-of-payments position in 1956 was, however, far from satisfactory, and the favourable position that had emerged in 1954 and further improved in 1955, was likely to deteriorate considerably. The changes in Ceylon's balance of payments in 1956 clearly indicated the instability of the external financial position of countries whose economies depended on the export of a limited number of primary commodities.

10. Nevertheless, Ceylon had, during the past year, relaxed restrictions and reduced discrimination. In fact, the most recent measures of liberalization of imports from the dollar area had been taken when the balance of payments was generally deteriorating. The import control restrictions had been substantially liberalized since the last consultations. The elements of discrimination had been almost totally removed, and in practice imports from the dollar area were now virtually free.

11. At the request of the Working Party, the representative of Ceylon supplied statistics showing the regional current account balances for the first half of 1956. These showed a surplus of Rs. 90.1 million with the dollar countries, a deficit of Rs. 51.8 million with the United Kingdom and of Rs. 113.6 million with India and Pakistan, and a surplus of Rs. 82.9 million with the other sterling area countries. A deficit of Rs. 21.4 million and a surplus of Rs. 68.5 million were shown in the current account with OEEC countries and the rest of the world respectively. The total surplus on current account for the first half of 1956 was Rs. 54.7 million.

12. A member of the Working Party, referring to the statement of the representative of Ceylon emphasizing the decline in the rate of increase in Ceylon's external reserves, asked whether the policy of the Government of Ceylon was to secure a consistently high rate of increase, with a view to substantially raising the level of reserves. The representative of Ceylon replied that Ceylon's external earnings in the first half of 1956 could not be regarded as adequate. The rate of increase must be considered in relation to the overall needs of the country, and a mere equilibrium in the balance of payments was not sufficient, having regard to the needs for adequate external reserves to meet the requirements of accelerated economic development.

Changes in the Restrictions

13. At the request of members of the Working Party, the representative of Ceylon gave a precise description of the changes made in the past year and the present status of the restrictions on imports from the dollar area. It was

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noted that previously imports from the dollar area had been subject to discriminatory restrictions through:

- (a) The non-issue of licences for certain products;
- (b) the requirement of licences for certain products which were issued at the discretion of the control authorities;
- (c) the requirement of licences for certain imports which were issued up to a monetary ceiling.

The representative of Ceylon pointed out that since the latest relaxation of dollar restrictions on 13 September 1956, only four items remained subject to the non-issue of licences: imports of toys and confectionery were not being permitted at all and token imports were permitted for whisky and beer, pending a review of government policy. All other imports from the dollar area were, therefore now under the appropriate Open General Licence or technically subject, in a few cases, to discretionary licensing without any monetary ceiling. In fact, however, licences for the latter category were being issued freely without limitation, the effect being equivalent to placing these dollar imports on an unrestricted list, as an intermediate stage before the final goal of putting all dollar imports on Open General Licence.

14. The representative of Ceylon further explained that the result of all this was that no discrimination existed in effect between imports from the dollar area and from other sources. The slight difference in procedure, i.e. the use of Open General Licence for some imports and a special liberal licensing category for a few others, was retained simply to enable the Government to keep a watch on the impact of the relaxation of imports from the dollar area. It was hoped that there would be no occasion for retrogressive steps to be taken.

15. After hearing the additional clarification, certain members of the Working Party expressed great satisfaction on the achievement made by Ceylon in relaxing restrictions and in reducing discrimination. They expressed the hope that Ceylon would be able to consolidate the progress thus made, and to attain the goal of totally eliminating discriminatory import restrictions in the near future. The representative of Ceylon stated that his Government had no intention of taking any retrogressive steps in the field of discriminatory quantitative import restrictions.

16. In reply to a question regarding exchange control, the Ceylon representative stated that the policy was under continual review. In the present circumstances the Government did not consider it prudent to relax any further the control on external payments. In response to a question, the representative of Ceylon explained that the exchange control had no restrictive effects on imports, since exchange permits were issued almost automatically to importers who had acquired the right to import either by virtue of the Open General Licence or through other licences obtained.

17. On the question of bilateral arrangements the representative of Ceylon called attention to paragraph 4 of the Results of the Fund 1956 consultations, reproduced in paragraph 2 above, which stated that the Fund noted that bilateralism was not an important feature of Ceylon's exchange policy but

suggested that Ceylon should keep under review the need for continuing reliance on bilateral arrangements.

18. The representative of Japan enquired whether the policy of Ceylonization of trade will be continued. The representative of Ceylon stated that while his Government's policy of Ceylonization of trade would be maintained, it should be noted that licensing arrangements connected with the implementation of that policy did not involve any restriction of imports, by quantity or value, and that licences were issued freely to Registered Ceylonese Traders.

ANNEX C

REPORT ON THE CONSULTATION WITH NEW ZEALAND

Introduction

1. The consultation under Article XIV with New Zealand had been initiated by the New Zealand Government in March 1956 under the provisions of paragraph 1(g) of that Article. It deals with New Zealand's continued resort to the provisions of paragraph 1(c) of Article XIV for the application of discrimination in its import restrictions. In conducting the consultation the Working Party broadly followed the plan recommended by the CONTRACTING PARTIES for such consultations, and the following paragraphs summarize the main points of the discussion.

Consultation with the International Monetary Fund

2. Pursuant to paragraph 2 of Article XV, the CONTRACTING PARTIES had invited the Fund to consult with them in connexion with this consultation. As New Zealand was not a member of the Fund, there had been no consultation between the Fund and that Government. To assist the CONTRACTING PARTIES in their present task, the Fund had specially prepared a background paper on economic developments and changes in the restrictive system in New Zealand. The representative of the Fund stated that the Fund had had available for this purpose a considerable amount of factual data on the current situation of New Zealand and that the authorities of New Zealand had cooperated in making information available and ensuring its accuracy.

Basis and background for the application of discrimination

3. In opening the discussion, the New Zealand representative stated that the New Zealand's balance-of-payments position was not a comfortable one at present, although there had been some improvement during the past six months. During 1955, New Zealand's net external reserves had fallen by £23 million to £65 million, which was only equivalent to about three months' payments for imports. However, largely as a result of the vigorous monetary and fiscal policy, the decline in the reserves had been arrested and the Government hoped that at the end of this year they would not be lower and perhaps slightly higher than at the end of 1955.

4. So far as the discriminatory import restrictions were concerned it should be stressed that they were not of New Zealand's own choosing and that they had been and would be relaxed as rapidly as circumstances permitted. This policy had led to a substantial increase in imports from the dollar area and, since exports to that area had not changed materially, the trade balance with the dollar area had deteriorated: in 1955 the trade deficit reached £15 million compared with a deficit of under £8 million in 1954, and a surplus of £4 million in 1953. The discriminatory element in import restrictions had been substantially reduced over the last few years by the following three means:

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- (a) the application of a more liberal licensing policy since 1954 in respect of imports of essential equipment and industrial raw materials from the dollar area;
- (b) increases in the number of products on the World Exemption List which can be imported from any source without licence; and
- (c) a reduction in the list of "scheduled countries", to which discriminatory restrictions are applied; these were now confined mainly to countries in the dollar area and Japan.

5. In discussing the trade and payments position with respect to the various currency areas, the New Zealand representative referred to the background paper supplied by the Fund and New Zealand's reply to the questionnaire issued by the CONTRACTING PARTIES in conjunction with the Seventh Annual Report on Discrimination, both of which contained figures on New Zealand's external trade by countries of origin and destination. As relevant for this consultation the New Zealand representative called attention to the recent changes in the sources of imports. Between 1953 and 1955 imports from the sterling area had fallen from 80 per cent of total imports to 75 per cent; imports from the EPU area rose from 7.51 per cent to 8.25 per cent, while imports from Canada increased from 1.4 per cent to 3.34 per cent and imports from the United States from 7.41 per cent to 8.58 per cent in the same period. The very large increase, both absolutely and relatively, in imports from Canada and the United States was particularly noteworthy in the context of the present consultation, especially in view of the fact that there had been no corresponding increase in exports from New Zealand to either of these countries.

6. The New Zealand representative also referred to the statistics supplied in the Fund paper on New Zealand's net overseas assets which showed considerable fluctuations in the last few years. While the drain on the international reserves had been practically arrested in 1955/56, a substantial drop in the first half of that financial year had caused some concern to the New Zealand authorities; the Prime Minister stated in February 1956 that the country's overseas balances were "uncomfortably but not critically low". After a recovery in the first half of 1956, they had fallen, from £99.7 million at the end of June 1956 to £77.3 million at the end of July. In supplement to this data, the New Zealand representative informed the Working Party that the assets had continued to fall in the last two months, to £93.3 million by the end of August and approximately by a further £6 million in September. However these falls were largely seasonal as the bulk of New Zealand's export earnings was received in the first half of the year.

7. In conclusion, the New Zealand representative stated that the reason for his Government's continued resort to the provisions of paragraph 1(c) of Article XIV should be apparent from the figures relating to the country's trade and payments with the dollar area. It should be emphasized at the same time that New Zealand was a member of the sterling area and thus maintained an interest in safeguarding the monetary reserves behind sterling.

8. The representative of Canada observed that whereas in 1954 and 1955 both Canada's exports to New Zealand and New Zealand's exports to Canada had been on the increase, this trend appeared to have changed in the first half of 1956; while Canadian imports from New Zealand continued to rise, there had been a fall in the trade in the other direction. The New Zealand representative explained that trade figures for the first half of 1956 were not yet available. The decline apparent in the Canadian figures for the past six months might be due to seasonal factors. New Zealand balance-of-payment figures indicated that imports from Canada for the year ended June 1956 had been stabilized at the high level of the previous year.

9. The United States representative pointed out that the statistics showed that New Zealand's imports from the United States and Canada had declined from the prewar level of about 21 per cent of total imports to a level of about 12 per cent in 1955, and enquired whether the New Zealand Government believed this to represent a trend which would continue or whether there would be a return to the pattern of trade prevailing in prewar days. The New Zealand representative replied that import restrictions in New Zealand had been in force since before the war and that consequently it was difficult to know what would be the natural pattern of trade that would have prevailed had there been no quantitative restrictions on imports. Furthermore a pattern based on prewar conditions would not be relevant because as a result of industrial development and other changes the structure of the New Zealand economy had changed considerably.

10. The Netherland's representative, referring to the fact, as shown in the statistics in the Fund background paper, that in 1955 New Zealand's exports to Continental OEEC countries and their dependencies had been over twice as high as its imports from those countries, stated that his Government would appreciate any further action by the New Zealand Government to liberalize its imports from West European countries. In reply the representative of New Zealand pointed out that well over 80 per cent of New Zealand's imports from the EPU area were already entirely free from licensing requirements.

11. A member of the Working Party drew attention to the substantial improvement in the balance of payments of New Zealand in 1955-1956 compared with the situation in the preceding year. Especially the trade balance had changed from a deficit of £42 million to a surplus of £18 million, this taking place at a time when there was no improvement in the terms of trade nor any intensification of import restrictions. This reversal of the trend clearly showed the effectiveness of the vigorous internal fiscal and monetary measures recently adopted by the New Zealand Government. Some members of the Working Party expressed gratification that the New Zealand Government continued to rely on such measures for redressing the disequilibrium, and the hope that with further improvements in the balance-of-payments discriminatory restrictions would be further reduced in the near future.

System and methods of Discriminatory Restrictions

12. For a detailed description of the system and methods of restriction, the New Zealand representative referred to his Government's answer to the questionnaire mentioned above and to the background paper supplied by the Fund. He stated that there had been no change in the policy of issuing licences for imports from "scheduled countries". About 160 items were included in the World Exemption List and these items, which could be imported from any source without a licence, represented a substantial percentage of total imports. Apart from the increase in the number of items on which all controls had been removed, the main progress towards the removal of discrimination had been in the continuation of the liberal policy in licensing imports of essential plant, equipment and industrial raw materials from the dollar area. These policies had been responsible for the substantial increase in imports from the dollar area, to which reference was made above.

13. The United States representative referred to the increase in the number of items included in the World Exemption List and wished to know whether the extension of this measure of non-discrimination had had the effect of improving the terms of trade, of strengthening the competitive position of export industries or having any beneficial effect on the level of internal prices. Such experience would be valuable for other contracting parties considering the relaxation of their import restrictions. The New Zealand representative said that no specific studies of this nature had been conducted and it was difficult, in any case, to assess the effects of the measures when many other, more determining, factors were involved. The import control policy was, of course, principally based on considerations of the most economic use of the country's external resources and, therefore, all relevant factors would be taken into account.

14. Commenting on the reference to the liberal licensing policy applied to those dollar imports which remained subject to control, the United States representative said that his Government fully appreciated this policy adopted by the New Zealand Government, which was in line with his Government's belief that advances towards a freer trade should be made whenever possible and to the fullest extent permitted by circumstances; they need not be postponed simply because formally dispensing with licensing requirement was considered impracticable.

15. In the course of the discussion, a member of the Working Party asked for clarification on the nature of the Dairy Products Marketing Commission and on the nature of the payments which the Commission made to cover the difference between the export and internal prices of butter. The New Zealand representative explained that during the war the Government had taken over the marketing of all butter exports and had paid a guaranteed price to producers based on their costs of production. At that time the export prices had been higher than the guaranteed prices paid to farmers so that a fund had been

built up which was now available to meet any difference between export realizations and guaranteed prices. As the fund had been built up from moneys which had been earned by New Zealand farmers Government subsidization was not involved.

16. In discussing the question to what extent price differences were taken into consideration in choosing the source of supply, the representative of New Zealand stated that essentiality of goods and their availability from other sources of supply were, in general, the principal factors in determining the issue of licences for imports from "scheduled countries", although other factors, including significant price differences, were also taken into account. In response to questions, the New Zealand representative further explained that more weight was given to price considerations in the case of goods which were essential to the economy. It was difficult to mention specific types of goods to which such considerations were regarded as more relevant than to other types, as other considerations, such as essentiality to the domestic economy, availability from alternative sources, delays in delivery and terms of sale, etc. had all to be taken into account. Final decision must be left to the discretion of the licensing authorities.

17. The United States representative, referring to the consultations with the United Kingdom in 1955, where it had been brought out that price differences were taken more into account when imports of raw materials needed for industries were concerned, enquired whether similar considerations were in the mind of the New Zealand Government in regard to its essential imports of capital equipment needed for industrialization. Upon this, the United Kingdom representative pointed out that whereas in the case of his country, special attention had to be paid to securing raw materials at the lowest prices, raw material being a determining factor in export prices, the situation was not totally analogous in the case of New Zealand; even in the case of the United Kingdom price differences were not an overriding factor and certainly not the most important one. The New Zealand representative stated that as a rule those goods for which price considerations were important had been included in the World Exemption List.

18. In answer to a question, the New Zealand representative stated that the figures, given in the current reply to the questionnaire, of 83 per cent of imports exempted from control and 17 per cent remaining under control in 1955 represented the actual percentages of imports in that year.

Multilateral or Regional Payments Arrangements

19. The New Zealand representative noted that the participation of the United Kingdom in the EPU arrangements had been beneficial to New Zealand as it had enabled the elimination of all discrimination in the issue of licences for imports from all EPU countries; no distinction was drawn between the United Kingdom and other EPU members and when exemptions were made in the import licensing schedule they applied to imports from all sources except those in the category of "scheduled countries" which, as explained earlier, now comprised only the dollar area and Japan.

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20. In reply to a question, the New Zealand representative noted that some members of OEEC had substantially extended OEEC treatment to the exports of New Zealand while others had not.

The Use of Bilateral Trade Agreements

21. The New Zealand representative stated that New Zealand had no bilateral trade agreements which affected the import of goods subject to import control, nor was it the Government's policy to enter into such agreements. Attention had been drawn to a reference in the Fund's paper to an announcement that additional licences were to be issued in 1956 for imports into New Zealand of Australian motor cars to the value of £1 million. It was explained that talks had been held between the Australian and the New Zealand Prime Ministers early in 1956. As a result of these talks, and in order to meet the very strong demand for the type of motor cars available from Australia, some additional provisions for imports of Australian cars had been made. There was, however, nothing in the nature of a formal agreement.

Effects of the Discriminatory Restrictions

22. The New Zealand representative stated that though the effects of the discriminatory restrictions had been substantially reduced over the past two years as a result of the reduction of such restrictions themselves, it must be admitted that some damage to the interests of other contracting parties could still occur as a result of the remaining discrimination. This, however, could not be regarded as unnecessary damage as long as the basic reasons for New Zealand's continued discrimination were accepted. Some members of the Working Party expressed their gratification at the rate at which the restrictions had been relaxed but regretted that the limited relaxations carried out over the past had not been extended non-discriminatorily to all countries.

23. Recalling the statements of the New Zealand representative at the previous consultation in 1955 concerning various positive steps taken to reduce the effects of the restrictions, a member of the Working Party enquired whether such measures had been strengthened in the interests of the exporters in other countries who had made the initial capital outlay in gaining a foothold in the New Zealand market. The New Zealand representative assured the Working Party that it had been the continued policy of his Government not to disrupt the trade of established importers. Once an importer had been granted licences for a commodity from a currency area it could normally be expected that future licences would not be withheld. The New Zealand representative also stated that the importers and foreign exporters should be fully aware of the import opportunities for dollar goods since information concerning the licensing policy was regularly published through official notices accessible to the public.

Prospects of Eliminating the Discriminatory Restrictions

24. As to the future, the New Zealand representative said that it was difficult to make a useful assessment of the prospects. This was because the progress towards non-discrimination depended not only on New Zealand's policy but also on wider considerations, such as the progress towards convertibility for the major currencies of the world.

25. A member of the Working Party referred to the statement in New Zealand's reply to the questionnaire to the effect that the Government had now decided that the Board of Trade should undertake a comprehensive review of all aspects of the tariff, and enquired as to the implications of that review for the maintenance of quantitative restrictions. The New Zealand representative explained that the Board of Trade had instituted an enquiry which was expected to be concluded by the middle of 1957. This tariff review would, however, not in any way be concerned with the discriminatory aspects of the import restrictions. Only about 17 per cent of imports from non-scheduled countries were still under licensing. Control over a large proportion of these imports was retained for balance-of-payments reasons.

ANNEX D
REPORT ON THE CONSULTATION WITH THE FEDERATION OF RHODESIA
AND NYASALAND

Introduction

1. This consultation had been initiated by the Government of the Federation of Rhodesia and Nyasaland in March 1956, in accordance with the provisions of paragraph 1(g) of Article XIV and is concerned with the Federation's continued resort to the provisions of Annex J regarding the application of discrimination in its import restrictions. In conducting the consultation the Working Party generally followed the plan recommended by the CONTRACTING PARTIES for such consultations. The following paragraphs summarize the main points of the discussion.

Consultation with the International Monetary Fund

2. Pursuant to paragraph 2 of Article XV, the CONTRACTING PARTIES had invited the Fund to consult with them concerning this consultation. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter had prepared a background paper on developments in the Federation since the beginning of October 1955. The representative of the Fund stated that in preparing this paper the Fund had received co-operative assistance from officials of the Government of the Federation in ensuring the accuracy of the data used and in supplying the latest available information.

Basis and Background of the Discriminatory Application of Restrictions

3. The representative of the Federation opened the discussion with a comprehensive statement on the balance-of-payments position of the Federation and on the changes in the import control policy and restrictions in the past year. Special attention was drawn to the rapid economic expansion in the Federation in recent years and the dominant rôle played by international trade in the economy. Referring to the data in the background paper supplied by the Fund the representative of the Federation indicated how the economy was fundamentally influenced by the changes in the world market of a few primary commodities on which the Federation's external income depended.

4. The past three years, especially the last one, had been very favourable to the Federation and had produced a substantial visible trade surplus, while the deficit on invisible transactions had been more than covered by capital movements, enabling a substantial addition to the external reserves. This trend had continued very markedly during the first half of 1956. Obviously, such a situation could hardly exist for long without creating considerable inflationary pressures, and for that reason the budget introduced in 1956 had included certain disinflationary measures, including a contribution of £10 million from revenue to the Loan Account, from which development expenditure is in the main financed.

5. The Federation was committed to certain major developments with the object of providing for a more diversified economy. The principal item was the hydro-electric project at the Kariba Gorge, which involved an initial expenditure of some £80 million and an ultimate expenditure of about £115 million. The development programme also included the improvement of the transport system which, in spite of the progress made, was still inadequate to cope with the present amount of traffic and that which was expected in the future. Later it would be necessary to finance a further major development project in the Shire Valley in Nyasaland.

6. Given favourable prices for the principal export commodities, the Government of the Federation was confident that satisfactory balance of payments and an expanding development programme could both be maintained, but it should be emphasized that the country depended for its external income on a few major exports. Of the total exports of £179 million in 1955, copper accounted for £110 million and tobacco for £26 million. The fluctuations to which the copper price had been subjected were well known. On the London Metal Exchange, copper had reached an all-time record of £437 per ton in March 1956. Since then, there had been rather wide swings and at present the price was slowly declining, the latest quotation available being about £268 per ton. Prices of tobacco had been between 15 to 20 per cent lower than they had been in 1955 and even though they had recovered recently, it was doubtful whether the larger crop would realize as much income in monetary terms as in the previous year.

7. However, as had been noted in the Federation's reply to the questionnaire, the Government had been able, while maintaining its interest in assisting in the building-up of the reserves of the United Kingdom with which the Federation shared a common quota in the International Monetary Fund; to introduce a considerable degree of relaxation of its import restrictions. While this was the consistent policy of the Federal Government, it had also to bear in mind that it would be wise to liberalize gradually instead of over-liberalizing, with the possibility, on a swing in the terms of trade, of having to re-introduce or re-intensify the restrictions, a practice which was more disrupting to commerce both in the importing and exporting countries than was the maintenance of publicised restrictions.

8. The representative of the Federation stated that it was on these considerations that discriminatory restrictions were being maintained on imports under the provisions of Annex J. The Working Party noted that as the Federation shared the common quota of the United Kingdom and its dependent territories in the International Monetary Fund, the provisions of paragraph 3(a) of Article XIV also applied.

9. A member of the Working Party enquired as to the possibility of increasing the Federation's dollar earnings through further development of copper mining. The representative of the Federation stated that two new mines of copper were being energetically developed but that full production would not be reached until some time in 1959-60. At that time, should copper prices remain favourable, the increased output should substantially contribute to the balance of payments, but until then plans had to be formulated on the basis of existing production units and earnings.

10. In reply to a question, the representative of the Federation stated that as a member of the sterling area the Federation had an interest in making what was considered to be a reasonable contribution of gold and dollars to the central reserves of the sterling area, but it was prepared to spend its dollar earnings in excess of that amount. Thus its own dollar account was also a factor in its import policy.

11. Members of the Working Party expressed appreciation of the action taken by the Federal Government in the past year in liberalizing its imports and in pursuing a prudent monetary and fiscal policy. Referring to the rising consumer price index in the Federation, a member of the Working Party suggested that further liberalization of dollar imports, by making certain consumer items more abundant on the domestic market, might help to stabilize prices. The representative of the Federation felt that the liberalization of foodstuffs from the dollar area was unlikely to have any pronounced effects on the price index. However, the suggestion would be conveyed to the attention of his Government for study.

Changes in the discriminatory application of restrictions

12. The representative of the Federation stated that measures of liberalization taken in the past year had resulted in an almost complete derestriction of imports from GATT/OEEC countries outside the dollar area. Only two items, namely second hand clothing and motor vehicles, remained under restriction. In all but five cases, i.e. motor scooters and motorcycles, cardboard and fibreboard, wrapping paper, paper bags and wrappers, the more unrestricted items were now under open general licence. In the five cases mentioned licences were still required but there was no quota limitation and licences were issued freely, the requirement being retained for statistical and administrative reasons. In the last two months restrictions had been

withdrawn from imports of constructor's plant (such as dampers and tippers) which had previously been included in the category of motor vehicles and the quota restrictions for motor vehicles now applied only to passenger cars and commercial trucks.

13. With regard to imports from the dollar area, the range of goods on open general licence had been increased, effective from 1 January and 1 July 1956. Some 385 tariff items and sub-items which had previously been either prohibited or subject to quota had been transferred to the unrestricted list for unlimited licensing. Among those of particular interest were agricultural and dairying machinery, enamelware, hollow-ware, steel windows and doors, motor vehicle parts and accessories, heavy trucks, tipping and dumping vehicles, tractors, contractor's plant, typewriters, water boring apparatus, asbestos cement manufactures, glass and glassware other than tableware and ornaments, fishing appliances and a wide range of stationery and printed matter. This represented the most sweeping move forward in the derestriction of dollar imports which the Federation or its constituent territories had made since restrictions were first imposed. As a result of this, the method of publicizing dollar control had been changed from one under which every product was prohibited except specified items for which quotas were established to one under which all imports were permitted except specified prohibited items.

14. The small group of countries which fell neither in the GATT/CEEC group nor the dollar group, was dealt with by special application and special licence according to circumstance and need. For example, quotas substantially in excess of the previous year's were available for materials required by local industries, which could be obtained to advantage from Japan, and even for this group of countries there was a small range of goods unrestricted for industrial purposes. Other cases were dealt with on their merits.

15. As the Federal Minister of Finance indicated when he addressed the plenary meeting, the policy of the Federal Government was to move to complete liberalization as rapidly as possible, consistently with its interest in making a suitable contribution to the central reserves of the sterling area. The steps taken in the past year represented the practical application of that intention.

16. In answer to questions put by members of the Working Party, the representative of the Federation clarified certain points in the written submissions concerning the system and methods of the restrictions. It was explained that open general licences were used in cases where imports were to be permitted freely without individual licences, while the Unrestricted List contained products for which a licence would still be required but would be issued upon application. The latter device was used in order that a watch could be kept on certain imports for which the strength of demand was still uncertain and concerning which statistical information would be useful in indicating whether it would be safe fully to liberalize them and transfer them

onto an open general licence. In the case of imports from GATT/OEEC countries outside the dollar area a large number of imports had been so transferred from the Unrestricted List to the Open General Licence after a certain period. The Prohibited Lists included items for which the current programme contemplated no issue of licences for importation from the dollar area. Some members of the Working Party observed that in the past year some 385 tariff items and sub-items had been derestricted making a total of about 500 out of the 720 tariff sub-items so liberalized in respect of the dollar area, and expressed satisfaction of this progress made. They especially showed interest in the method of testing the strength of demand through the Unrestricted List procedure.

17. The representative of the Federation also explained that quota restrictions were applied on a currency area basis. Any quotas established for dollar imports were available for imports from any country in the dollar area.

18. In discussing the place of price considerations in the determination of sources of supply, the representative of the Federation stated that prices were taken into account after the first consideration of essentiality. Price differences were taken more fully into account in the case of capital goods and industrial materials and consequently imports of such goods were more fully derestricted from all sources than consumer goods. Price considerations in licensing imports of consumer goods were an important question which would have to be studied. Further, in order to ensure the most economical use of foreign currency resources the system was under continual review. In determining the import policy each half year the Government discussed all questions concerning the import restrictions with the Chambers of Commerce through which importers' views would be ascertained. In certain cases quotas had been established or restrictions removed as a result of their representations. Some members of the Working Party considered that this practice was of great value not only to the importing trade in the Federation but also to foreign exporters. It was suggested that reduced use should be made of the Prohibited List method in the interest of greater flexibility. The representative of the Federation said that he would convey these views to the attention of his Government.

The Use of Bilateral Arrangements

19. The representative of the Federation informed the Working Party that the Federation had recently concluded an agreement with France on lines similar to the one which had previously been in force whereby as purchases of Rhodesian tobacco increased, the Federal Government would grant additional licences for the import of motor vehicles from France. The Federal Government, however, had never been enthusiastic about bilateral agreements of this nature and the scope for such agreements would be gradually reduced as more and more goods were derestricted until ultimately it would disappear.

Effects of Discriminatory Restrictions

20. The representative of the Federation stated that no information was available on the precise effect of the measures of liberalization which had been taken. Dollar imports on the whole were on a rising trend. Between 1954 and 1955 they had risen by 23 per cent. Imports from the United States over the first five months of 1956 (the latest period for which statistics were available) had been nearly 50 per cent higher than in the same period of 1955. It was not possible to say to what extent this increase had been due to the relaxation of restrictions and to what extent it reflected increases in imports of capital goods which had been free from restrictions from the dollar area for quite some time.

Prospects for the Elimination of the Discriminatory Restrictions

21. The representative of the Federation stated that it was difficult to forecast at this stage when the Federation's dollar earnings would be so substantial that they could support the development programme, contribute adequately to the sterling area's central reserves and at the same time allow complete freedom to imports from the dollar area. Members of the Working Party referring to the internal measures taken and the manifest improvement in the balance of payments, expressed the hope that future developments would be so favourable that such restrictions would be eliminated in the not too distant future.

ANNEX E

REPORT ON THE CONSULTATION WITH THE

UNITED KINGDOM

Introduction

1. The consultation with the United Kingdom had been initiated by the United Kingdom Government in March 1956 in accordance with the provisions of paragraph 1(g) of Article XIV, and was concerned with its continued resort to the provisions of Annex J for the application of discriminatory import restrictions. In conducting this consultation the Working Party broadly followed the plan recommended by CONTRACTING PARTIES for such consultations. The following notes set out the main points of the discussion.

Basis and background for the application of discrimination

2. In opening the consultation, the United Kingdom representative recalled the previous consultation in 1955 when attention had been called to the deterioration in 1954/55 in the United Kingdom current balance of payments. This had forced the United Kingdom to slow down the rapid rate at which restrictions were being relaxed and discrimination removed in the course of 1954. It had been noted that this process had not come to a complete stop, and that some progress was still being made towards freer trade. The Working Party conducting that consultation had expressed gratification that in spite of balance-of-payments difficulties then faced by the United Kingdom, import restrictions had not been invoked as a means of overcoming them.

3. The second half of 1955 had seen a further deterioration in the United Kingdom current account balance. Even allowing for the fact that the second half of the year was always seasonably unfavourable to the United Kingdom, the decline was evident from the following figures:

Current Account Balance including Aid Items (in £ millions)

1954	Jan.- June	180
1954	Jul.- Dec.	30
1955	Jan.- June	18
1955	July- Dec-	-107

During the last eighteen months the gold and dollar reserves of the United Kingdom had fallen substantially. After a rise from \$ 2,518 million at the beginning of 1954 to \$ 3,017 million by the middle of that year, they had declined to \$ 2,120 million by the end of 1955.

4. In 1955, the United Kingdom Government had taken a number of measures to relieve the pressure of internal demand and to strengthen the balance of payments; these included rises in the Bank Rate, checks to hire purchase, reduction in bank advances and finally a supplementary Budget involving

increases in the purchase tax and the tax on distributed profits. Steps had also been taken to curb the capital expenditure of local authorities, nationalized industries and the central Government. A full account of the measures taken was given in the background paper of 16 February 1956, supplied by the Fund. Further measures taken in 1956, as outlined in the Fund paper of 12 October, included the raising of the Bank Rate to 5½ per cent, suspension of investment allowances, the restriction of hire purchase, the curtailment of capital expenditure and the reduction of subsidies on bread and milk. The Budget introduced in April had been particularly designed to encourage savings.

5. Although this was not entirely surprising, since old weapons were being tried out in new conditions, the restrictive measures taken by the United Kingdom Government over the past eighteen months had been disappointingly slow in having sufficient effect. There was now welcome evidence that they were exerting noticeable restraint on the economy and affecting the balance of payments. From the appended table which shows the regional balance of payments of the United Kingdom from 1953 to June 1956, it might be seen that there had been a substantial improvement in the first half of 1956. It must be remembered, however, that the first half of the year was seasonably favourable to the United Kingdom, and that of the total surplus of £144 million, only £95 million were added to the United Kingdom gold and dollar reserves. The surplus for the whole year would almost certainly be below that rate, which was itself inadequate, having regard to the need to increase the reserves which were still too low. The policy of the Government was to consolidate each move forward before beginning the next. Had the Government seized upon the favourable developments of the first half of 1956 to make a big move forward in the removal of restrictions and discrimination, it might have been forced by the subsequent events to have taken retrogressive steps. In the last few months sterling had been again under some pressure, partly for current seasonal reasons, partly on capital account, and in the third quarter the United Kingdom gold and dollar reserves had declined by £20 million. The current account balance had fluctuated considerably in the last eighteen months, and the Government had to be on guard against taking action on too short a view; close watch must be kept, for instance, on the impact of the unfolding of events in the Middle East.

6. Consequently despite the improvement in its current account balances in the first half of the year, the United Kingdom had considered itself unable to risk any significant additional calls upon its reserves. It would, in the United Kingdom's view, have been a mistake further to liberalize imports while restraining demand by the various internal measures described above. Reducing discrimination by intensifying restrictions on imports from the non-dollar countries, even if this could be done consistently with the United Kingdom's obligations, would hardly be an acceptable way of proceeding. The alternative way, namely to liberalize dollar imports, could not be followed for the reasons given above.

7. The United Kingdom representative then referred to the decision which, in spite of the situation, his Government had taken in July 1956, to free imports of pulp, paper and board. This had been done by placing these items on world open general licence, thereby avoiding any increase in discrimination against dollar imports. In addition, with the ending of state trading on 1 October 1956, the Government had placed bacon and pork on open individual licence from most of the non-dollar countries. With effect from 1 January 1956 sulphur had been placed on open general licence. Other relaxations had taken place towards the end of 1955.

8. In summing up the basis and background for the continued application of discrimination, the United Kingdom representative said that the underlying economic position was sound, and stressed his Government's resolution to maintain it so. The internal fiscal and monetary measures taken in the last eighteen months were now creating noticeable restraints on the domestic economy and on the balance of payments. On the other hand, the United Kingdom had not achieved a current account surplus which could be considered adequate or raised its reserves to a level which could be considered sufficient. It had to guard against the danger of moving forward at the first signs of improvement and so risking having to move back later. For these reasons the United Kingdom had not felt justified in making further significant moves in liberalizing imports, and so in reducing discrimination. It would move forward, however, as soon as the balance of payments permitted.

Consultation with the International Monetary Fund

9. Pursuant to the provisions of Article XV:2, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them concerning this consultation. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter had supplied a substantial amount of documentation including (a) a background paper prepared in the Fund in connexion with the Fund's 1955 consultation with the United Kingdom, and (b) a supplementary paper dealing with developments in the United Kingdom since October 1955, which had been specially prepared by the Fund for the assistance of the CONTRACTING PARTIES. In addition, the Fund had supplied the following text of the Decision taken by its Executive Board at the conclusion of its 1955 consultations with the United Kingdom on 21 March 1956.

"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 continued to rise in 1955 in all sectors except coal and textiles. A rise in fixed investment, public and private, together with a continued moderate increase in consumption and a rise in stocks accompanying the expansion of production, led to pressure on resources. There was some further advance in wages and prices. Exports rose but there was a larger increase in imports, e.g., of coal and other raw materials, and a decline in net invisible receipts. The payments deficit with non-sterling areas increased, and there was a substantial fall in the gold and dollar reserves.

"3. During 1955 and 1956 credit policy has been tightened and budgetary and other measures have been taken to restrain consumption and moderate the rise in public and private investment. The Fund welcomes these steps and the intention of the United Kingdom authorities to take, if necessary, further measures to reduce the strain on resources and, thereby, strengthen the payments position.

"4. The Fund also welcomes the United Kingdom's policy of meeting its difficulties through other measures than by reimposing restrictions on trade and payments. Some progress was made in removing restrictions and reducing discrimination, although the pace of relaxation was slower in 1955 than in 1954. The Fund believes that the United Kingdom should continue to follow policies designed to make possible further advances towards freer trade and payments, particularly in view of the key rôle of sterling in the general approach to convertibility.

"5. The United Kingdom has made considerable progress in widening the transferability of sterling and in reducing reliance on bilateral arrangements. The financial reasons for the use of bilateral arrangements by other countries have thus been reduced. The Fund attaches especial importance to the efforts made by the United Kingdom to reduce bilateral practices.

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

10. The representative of the Fund stated that although the Decision has been taken several months ago, the Fund had not considered it necessary to make any modifications to it at this time. The Fund's present position in regard to the United Kingdom remained as outlined in that document.

Questions relating to the policy of discrimination

11. A member of the Working Party enquired whether the increase in United Kingdom's exports to the dollar area during the first half of 1956 was in any way related to the recent reduction in discrimination against dollar goods in many countries. The United Kingdom representative considered that while possibly keener competition in EPU markets might have compelled United Kingdom exporters to pay more attention to the North American market, the principal reason for the increase in exports to the dollar area was the success of Northern American countries in maintaining a high level of economic activity.

12. The Working Party discussed the possible effects of the restrictions which were discriminatory in favour of EPU countries and against the dollar area, on the gold and the dollar reserves of the United Kingdom. A member of the Working Party suggested that as the United Kingdom was making substantial gold and dollar payments to the EPU in settlement of its deficits

with EPU countries a reduction in discrimination, by reducing the United Kingdom's deficit with EPU countries, might help to reduce the drain on its gold and dollar reserves. The United Kingdom representative replied that while any reduction in imports from the EPU countries would undoubtedly reduce the country's EPU deficits, the corresponding increase in the imports from the dollar area would bring a greater drain on its reserves; whereas EPU deficits were settled only to the extent of 75 per cent in gold and dollars, deficits with the dollar area were charged 100 per cent to the gold and dollar reserves. Another member of the Working Party considered, however, that the relative effects of the discriminatory restrictions on dollar and EPU imports could not be so simply regarded, as a number of other factors had also to be taken into account. For example, imports diverted from EPU to dollar sources would presumably be at lower prices and to that extent a lesser charge would be made to the dollar reserves; secondly, the accumulated deficit to EPU resulting from the 25 per cent credit payment carried an interest which was by no means insignificant; and thirdly, the payment of 25 per cent in credit simply meant a deferment of real payment as the accumulated balance had to be settled eventually. The United Kingdom representative agreed to the validity of these considerations, which had, of course, not been ignored by his Government.

13. A member of the Working Party observed that in spite of the reduction in restrictions on dollar goods, there had been no substantial diversion of imports to that source, and that the increased competition arising from the liberalization of dollar imports should have a salutary effect on the efficiency and competitive strength of the United Kingdom producers. The United Kingdom representatives commented that it might not always be legitimate to relate directly any changes in imports to changes in the restrictions, as there were many more determining factors. For example, the sustained high level of activity in North America must have contributed to lessening pressures on European markets, including that of the United Kingdom. His Government recognized the advantages that domestic industries might derive from external competition, and would be ready to submit the economy to that test as the balance-of-payments position permitted.

14. The United Kingdom representative was invited to comment on the view that, having regard to the importance of sterling as an international currency, its increased transferability had been beneficial not only to sterling area countries, but to all countries outside the dollar area; the present high degree of transferability of sterling had laid the ground on which further progress towards convertibility of the major currencies of the world could be achieved. The United Kingdom representative stated that the United Kingdom Government was always conscious of its responsibility in regard to sterling. About 50 per cent of world trade was carried on in sterling, and his Government's policy was directed towards furthering the use of sterling in international payments and encouraging multilateral trade by all possible means. In this connexion he would refer to a recent statement of the Chancellor of the Exchequer to the effect that in achieving a healthy economy, all countries must have regard to the impact of their policies on other countries, since prosperity is indivisible.

15. A member of the Working Party noted that certain people were of the opinion that with the reduction in dollar restrictions in many countries, the free flow of dollar goods, and at any rate of goods with dollar components, between them appeared to have substantially reduced the value of stringent restrictions on dollar imports maintained in any particular country. On this point the United Kingdom representative said that the desirability of keeping progress in the liberalization of dollar imports in phase has been considered by some countries, but the conclusion had been that no special action was necessary. In practice, the possibility of dollar goods imported by one country being diverted to another country was not great; for even if the licensing system did not prevent it the price difference would seldom be sufficiently large to cover the extra costs in transport and handling. If there should be any evidence in future that dollar import controls were being undermined, the United Kingdom Government would have to review the situation. In reply to a further question about relative cost of supporting the transferable rate, as compared with the cost of reducing discrimination, the United Kingdom representative said that it could be accepted that claims of all kinds on the gold and dollar reserves, including the cost of supporting the rate, would not, in the United Kingdom's view, be reduced by a reduction of discrimination; otherwise the United Kingdom would already have taken this step.

Reduction of discrimination in the restrictions

16. For a detailed description of the system of discriminatory restrictions and of the changes which took place in the past year, the United Kingdom representative referred to the reply of his Government to the questionnaire issued by the CONTRACTING PARTIES in connexion with the preparation of the Seventh Annual Report on the Discriminatory Application of Import Restrictions. Among the main changes which were relevant for the present consultation should be mentioned the addition of pulp paper and board to the World Open General Licence in July 1956. At present only one-sixth of the United Kingdom's imports remained subject to control, and more than half of its imports from the United States and Canada had been freed from restriction. There had been no reduction in quotas nor any unfavourable changes in the criteria used in licensing imports remaining subject to administrative control. Full account was taken of the price factor in deciding on the sources of supply. The possibility that competition from the dollar area might have a restraining influence on prices was one of the factors which led the United Kingdom when liberalizing pulp, paper and board to put these items on World Open General Licence.

17. Some members of the Working Party expressed gratification at the progress achieved in the circumstances, and in this connexion mentioned the common interest in the elimination of quantitative restrictions as soon as the external situation permitted. It was noted that though the measures taken in July had not resulted in a substantial increase in imports from the dollar area, they had exerted a psychological effect on North American exporters

by reassuring them that the United Kingdom was resolved to progress in the direction of freer imports. It was suggested that similar action could be taken in regard to other items which were, for example, sufficiently covered by customs tariffs, and the liberalization of which would therefore not be likely to involve increased charges on the balance of payments. The United Kingdom representative observed that other items undoubtedly existed which could be liberalized at little or no cost to the balance of payments. At this juncture, however, it was politically and psychologically unwise further to expose the economy to potential burdens, when the Government were putting into force numerous measures which were unfavourable to various sections of the population, but whose success depended on their full support. In addition, it could never be absolutely certain that the balance of payments would not be affected by the liberalization of even such items. Certain members of the Working Party said that while they fully realized the weight of these considerations, they hoped that the United Kingdom Government would give the fullest consideration to any possibility of further liberalization and reduction of discrimination. The momentum which had been built up in recent years in reducing restriction and discrimination had been of great value to the world, and should be maintained if at all possible. In taking a conservative outlook, the Government might well be under-estimating the breadth of understanding of the public in problems of international economic relationship. There were many ways of experimenting with liberalization with varying degrees of risks in regard to the balance of payments, and it was hoped that further action would be taken consistent with safety, so that the reaction of the public could be gauged. In reply the United Kingdom representative said that in taking the various steps in the past year, to which reference had been made, his Government had had in mind considerations of this kind. For the future he could say no more than that they would continue to bear them in mind.

Multilateral and bilateral payments and trade agreements

18. The United Kingdom representative referred to the multipartner payments arrangements which had been developed in the past year between Brazil and Argentina on the one hand, and certain European countries, including the United Kingdom, on the other, and assured the Working Party that neither of these arrangements involved any discrimination in favour of the two Latin-American countries. As for the bilateral trade agreements described in the background paper supplied by the Fund, the United Kingdom representative stated that none of them involved any obligation for the United Kingdom other than to issue licences; whether imports into the United Kingdom from the partner countries would expand as a result of such agreements entirely depended on the ability of their exporters to compete with other suppliers on the United Kingdom market. Further, as liberalization of imports was further pursued, the area of trade which could be covered by bilateral arrangements became progressively limited. At present only 2.5 per cent of the United Kingdom's imports from OEEC countries was covered by bilateral quota arrangements.

19. In reply to a question on the basic policy of the United Kingdom Government in regard to the use of bilateral trade agreements, the United Kingdom representative stated that it was the longterm policy of his Government to eliminate import restrictions and discrimination. With the progressive achievement of that aim, the scope for bilateral arrangements would, of course, become increasingly less and ultimately disappear, and consequently there was no need for a deliberate policy of eliminating bilateral arrangements which had a historical origin and served a useful, although limited, purpose. In the context of the present discussion the question was whether, in effect, these agreements resulted in discrimination; insofar as such agreements were used for purposes other than to assure a more favourable treatment to the exports of any particular country, they could not give rise to discrimination.

Effects of the discriminatory restrictions

20. The United Kingdom representative assured the Working Party that his Government was doing its best to minimize any undesirable effects of the restrictions still being maintained. It was ready to discuss with any contracting party problems arising from the restrictions. Certain members of the Working Party observed that the most important means of preventing damage to the interest of other contracting parties was to refrain from taking retrogressive steps in regard to newly liberalized imports. They therefore welcomed the consistent policy of the United Kingdom in this regard. The United Kingdom representative expressed appreciation of this support for his Government's cautious policy of consolidating each move forward before attempting the next.

21. Members of the Working Party remarked on a notable development in recent years namely, the tendency for countries faced with balance-of-payments difficulties to put more emphasis on the use of internal fiscal and monetary means than on import restrictions for the correction of internal and external disequilibrium, and that the policy pursued by the United Kingdom was a case in point. It was hoped that the United Kingdom would be able to contribute further to maintaining the momentum of the progress towards freer trade. In particular it was hoped that action would be more and more related to imports from all countries.

22. In conclusion the United Kingdom representative assured the Working Party that his Government would persevere in its endeavours to promote freer and more multilateral trade. He would recall, however, the statement made by the Chancellor of the Exchequer at the recent meeting of the International Monetary Fund that governments today were rightly pledged to policies of full employment and a high level of economic activity, and that they could not therefore carry their monetary and fiscal policies to the point of outright deflation. It would not be right to think that internal policies were the only answer. In the United Kingdom's view prosperity was a common responsibility, and countries in strong creditor positions - of which there were now a number - should frame their external policies having regard to the effect of their strength on other, weaker, countries.

APPENDIX TO THE REPORT ON THE
CONSULTATIONS WITH THE UNITED KINGDOM

Regional Current Account Balances of the United Kingdom⁽¹⁾
(£ million)

	1953	1954	1955 First half	1955 Second half	1956 ⁽²⁾ First half
<u>Dollar Area</u>					
Exports and re-exports, f.o.b.	442	420	233	257	305
Imports, f.o.b.	-519	-565	-357	-381	-354
Trade balance	-77	-145	-124	-124	-49
Services	-54	-8	4	-31	73
Government Transactions	20	22	11	13	28
Current balance	-111	-131	-109	-142	52
Defence aid, net of counterpart	102	50	33	11	9
Current balance, incl. aid	-9	-81	-75	-131	61
<u>OEEC Area</u>					
Exports and re-export, f.o.b.	757	788	415	412	454
Imports, f.o.b.	-678	-761	-421	-459	-459
Trade balance	79	27	-6	-47	-5
Services	36	40	20	15	-13
Government Transactions	-29	-29	-15	-17	-20
Current balance	86	38	-2	-49	-36
<u>Other Non-Sterling Countries</u>					
Exports and re-exports, f.o.b.	262	276	163	179	199
Imports, f.o.b.	-367	-360	-193	-217	-209
Trade balance	-105	-84	-30	-38	-10
Services	94	99	29	16	32
Government Transactions ⁽³⁾	-40	-35	-15	-12	-14
Current balance	-51	-20	-16	-34	3
<u>CURRENT NON-</u> excl. aid	-76	-113	-127	-225	22
<u>STERLING BALANCE</u> incl. aid	26	-63	-94	-214	31
<u>Rest of Sterling Area</u>					
Exports and re-exports, f.o.b.	1,209	1,333	716	690	737
Imports, f.o.b.	-1,323	-1,326	-725	-678	-710
Trade balance	-114	7	-9	12	27
Services	383	398	186	175	170
Government Transactions	-109	-132	-65	-80	-84
CURRENT BALANCE WITH R.S.A.	160	273	112	107	113
TOTAL CURRENT BALANCE excl. aid	84	160	-15	-118	135
incl. aid	186	210	18	-107	144

(1) Minus sign indicates debit; no sign indicates credit

(2) Provisional

(3) Including debits of -14, -11, -6, -3 and -6 to government transactions
with non-territorial organizations