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

Text Prepared by the
Committee on Balance-of-Payments Restrictions

Introduction

1. Under paragraph 1(g) of Article XIV of the General Agreement the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of Article XIV which permit the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. Discriminatory restrictions which are not claimed to be justified on balance-of-payments grounds are not dealt with in this report. The present report has been drawn up by the CONTRACTING PARTIES at their fifteenth session held in Tokyo during October-November 1959.
2. At present, the following contracting parties state that they maintain restrictions on imports under Articles XII or XVIII:B to safeguard their balance of payments: Australia, Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, France, Ghana, Greece, India, Indonesia, Japan, Federation of Malaya, New Zealand, Norway, Pakistan, Federation of Rhodesia and Nyasaland, Sweden, Turkey, Union of South Africa, United Kingdom and Uruguay. Of these contracting parties, Ceylon, Indonesia, Pakistan and the Union of South Africa state that they are not acting under any of the provisions of Article XIV. The remaining countries applying restrictions for balance-of-payments purposes state that they are exercising some degree of discrimination as between sources of supply under Article XIV, as follows:

Relevant paragraph of Article XIV:	Contracting Party		
Paragraph 1(b)	Austria Brazil Burma Chile Denmark	Finland France Greece India Japan	Norway Sweden Turkey Uruguay
Paragraph 1(c)	New Zealand		
Paragraphs 1(b) and 1(c)	Australia		
Paragraph 1(d) - (Annex J)	Ghana Federation of Malaya	Federation of Rhodesia and Nyasaland United Kingdom	

3. While all these contracting parties are resorting to the provisions of Article XIV, it should be noted that the degree of balance-of-payments discrimination used by them varies considerably, as does the level of their import restrictions. As a result of successive measures taken in past years, the extent of discrimination by many contracting parties appears to be small; in some other cases, much remains to be done.

4. In 1959, as in other years, the consultations held by the CONTRACTING PARTIES on import restrictions applied for balance-of-payments reasons contributed considerably towards a clearer understanding of the various measures which contracting parties had taken in implementing their restrictions, as well as to a better understanding of the adverse effects which the maintenance of restrictions had both on the countries that were applying them and on their trading partners.

5. In the period under review important steps have been taken by several contracting parties to remove discriminatory restrictions, in particular against the dollar countries. During 1958 there was a substantial improvement in the balance-of-payments position of the industrial countries in the non-dollar world¹ and the gold and dollar reserves of non-dollar countries as a whole rose by some three and three-quarter billion dollars. While 1958 was a particularly favourable year, in fact the non-dollar countries

¹ In this context the non-dollar world excludes, in particular, Bolivia, Canada, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, the United States and Venezuela.

added as a whole to their gold and dollar reserves in most years since 1949, the increase from the end of that year to the end of 1958 being not far short of \$12 billion. All non-dollar countries did not participate in the recent increase in reserves and in particular many of the primary producing and under-developed countries suffered a deterioration in their terms of trade and experienced a decline in their reserves. Nevertheless, many of the non-dollar countries had by the end of 1958 achieved a high degree of financial stability and high levels of productivity, and had fully regained the ability to compete successfully in world markets.

6. These were some of the underlying conditions which led to the establishment of the external convertibility of most of the major currencies at the end of 1958.

7. While prior to these developments there had been gradual progress in the reduction of dollar discrimination, and in the relaxation of quantitative import restrictions generally as payments positions improved, the establishment of external convertibility had special significance for discrimination. It resulted in an almost complete elimination of the former distinction between important trading currencies and with it were associated major moves in the direction of removing dollar discrimination. This process has continued in 1959 until at the present time the scope of the restrictions which the contracting parties would justify under the provisions of Article XIV has been greatly reduced.

8. The following paragraphs note the more important recent changes in discriminatory import restrictions, most of which took place after the introduction of external convertibility by a number of countries in December 1958 and shortly thereafter.

Recent Changes in Discrimination

9. In August and September 1958, the United Kingdom announced the removal of restrictions from a wide range of products including discriminatory dollar restrictions on industrial, agricultural and office machinery, and Colonial Governments were also invited to relax their restrictions. Further important relaxations in the United Kingdom controls on imports of goods from the dollar area were announced in May 1959. The effect of these measures was to remove quantitative restrictions on a wide range of goods from the dollar area, to open to the dollar area global quotas covering some other imports and to increase dollar quotas. At the Fifteenth Session the United Kingdom Delegation informed the CONTRACTING PARTIES that the United Kingdom Government had announced the removal of most of the remaining restrictions imposed on imports from the dollar area and "relaxation area".

10. Important liberalization measures were also introduced by all United Kingdom dependent overseas territories. These measures which had been taken in two stages became effective as from 1 January 1959 and 1 July 1959. As a result, most territories have reduced to a very small list the items which are subject to special restrictions when imported from the dollar area.

11. Discrimination was removed by Australia for a number of items, particularly capital equipment, imported from the dollar area in August 1958, and for a further list of dollar products in December 1958. On 1 April 1959, the Australian Government removed licensing discrimination against about 330 items of dollar imports. The items in question cover trade worth about £170 million a year and represented about 20 per cent of all Australian imports. Up to that date 50 per cent of Australian imports had been freed from currency discrimination and from 1 April 70 per cent were licensed on a non-discriminatory basis. Effective 1 August 1959, still further licensing discrimination was removed for dollar imports. As a result of this latest relaxation of restrictions on imports from the dollar area, about 90 per cent of Australian imports could come from any source. For the remaining 10 per cent, provision is being made to widen trade with the dollar area and it is the stated intention of the Government to proceed towards the removal of the remaining discrimination against dollar imports.
12. In New Zealand, despite an overall reduction in the level of imports in 1959, dollar discrimination was substantially reduced through the introduction of global licences on a much wider basis. The Licensing Schedule for 1960 virtually eliminates discrimination. Only two items - motor vehicles and coniferous timber - remain for special reasons subject to separate licensing from the dollar area.
13. The Federation of Malaya announced in December 1958 that effective 1 January 1959, import restrictions would be removed on twenty-three items from the dollar area. In July 1959 the Government announced that discriminatory restrictions on the direct import of dollar goods would cease as from 1 August. All goods from the dollar area might now be imported freely under the open general licence and the only exceptions were radios, watches, and motor vehicles which required specific licensing formality for their importation on the same basis as similar importation from the OEEC countries. Previously imports from the dollar area were limited to essential commodities particularly those required for the economic development of the country and all other imports of dollar goods could only be made through Hongkong for which payments were made in Malayan currency or sterling. The change, by enabling direct importation from the dollar area, is said to have had the effect of reducing the landed cost of dollar imports by from 5 to 7 per cent.
14. India had previously announced that a portion (normally 50 per cent) of the licences granted for imports from non-dollar countries could be used freely for dollar imports. More recently, a further relaxation has been made whereby applications for conversion of such licences up to the full value for imports from the dollar area can be considered and are in fact granted.
15. The Federation of Rhodesia and Nyasaland also announced important changes in its import licensing system following the move to external convertibility. Controls were removed from a number of goods originating in the dollar area. Further steps in the same direction were taken in September 1959.

16. On 10 July 1959 the Government of Ghana announced the liberalization of seven categories of imports from the dollar area. Prior to these liberalizations, individual licences were required for the import into Ghana of all dollar goods other than wheat flour.
17. Effective 1 January 1959 Norway expanded the dollar import free list to include all goods freely imported into Norway from OEEC countries. The liberalization percentage for dollar imports was raised to some 92 per cent on the basis of imports in 1953. The percentage for imports from the OEEC area is some 82 per cent on the basis of imports in 1948. At the same time the global quota list was extended to apply to imports from dollar area countries with the exception of automobiles. In February Denmark extended the application of the OEEC free list to the dollar area; by this move, the liberalization percentage for dollar imports has been raised from 70 to 89 per cent. Holders of licences issued under the Danish global quota system had the possibility to use their licences to import from the dollar area in certain cases for the whole amount of the licence, in others to a fixed percentage. Sweden has during 1959 gradually continued to liberalize imports from the dollar area. As of 1 November 1959, the level of liberalization based on imports in 1958 will be about 88 per cent, or almost the same percentage as for the OEEC area. In April 1959, Finland enlarged the dollar allocations within the global quotas thus permitting dollar imports under twenty-five out of a total of thirty-two global quotas. At the same time, the liberal licensing procedure for dollar imports was considerably extended.
18. The Government of France announced on 18 December 1958 that effective January 1959 quantitative restrictions would be abolished in respect of about 40 per cent (1948 basis) of imports from OEEC countries and their overseas territories, and in respect of 13 per cent (1953 basis) of imports from Canada and the United States. In accordance with these decisions, a wide range of raw materials and other products imported from the dollar area and from non-OEEC countries were freed from quota restriction on 13 January 1959. Further liberalization measures were taken on several occasions in 1959. As a result, 92.5 per cent of goods from the OEEC area (1948 basis) and about 80 per cent of dollar goods (1953 basis) have been freed from quantitative restrictions. Since 24 October 1959 an important part of the liberalization measures has been extended to all countries which are contracting parties to GATT.¹
19. Early in 1959 the Government of the Netherlands freed from quantitative restrictions a number of imports from dollar countries. Although licences were still required they were to be granted automatically for the products in question. The licensing requirement for liberalized dollar imports was removed in July 1959. This measure eliminated the distinction which had existed between imports into the Netherlands from dollar and Western European countries. In February 1959 the Netherlands declared that it no longer applied restrictions on balance-of-payments grounds.

¹Information on the new measures of dollar liberalization announced on 5 November 1959 to be added.

20. In June 1959, Italy increased the number of liberalized dollar items from about 1,000 to approximately 3,800. This level of liberalization was raised to over 80 per cent (on the basis of 1953 trade) of total private imports from the United States and Canada.

21. In January 1959 Japan removed dollar discrimination under the Automatic Approval system on 217 items and in April on three more items. As a result, the remaining dollar discrimination now applies only to ten out of 786 items in this licensing category.

General Observations

22. Despite the recent progress which has been made, discriminatory import restrictions are still being applied by a number of countries on a significant proportion of trade. Further, whereas there have been important steps in the removal of dollar discrimination as described above, progress in the removal of discrimination against imports from certain other sources has been less pronounced. For example, some countries in Western Europe have not completely extended OEEC liberalization to non-OEEC countries; the great majority of OEEC countries have extended full OEEC treatment to specified areas such as the outer sterling area, but not always to other contracting parties to GATT; and in certain other parts of the world also discriminatory restrictions against non-dollar as well as dollar countries continue.

23. Despite the fact that in certain cases imports from sources which are officially subject to discriminatory restrictions are being licensed liberally, trade continues to be significantly damaged by discriminatory practices. Further, a number of countries continue to operate bilateral arrangements which contain certain elements of trade discrimination.

24. Since concluding the Ninth Annual Report on Discrimination, adopted at the fourteenth session, the contracting parties have given further study to the matter and a number of them have discussed it among themselves and in other international forums. The Board of Executive Directors of the International Monetary Fund on 23 October 1959 approved the following decision with regard to the discriminatory application of restrictions:

"The following decision deals exclusively with discriminatory restrictions imposed for balance-of-payments reasons.

"In some countries, considerable progress has already been made towards the elimination of discriminatory restrictions; in others, much remains to be done. Recent international financial developments have established an environment favourable to the elimination of discrimination for balance-of-payments reasons. There has been a substantial improvement in the reserve positions of the industrial countries in particular and widespread moves to external convertibility have taken place.

"Under these circumstances, the Fund considers that there is no longer any balance-of-payments justification for discrimination by members whose current receipts are largely in externally convertible currencies. However, the Fund recognizes that where such discriminatory restrictions have been long maintained a reasonable amount of time may be needed fully to eliminate them. But this time should be short and members will be expected to proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism.

"Notwithstanding the extensive moves toward convertibility, a substantial portion of the current receipts of some countries is still subject to limitations on convertibility, particularly in payments relations with State-trading countries. In the case of these countries the Fund will be prepared to consider whether balance-of-payments considerations would justify the maintenance of some degree of discrimination, although not as between countries having externally convertible currencies. In this connexion the Fund wishes to reaffirm its basic policy on bilateralism as stated in its decision of 22 June 1955."

25. This decision was communicated the CONTRACTING PARTIES at their fifteenth session where it was welcomed and received the most careful attention, particularly during the Ministerial discussion of the subject of discrimination.

26. The CONTRACTING PARTIES reaffirmed that the removal of discrimination applied under Article XIV is a vital step towards the achievement of the objectives of the General Agreement and the expansion of international trade. There was a consensus that the remaining discrimination applied under Article XIV of the General Agreement should quickly be eliminated.

27. The CONTRACTING PARTIES welcomed the substantial progress made toward dismantling quantitative restrictions maintained for balance-of-payments reasons. Contracting parties reaffirmed their intention to do away with such restrictions as soon as their balance-of-payments positions permit.