

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH AUSTRALIA

1. In accordance with its terms of reference the Committee has conducted the consultation with Australia under Articles XII:4(b) and XIV:1(g). The Committee had before it: (a) a basic document prepared by the secretariat; and (b) documents supplied by the International Monetary Fund. In conducting the consultation the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 14 October 1959. The present report summarizes the main points discussed during the consultation.

### Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Australia. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results<sup>1</sup> of its last consultation with Australia which was concluded on 10 September 1958 and a paper prepared to supply background information on more recent developments in Australia. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Australia. This statement was as follows:

"At the time of the last consultation with Australia under Article XIV:1(g) of the General Agreement the International Monetary Fund transmitted to the CONTRACTING PARTIES the results and background material from the most recent consultation with Australia under Article XIV of the Fund Agreement. The Fund has now provided a supplementary paper to supply background information on developments in Australia which have occurred since the conclusion of the last Fund consultation. That paper, dated September 21, 1959, has been distributed to the members of the Committee.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, it is to be noted that since the conclusion of the last consultation under Article XIV of the Fund Agreement on September 10, 1958, Australia has made considerable progress in reducing restrictions and discrimination. The Fund is shortly to conduct its 1959 consultation with Australia and will transmit the results of that consultation to the CONTRACTING PARTIES when they become available.

"With respect to Part II of the Plan, relating to alternative measures to restore equilibrium, pending the conclusion of its next consultation with Australia, the Fund has no comments on alternative measures in Australia."

Opening Statement by the Australian Representative

3. The full text of the opening statement of the representative of Australia is attached to this report as Annex I. The following is a brief summary of the statement.
4. In November 1957 when Australia last consulted under Article XII, the CONTRACTING PARTIES were informed that the immediate balance-of-payments prospects were not good. Reference was made to the effect of drought conditions on exports of primary products and to the difficulties encountered in finding markets for the quantities which were available for export. It was stressed at that time that despite these difficulties it was the intention of the Government of Australia to avoid the extreme fluctuations in licensing levels which had previously been experienced and to proceed with an orderly dismantling of import restrictions as the balance-of-payments position permitted. It was particularly desired to avoid any backward step in the direction of an intensification of import restrictions.
5. Increases in the rate of import licensing had been achieved despite lower export receipts and despite the need to draw on reserves in each of the last two years. In the expectation of a higher export income in 1959-60 and in the knowledge of the very real benefits to be derived from a relaxation of quantitative restrictions on imports, the Government of Australia had recently decided to raise the level of import licensing to £A\$50 million per annum. A notable feature of the recent liberalization measures has been the substantial elimination of discrimination against imports from the dollar area. The percentage of total imports licensed on a non-discriminatory basis now stands at 90 per cent as compared with 30 per cent some two years ago and it was the stated intention of the Government of Australia to "proceed towards the orderly removal of the residual elements of dollar discrimination in the licensing system."
6. Over the past two years there has been a decline in Australia's international reserves brought about by a worsening of the terms of trade. An increase in the rate of both official and private capital inflow in 1958-59, however, helped cause a slowing down in the rate at which reserves were falling. The representative for Australia emphasized the dependence of Australia on the market for wool. Small fluctuations in wool prices had a substantial effect on export incomes. Bearing this reservation in mind, the representative for Australia stated that it could, nevertheless, be said that balance-of-payments prospects for 1959-60 were not unfavourable. It was expected that wool production would be above last year's record level while wool prices were expected to be above the average price received in the previous year. Wheat production also promised to be high although receipts for meat and sugar exports were expected to be down. Increased receipts for wool, however, would have to account for the major portion of any improvement in exports in 1959-60.
7. The expected improvement in Australia's trade balance in 1959-60 would certainly not be sufficient to offset the normal deficit of about £A200 million

on invisible items. An important factor was therefore whether it was likely that capital would continue to flow into Australia at the 1958-59 rate. If the previous year's rate of capital inflow continued, it should be possible to avoid any further significant fall in reserves despite the higher level of imports following the recent increase in the import licensing ceiling.

8. The representative of Australia stressed that while Australia was adopting a confident approach to balance-of-payments prospects and relaxing import restrictions, Australia was particularly susceptible to balance-of-payments fluctuations. This characteristic was derived partly from Australia's dependence on primary products generally, and wool in particular, for export income. Another important factor was the considerable time lag which usually existed between the receipt of higher export incomes and the actual arrival of increased imports consequent upon these higher incomes. Fluctuations in capital inflow have been another source of instability in the balance of payments. There was therefore a need for a fairly high level of reserves if intensifications of import restrictions were to be avoided.

9. It was the policy of the Government of Australia to maintain the highest rate of economic development consistent with the preservation of internal stability. The rapid rate of population increase had demanded a substantial rate of investment and a steady pressure on domestic resources. There was consequently, a constant tendency for demand to outrun supply and for the excess demand to result in an inflated demand for imports. Australia, therefore, although not claiming to be an under-developed country, nevertheless had to face up to the many economic problems associated with rapid and basic development of the economy.

10. Substantial progress had been made in recent years in the elimination of import restrictions. Factors likely to determine Australia's future progress in eliminating import restrictions included the possibilities of expanding exports and of maintaining a healthy level of capital inflow. The Government had, in recent years, made a substantial and fundamental contribution to internal balance by checking the rise in internal prices and generally maintaining a healthy balance within the economy. The final removal of import restrictions in Australia was however likely to be determined not only by Australian policies, but also by the policies pursued by its trading partners.

#### Balance-of-Payments Situation and Prospects

11. The Committee expressed appreciation for the very clear and informative statement made by the representative of Australia and particularly welcomed the reaffirmation of a policy directed towards the removal of import restrictions. Several members of the Committee congratulated the Government of Australia on the progress which had been made during the past year in the relaxation of quantitative restrictions and in the removal of discrimination on about 90 per cent of Australia's imports. Understanding was also expressed of Australia's concern with fluctuations in export receipts, particularly in view of the considerable dependence of Australia on exports of wool and relatively few other primary products which were subject to frequent and often wide fluctuations.

12. The view was expressed by a member of the Committee that despite the dependence of Australia on a high level of capital inflow to offset the deficit on current account, the Government of Australia was perhaps being over-cautious

in its approach to the relaxation of restrictions. There were countries which were also required to rely heavily on capital inflow to avoid serious balance-of-payments problems, but did not find it necessary on this account to resort to quantitative restrictions. It was also stated that a deficit on current account was not unusual in a growing economy such as Australia's. There was a definite correlation between the inflow of capital and imports, and imports could be expected to decrease with any fall-off in overseas investment in Australia. The Australian representative said that the approach of the Australian Government was not over-cautious. The Committee was reminded that reserves had fallen by 20 per cent over the last two years. The relaxations of 1 August were based on expectations of improvement in the future. Whether or not this improvement would in fact occur remained to be seen. The high level of private capital inflow into Australia was a fairly recent phenomenon. Australia had no fixed basis on which to judge its normality. The Committee was also reminded that Australia was some distance from the major sources of capital. This was a significant factor in assessing future confidence. In point of fact it was not many years ago that Australia had a net outflow of private capital. If such a net outflow should occur in present circumstances there would be an inordinate and heavy pressure on reserves. The Australian representative also reminded the Committee that Australia's imports represented a restricted level of imports. A fall in capital inflow would almost certainly not reduce the level of imports below present restricted levels. Notwithstanding all this the position was that the Government was relying on private capital inflow of around £A100 million in 1959-60. If this inflow did not eventuate there would, on present prospects, be substantial pressure on reserves.

13. A member of the Committee expressed interest in the origin, destination and the effect on merchandise imports of overseas investments in Australia. The representative for Australia informed the Committee that overseas investment in Australia had increased production capacity and in many cases had enabled domestic products to replace imports. During the period 1957-58, private capital inflow totalled about £A97 million. Of this amount, 50 per cent originated in the United Kingdom, and 25 per cent in the United States and Canada. During the same period, 52 per cent of direct private overseas investment in Australian companies was invested in manufacturing industries including motor vehicles (22 per cent) and chemicals and oil refining (15 per cent). These industries were making an important contribution to Australia's export income. It was emphasized however that Australia still depended on primary products for some 80 per cent of total export receipts and that exports of manufactured goods, although steadily increasing, were as yet extremely low in relation to total exports.

14. A member of the Committee emphasized that opportunities for agricultural producing countries to increase their earnings of foreign exchange were not promising in view of the agricultural policies pursued in other countries. As a consequence many agricultural producing countries found themselves in balance-of-payments difficulties. These difficulties were further aggravated by the necessity in many cases to divert resources from efficient and economic agricultural production to manufacturing industries. He asked what measures the Australian Government had adopted to diversify the economy and encourage investment from abroad. The representative for Australia stated that the principal means adopted by his Government to encourage foreign investment in Australia was to follow a policy directed towards the maintenance of a favourable economic climate. This implied a certain assurance of internal stability and expansion. Australia had avoided direct incentives such as

tax concessions and subsidies in the hope that only those industries which could be established on an economic and efficient basis would be attracted. It was felt that in the long run, stability and a steady expansion of the economy would provide any necessary incentive to overseas capital. In the field of exchange control, the policy has been to allow remission of profits etc., and repatriation of capital but without any definite guarantees in respect of the latter. No attempt was made to screen incoming capital into desirable and undesirable types. Overseas investors could operate in Australia on the same terms as Australian companies. As to the encouragement of manufacturing, the general policy of the Government was not to interfere with the normal competitive forces attracting investment to particular industries. The Government did try to pursue broad taxation policies which would recognize the problems of the manufacturers and did try to keep in touch with the problems of industry through various boards established for this purpose. The tariff was the recognized method of providing protection for particular industries.

15. It was the view of several members of the Committee that the Australian foreign exchange reserves had shown greater stability; recent developments seemed to indicate a healthy up-turn in the reserves position. The representative for Australia agreed that the expectation was that the balance of payments would be stronger in 1959-60 than in the previous period but pointed out that rising reserves in the second half of 1958-59 largely reflected the seasonal up-turn in the Australian balance of payments. He suggested however that the present reserves of approximately £A500 million were not high in relation to annual imports of £A850 million when a normal net deficit of £A200 million on invisible items was taken into account. He emphasized that as imports were still subject to restriction, the present import figure was no true indication of what actual imports would be if quantitative restrictions were completely removed. He explained to the Committee that past records indicated that Australia's balance of payments was subjected to greater fluctuations than that of any other major trading country. Despite this variability factor and despite declining reserves over the past few years, Australia had been prepared to relax restrictions considerably. The representative for Australia also stressed that the greater stability achieved in Australia's balance of payments in recent years was partly a consequence of an increase in private capital inflow.

16. One member observed that the remaining dollar discrimination, although apparently considered slight by the Australian authorities, affected approximately 30 per cent of the exports of his country to Australia. It was his view that in the light of the move taken towards external convertibility there was no longer any balance-of-payments justification for discrimination and the remaining discrimination should be removed without delay. The representative for Australia stated that relaxations were naturally slower where precipitous action might cause disruption to domestic industries; an orderly removal of discrimination and of import restrictions permitted the authorities to view carefully the consequences over a period of time. The representative for Australia emphasized that the products which remained subject to dollar discrimination were being licensed at a high rate. However, the Government of Australia recognized the new situation which existed in respect of world trade and payments between the dollar and non-dollar world and it was very much aware of the problems which arose from continued discrimination. It was its intention to proceed as quickly as possible with the orderly removal of the residual discriminatory restrictions which were only quantitatively significant in the case of two items.

17. A member of the Committee asked whether in the light of the progress made in relaxing discriminatory controls the remaining restrictions had any significant balance-of-payments effect. He noted that in accordance with the GATT provisions quantitative restrictions imposed for balance-of-payments reasons should be removed when the balance-of-payments need for them disappeared. With regard to individual ceilings on certain dollar imports under Category B which did not affect the overall ceiling, he maintained that this could have no balance-of-payments value. The representative of Australia said that import licensing had been particularly effective in the past two years in limiting imports to specific ceilings. The dollar ceilings in respect of Category B items would not be important in limiting dollar imports because the majority of Category B importers had quotas below the ceiling limits. The exclusion at this stage of two items from the non-discriminatory list was due firstly to the need to take into account the effect of dollar relaxations on the total import bill and secondly to the need to ensure that the removal of dollar discrimination was conducted in an orderly fashion.

18. In reply to a question referring to the recently expired trade agreement between Belgium and Australia the representative of Australia explained that the problem of glass imports was currently being examined by the Australian Tariff Board. In the meantime because of the expectation of an early report of the Tariff Board, the authorities were continuing the existing system of licensing. The Committee was assured that when the Tariff Board report was received the entire question of licences of glass would be reviewed.

19. The representative of Japan expressed the hope that full GATT relationship would be established between Australia and Japan in the near future. He requested the delegation for Australia to transmit this desire of the Japanese Government to the Government of Australia. The representative of Australia replied that the request would be conveyed to the attention of his Government.

#### Alternative Measures to Restore Equilibrium

20. A member of the Committee asked, in view of the sizeable budgetary deficit expected for 1959-60, what measures were readily available to correct any inflationary spiral which could result from an excessive increase in internal demand. The Australian representative informed the Committee that the main emphasis in such an event would be on alterations and changes in the monetary policy. Changes in fiscal policy would not be used during a financial year except in an emergency. As a matter of special interest to the Committee the representative of Australia pointed out that it was the intention of his Government to use the general policy of relaxing import restrictions to assist in absorbing rising internal demand in 1959-60.

21. The opinion was expressed by a member of the Committee that in view of the favourable level and outlook of Australia's reserves, Australia should depend more heavily on internal measures rather than on import restrictions. The representative for Australia considered that in his opinion severe deflation was not an appropriate means of correcting Australia's balance of payments. He felt that his country had already an enviable record of internal stability. One member of the Committee referred to the provisions of Article XII:3(d) which stated that a contracting party shall not be requested to withdraw or modify restrictions on the grounds of a change in domestic policies directed towards the achievement and maintenance of full and productive employment.

22. A member of the Committee was of the opinion that it was rather difficult to assess the exact impact of internal fiscal and monetary measures on foreign trade. Nevertheless, he felt that the reduction of domestic import demand as a consequence of restrictive internal measures might, in certain circumstances, be even as serious for the international trade of other countries as direct restrictions. He was of the opinion however that contracting parties were expected to correct any inflationary pressures by resorting to fiscal and monetary measures. In this regard he questioned whether the financial and monetary policies adopted by Australia were restrictive enough. He felt that the cash deficit in the budget of 1959-60 and the increased retail prices and wages gave cause for concern. If the fiscal and monetary policies were responsible for the increases in retail prices and wages, he considered that these policies should be reviewed as early as possible.

23. The Australian representative emphasized that it should be borne in mind that the cash deficit for 1959-60 was not aimed at giving a general boost to spending but was to be attributed to the need to effect some immediate concessions and increases in government expenditure in the interests of social justice and as an incentive to enterprise. The Australian Government felt that in view of the prospects of the economy moving into a phase of strongly rising demand a return should be made as soon as possible to a position in which total cash receipts would at least balance total cash outlays. As far as wages were concerned, the Commonwealth Government, although continually stressing the dangers of excessive increases in wages, had no direct responsibility for the decisions of the Commonwealth Conciliation and Arbitration Commission which were important in determining the general level of wages in Australia. However, it was necessary to keep the rise in prices in perspective. Prices had only been rising at the rate of two per cent per annum over the past two years.

#### System and Methods of Restrictions

24. The Committee expressed considerable interest in the Australian licensing system. The representative for Australia explained that the number of different categories in the licensing system had been considerably reduced over the past year partly as a result of the steps taken to remove dollar discrimination. There was now only one schedule of categories for licensing purposes instead of a dollar schedule and a non-dollar schedule.

25. Members of the Committee noted that the largest category in the import licensing system was the administrative category. The representative for Australia informed the Committee that approximately £A375 million of Australia's total imports of £A850 million fell within the Administrative category. Of this amount, goods valued at at least £A100 million were licensed freely. The Australian licensing authorities had relied quite heavily on the administrative basis of licensing partly in an effort to develop an efficient licensing system which would make licensing ceilings effective and partly because an unusually large proportion of Australian imports were of a capital equipment and raw material kind which did not lend themselves to licensing on a quota basis. Items were being continually moved out of the Administrative category. However, at the same time remaining items in the Administrative category, which were largely of an essential character, were continually being licensed more freely. For this reason the Administrative category was not falling as rapidly as would otherwise be the case.

26. While the objective of the Government was to remove all quantitative restrictions as quickly as possible, the process has been one of gradually moving items from category to category and observing the effects of this gradual liberalization on the balance of payments and on the economy as a whole. Where feasible, however, items were moved directly from the Administrative category to the freely licensed category. As part of the relaxations on 1 August 1959, goods which were being imported at the annual rate of £A21 million were transferred from the Administrative category to the Import Replacement category. Licences amounting to £A11 million were transferred from the Administrative category to the exempt list. At the same time licences valued at £A47 million were removed from Category A to the Import Replacement category and licences valued at £A29 million were transferred from Category B to the exempt list. The representative for Australia explained that the administrative licensing system was not in fact as restrictive nor as arbitrary and inflexible as it might appear. Throughout the system where need really existed, there was provision for flexibility. In answer to a question the representative of Australia said there was specific provision for new importers to be brought into the Replacement licensing category.

27. Members of the Committee complimented Australia on the flexibility of the system in Category B where importers were free to use their licences for any one or more of a wide range of items. There was a similar, though more limited element of flexibility in the system of "banks" in Category A.

28. A member of the Committee agreed that flexibility was a desirable feature of an import licensing system but he emphasized in relation to the administrative system that flexibility had an element of uncertainty which was a problem for importers as well as for exporters. With regard to goods in the Import Replacement category, the member of the Committee suggested that the importer might be in a better position than the licensing authorities to make maximum use of foreign exchange. It was also the opinion of the member of the Committee that the allocation of licences calculated on the basis of past performance when restrictions were discriminatory, had in itself discriminatory features.

29. The Australian representative emphasized that it was the essence of the Replacement licensing system that imports should reflect consumer demand and the competitive position of the various suppliers. The substantial changes in the commodity and country pattern of imports on the Replacement system was evidence that the system was in fact working in this way.

30. Several members of the Committee observed that the Australian system of administrative licensing had a limiting effect on the ability of importers to choose the best market of supply. New exporters were unlikely to explore possibilities of export to Australia when licences were issued on an administrative basis. One member of the Committee expressed concern for exporters in countries other than those which enjoyed traditional trading relations with Australia. He felt that such exporters would experience difficulties in obtaining licences or a share of existing quotas. The representative for Australia emphasized that his Government was aware of such problems which were bound to arise under any licensing system. The only satisfactory solution was the complete removal of quantitative restrictions. This, as he had stated previously, was his Government's objective. In the

meantime, where the licensing authorities have found that imports of particular items were not reflecting the competitiveness of particular sources of supply, the licensing authorities had been prepared to take appropriate action. In some cases, for example, particular items had been placed on a replacement basis for this reason.

31. Members representing the dollar area observed that an overall ceiling on textiles from the dollar area was established at £A25,000 per importer per import licensing period. The representative for Australia explained that of a total value of textile licences of approximately £A10 million, licences of a value of £A5.3 million were held by textile importers who had quotas of less than £A25,000 each. For these importers, therefore, there was no effective ceiling on dollar area products. In addition, there were eighty-three quota holders with quotas in excess of £A25,000 who were able to import up to £A25,000 each (or £A2 million in total) from the dollar area. Thus, approximately 70 per cent of the value of textile licences issued were unaffected by the dollar ceiling. The representative for Australia stated therefore that, in practice, the ceiling on textiles was not likely to be restrictive. A member of the Committee stated that if the ceiling was not restrictive it served little purpose and should be removed. If, on the other hand, it was restrictive, then it represented discrimination against the dollar area.

32. Since automobiles had also been mentioned as affected by remaining discriminatory restrictions, the Australian representative noted the comments made, but emphasized the considerable dollar investment in Australia in that industry and the fact that imports of components for motor vehicle manufacture were being freely licensed from the dollar as well as the non-dollar areas.

33. A member of the Committee representing the dollar area indicated his understanding that there was an agreement under which Australia undertook to purchase annually a certain percentage or volume of the tobacco crop of the Federation of Rhodesia and Nyasaland. The agreement was perhaps not a government-to-government undertaking but nonetheless operated in a discriminatory way. In reply the representative of Australia stated that there was no trade agreement provision whereby Australia undertook to import certain quantities of tobacco from the Federation of Rhodesia and Nyasaland. He informed the Committee that licences were freely issued for imports of current requirements of tobacco without discrimination as to country of origin.

34. One member asked about the existence of bilateral agreements that might hamper the elimination of discrimination. The Australian representative stated that his country's policy was one of pursuing multilateralism and that he believed there were no bilateral agreements that would impede the removal of discrimination.

35. A member representing the dollar area, in commenting on the remaining discrimination in the Australian system, stated that, while it might not be feasible to ask the representative of Australia to make known a fixed time period in which all discrimination would be eliminated, he wished to impress on the Government of Australia the utmost seriousness which his Government attached to the full accomplishment of this within the briefest period of time. The representative of Australia replied that his Government was very much

aware of the changed world trade and payments situation and of the advantages and importance of removing dollar discrimination. It had taken steps to remove substantially all discrimination and it was the Government's intention to remove the residual element of discrimination as quickly as possible.

### General

36. The Chairman in summing up the consultation, complimented the Australian delegation on the way they had co-operated and for the full and clear information they had provided. He said that the Committee had been impressed by the great progress the Commonwealth of Australia had made in expanding its economy. The Committee had seen clearly how much the Australian balance of payments depended on the export income of wool. On the other hand, the Committee welcomed the greater stability of the Australian economy and of Australia's external reserves in recent years. The Committee was also aware of the importance of the inflow of new capital into Australia for the Commonwealth's balance of payments, particularly because of the important part played by this capital in diversifying the economy.

37. The Committee welcomed the recent relaxation of Australia's import restrictions, the simplification and liberalization of the licensing system and the considerable reduction of the field of discrimination against the dollar area. It was observed by some members of the Committee that only 20 per cent of Australia's imports were exempt from licensing. On the other hand it had been pointed out that over 50 per cent of imports were freely licensed. The attention of the Committee had been drawn to the fact that the percentage of Australia's imports licensed on an administrative basis was high compared with some other licensing systems. It had been explained, however, that a high proportion of Australia's imports consisted of heavy equipment and similar items which did not lend themselves to quota licensing and high priority was given to these imports. The Committee had noted with satisfaction the declared aim of the Commonwealth Government to free all its imports from licensing restrictions and to proceed towards that aim in an orderly manner as fast as the balance of payments would permit.

### Annexes

- I. Opening Statement by the representative of Australia
- II. Results of the latest consultation between the International Monetary Fund and Australia

ANNEX I: Statement by Australian Representative 1959

Australia's last consultation under Article XII took place at the Twelfth Session.

At that particular time Australia's international reserves were in the vicinity of £590 million and member countries were advised of a series of measures which had been taken to relax the severity of import restrictions. These measures were intended to raise the rate of entry of imports from about £700 million per annum (F.O.B.) to something in the vicinity of £800 million per annum (F.O.B.). The contracting parties were informed at that time, however, that the immediate balance of payments prospects were not good. Reference was made to drought conditions which were reducing quantities of primary products available for export and to the difficulties encountered in finding markets for the quantities which were available for export. The contracting parties were informed of the Commonwealth Government's intention to proceed with an orderly dismantling of import restrictions as the balance of payments position permitted. It was stressed however that the Government attached a great deal of importance to avoiding the extreme fluctuations in licensing levels which had been experienced in earlier years and that it particularly desired to avoid any retracting of its steps in the direction of intensifying import restrictions again.

In the 18 months following the Twelfth Session, Australia's international reserves fell from about £590 million to £515 million at the end of June, 1959. This fall in reserves was largely due to a fall in export incomes. As predicted at the Twelfth Session, export income in 1957-58 was substantially below 1956-57 levels. Seasonal conditions were more favourable in the following year (1958-59) but there was some further weakening in commodity prices and export income in 1958-59 also was substantially below 1956-57 levels. The figures are as follows:-

			<u>Exports F.O.B.</u>
1956-57	..		£978 million.
1957-58	..		£812 million.
1958-59	..		£809 million.

Meanwhile, largely as a result of the series of import licensing relaxations which were mentioned at the last Consultation, the rate of imports was moving in the opposite direction. The relevant figures are as follows:-

			<u>Imports F.O.B.</u>
1956-57	..		£718 million.
1957-58	..		£790 million.
1958-59	..		£793 million.

Over the last two years therefore a higher rate of import licensing has been maintained despite lower export receipts and despite the need to draw on reserves to some extent to maintain this rate of imports.

The Government has now decided to raise the level of import licensing to £850 million per annum. Licenses have been issued at this rate as from the 1st August, 1959. This action has been taken partly in the expectation of a higher export income in the present financial year but also in the knowledge of the very real benefits to be derived from a relaxation of quantitative restrictions on imports.

In addition to this relaxation of licensing ceilings there has also been a marked liberalization of the licensing system within existing ceilings since the last Article XII Consultation. This point is referred to in the basic document prepared by the Secretariat. In relation to the XIV:1(g) aspects of this Consultation, it should be pointed out that a notable feature of this liberalization of the import licensing system has been the substantial elimination of discrimination against imports from the dollar area.

The last occasion on which Australia consulted with the Contracting Parties under Article XIV:1(g) was in November, 1958. At that time the Contracting Parties were informed that about 33% of Australia's imports were freely available for import from any source. Further dollar relaxations were announced in December, 1958 and in April, 1959 some 330 items covering trade worth £170 million were added to the non-discriminatory list. In August, 1959 further trade worth over £100 million was added to the non-discriminatory list. Indeed discrimination was substantially removed in respect of all items except two, with a ceiling applying to dollar imports in respect of a limited number of other consumable items. The percentage of total imports licensed on a non-discriminatory basis now stands at 90% as compared with 30% some twelve months ago. In announcing the August relaxations the Minister for Trade said "In the remaining 10% some provision was being made to widen trade with the dollar area immediately and it was the Government's intention to proceed towards the orderly removal of the residual elements of dollar discrimination in the licensing system".

The plan for Consultations under Article XII:4(b) contained in Annex I of the Report on Import Restrictions adopted last Session provides for consultations covering four topics:-

- (a) the balance of payments position and prospects;
- (b) alternative measures to restore equilibrium;
- (c) system and methods of the restrictions, and;
- (d) effects of the restrictions.

The last two topics are covered in the G.A.T.T. Secretariat paper and we have nothing to add to that paper now though we will do what we can to answer any queries on those papers later in the Consultation. Although the first two topics have been covered very fully in the background papers supplied by the IMF, it is proposed, for the convenience of the Committee, to say something very briefly about these topics which deal with the general economic background to the import restrictions.

Balance of Payments Position and Prospects

During 1957-58, international reserves fell from £567 million at the end of June, 1957 to £525 million at the end of June, 1958. This decline in reserves continued in the early months of 1958-59 but there was a recovery later in the financial year and at the end of June, 1959 reserves stood at £515 million. The basic reason for the decline in reserves over the past two years has been the unfavourable trend in the balance of trade. A favourable balance of £89 million in 1956-57 became an unfavourable balance of £175 million in 1957-58 and of £190 million in 1958-59. The important factor in the deterioration in the trade balance was a worsening of the terms of trade. In particular, export prices tended to be weak over the period.

There was a slowing down in the rate at which reserves were falling in 1958-59. This slowing down was substantially due to an increase in the rate of capital inflow. Including the balancing item, there was an increase of £41 million in net capital inflow in 1958-59 compared with the previous year. This increase was partly due to official loan transactions. A New York loan yielded £11 million in November, 1958 and a London loan yielded £18 million about the same time. But part of the increase was also due to an increased inflow on private account. Detailed information about private capital inflow in 1958-59 is not yet available.

As to future prospects for the balance of payments and international reserves it is, of course, particularly difficult in Australia's case to say a great deal so early in the financial year. We are very much dependent on the market for wool and even small fluctuations in wool prices can have a substantial effect on export incomes. Bearing this reservation in mind, it can nevertheless be said that balance of payments prospects at this point of time are not unfavourable. Imports in 1959-60 will cost some £850 million compared with £793 million last year. On the other hand export income should be higher than the £809 million of 1958-59. It has been estimated that wool production should be above last year's record level while wool prices should also be above the average price of 48½ pence per lb. received last year. Wheat production should also be high and with a large carryover from last year there will certainly be no difficulty so far as availability is concerned. Unfortunately markets abroad for wheat are not likely to be any larger than last year. Receipts from meat exports will probably be down somewhat on last year's surprisingly good figure of £97 million. Receipts from the exports of sugar may be down a little with somewhat lower prices. On the whole it seems that there may be some helpful increase in exports in 1958-59 but if so, increased receipts from wool exports will have to account for the bulk of the improvement.

Any improvement in Australia's trade balance in 1958-59 will certainly not be sufficient to offset the deficit on invisible items. Payments in respect of freight on imports, interest, dividends and profits payable abroad and so on usually result in a deficit on invisible items of somewhere around £200 million. Only a minor portion of this is likely to be financed from a surplus of exports over imports.

The crucial question therefore is likely to be whether capital will continue to flow into Australia at the 1958-59 rate. So far as official transactions are concerned the prospects of obtaining new money abroad are not as good this year as last year. We have however already been able to

float one \$25 million loan in New York under rather difficult circumstances. An important consideration will be the level of private capital inflow. If it continues to flow in at something like last year's apparent level it should be possible to avoid any further fall in reserves despite the higher level of imports. There is very little we can do in a direct way to regulate the flow of private capital into Australia. We do however seem to have had some success in the past by maintaining an economic climate at home favourable to the overseas investor. This will continue to be the Government's policy.

While the present position is that Australia is adopting a confident approach to balance of payments prospects and relaxing import restrictions accordingly it would be a mistake to under-estimate our problems. Investigations indicate that, compared with most other trading countries, Australia is particularly susceptible to balance of payments fluctuations. This characteristic derives partly from our dependence on primary products generally, and wool in particular, for our export income. It also owes something to the fact that there is usually a considerable time lag in Australia between the receipt of higher export incomes and the actual arrival of increased imports consequent upon those higher incomes. By the time import payments are mounting the high export income to pay for them has often disappeared. Fluctuations in capital inflow have been another source of instability in the balance of payments. It is particularly noticeable that capital has tended to move out at the very time when reserves have been under pressure. All these things suggest the need for fairly high reserves if sharp intensifications of import restrictions are to be avoided. In this connection it is worth recalling that it is less than ten years since Australia's reserves fell by £464 million in twelve months. When measured against changes of that sort our present international reserves of around £500 million do not appear quite so comfortable.

Apart from the variability in the balance of payments there is a particular problem resulting from the fact that Australia is a rapidly developing country. It is the policy of the Commonwealth Government to maintain the highest rate of economic development consistent with the preservation of internal stability. Population has been increasing at the rate of over 2% per annum and a substantial factor in this increase has been a high rate of immigration. Such a rate of population increase demands a very substantial rate of investment both public and private and there is bound to be a steady pressure on domestic resources. There is consequently a constant tendency for demand to outrun supply and for the excess demand to spill over into a demand for imports. Australia - although not classified as an under-developed country - is certainly a rapidly developing country, and it suffers from some of the same problems.

As to the prospects for the elimination of restrictions, striking progress has been made in recent years and there may not be such a great deal left to be done before the last restrictions are removed. In the final analysis however, it will be evident from what has been said earlier on the balance of payments outlook that there are two vital factors likely to determine our progress in finally removing import restrictions. One is the possibility of expanding exports and the other is the possibility of maintaining a healthy level of capital inflow. Unfortunately neither of these are matters within the final determination of the Australian Government. In both cases the Australian Government has, in recent years,

made a substantial contribution by checking the rise in internal prices and generally maintaining a healthy balance within the economy. But low costs of production will not sell our wheat and barley or our lead and zinc when markets abroad are protected by various devices and internal stability will not entice capital to Australia when the sources of capital abroad have dried up. In the long run, therefore, the final removal of import restrictions in Australia is likely to be determined not only by Australian policies but also by the policies pursued by its trading partners abroad. The freeing of trade from quantitative import restrictions imposed for balance of payments reasons is a matter which will require the co-operation of all contracting parties.

Alternative Measures to Restore Equilibrium

A comprehensive account of the internal monetary and fiscal position in Australia is contained in the Fund document. It is unnecessary therefore to say a great deal now on that general subject.

It has certainly been true in Australia's case that internal economic conditions have had a very real bearing in the past on our external balance of payments position and our need to impose quantitative restrictions on imports. But the Government has set itself the task of maintaining steady expansion in the economy without prejudicing internal stability. On the whole over the last few years it has been successful in this policy. The high rate of immigration, the high level of employment and steady expansion of the economy has occurred without internal inflation and without an uncontrollable demand for imports.

Retail prices were rising at the rate of 1.9 per cent per annum in 1957-58 and 2.6 per cent in 1958-59. This was a substantial improvement on earlier years. In 1956-57 for example, prices were rising at the rate of 5.6 per cent per annum and in earlier years still the rate had been much higher than that.

In this connection, something should perhaps be said about the budget for 1959-60 which provides for a cash deficit of £61 million. This cash deficit has not been planned because it is considered the economy is in need of any large additional stimulus. In 1958-59 some additional stimulus had been provided for in the form of an estimated cash deficit of £110 million because of the fall in export incomes and some sluggishness in the expansion of employment at home. (As it turned out the deficit proved to be only £29 million). But by early 1959 it was evident that employment was running at high levels and that export income was likely to pick up again. The economic climate continued to improve during 1959. In these circumstances the cash deficit estimated this financial year is to be attributed to the need to effect some immediate concessions and increases in Government expenditure in the interests of economic incentive and social justice, generally. When delivering the 1959-60 Budget, the Treasurer said - "We should get back as soon as we can to a position in which total cash receipts will at least balance total cash outgoings. This is particularly necessary, if as appears probable, our economy is moving into a phase of strongly rising demand".

Just as the Commonwealth Budget for 1958-59 has been intended to provide some stimulus to the economy, so also in the field of monetary policy the policy of the Central Bank at that time was to put the banking system into a position where some expansion of advances would be possible. Just as the cash deficit in 1958-59 was less than expected so also in the event no expansion of bank advances took place in 1958-59. The failure of bank advances to rise despite action by the Central Bank to put the Trading Banks in Funds was due to a variety of factors. Export income picked up in the second half of 1958-59. Increased capital inflow from abroad was another factor and there was also some growth in direct capital raisings in the local market. The result was that at the end of June, 1959, the banks were in a much more liquid position than at the beginning of the financial year.

In the field of wages, there has been greater stability in recent years and this stability undoubtedly is partly due to the decision of the Commonwealth Conciliation and Arbitration Commission to discontinue automatic adjustments of wages to changes in the cost of living. More recently, however there has been a rise in the basic wage of 15/- and the Commission is at present considering the question of margins for skill. It is quite likely that wages will rise somewhat faster in 1959 than in earlier years.

The broad position on the internal front is therefore that Australia has been successful in maintaining a high level of employment and production and a high rate of immigration in recent years without any noticeable tendency for a runaway rise in money incomes and prices. There has been some remarkable progress in expanding production of our main primary products and rises in costs at home have been minor. In general it can be said that internal policies are making a significant contribution to solving our problems of external balance.

ANNEX II: Results of the Consultation between the IMF and the  
Government of Australia, concluded on 10 September 1958<sup>1</sup>

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. During 1957/58 farm output was lower as a result of drought conditions, but industrial production expanded. Despite the considerable drop in export income of primary producers, expenditure on consumption and fixed capital investment increased and it is estimated that gross national product was slightly higher than in 1956/57. The employment situation was easier and the larger supplies coming to the market from the increased domestic output and imports contributed to the improvement in the state of balance of the economy; costs and prices were more stable than in most post-war years.
3. The budget for the year ended 30 June 1958, although including certain tax concessions, yielded a surplus of current revenues over current expenditures. The capital works and housing programmes of the States and local authorities were increased; capital expenditures, including those of the Commonwealth Government, were financed out of revenue and long-term borrowing and there was some net redemption of Treasury bills over the year. Toward the end of 1957 the restrictive credit policy was relaxed and bank credit to the private sector increased by about 8 per cent over the year 1957/58. The budget for the year ending 30 June 1959 provides for a smaller surplus of current revenue over current expenditures than in the previous fiscal year, and it is expected that some recourse to central bank financing will be necessary to cover an overall cash deficit. The Australian authorities state they are doing this advisedly in order to support domestic spending and so help to offset the effects of continued low export earnings.
4. In the course of 1957/58 there was a considerable decline in export prices of wool and of certain other primary products. The resulting fall in export receipts, combined with a 10 per cent increase in imports to £A 791 million following the relaxation measures taken early in 1957 and

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This was circulated to contracting parties in connexion with the Article XIV:1(g) consultation with Australia in 1958 (see I/915, page 11).

again in August, brought the current account into deficit; despite a continuing inflow of capital, international reserves declined over the year by more than £A 40 million to £A 525 million on 30 June 1958. The government intends, if possible, to maintain imports in 1958/59 at roughly the same level as in the previous year and is prepared to draw further on its foreign exchange reserves to support this policy.

5. The Fund welcomes the measures that have been taken to relax restrictions and to decrease discrimination and notes the intention of the Australian authorities to avoid intensifying restrictions despite a prospective further decline in export receipts and reserves. It believes that in order that restrictions and discrimination may be further reduced and ultimately eliminated, economic policies should aim at keeping a proper balance between overall demand and available resources.

6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia.