

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Working Party 8 on Balance of Payments Import Restrictions

DRAFT REPORT TO THE CONTRACTING PARTIES

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

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

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

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

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

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

4. At the plenary meeting the Netherlands representative had announced that certain important steps were being taken toward the elimination of quantitative restrictions. The Working Party was informed that the Netherlands Government had published a new list of commodities which could be imported freely from the dollar area and the quotas for the items remaining under restriction would be increased. Further steps were contemplated for the near future. In view of this development and the fact that the short time available since the initiation of the consultation had not enabled the Fund to prepare for that consultation, the Working Party considered that a consultation with the Netherlands had become of less value than was warranted by the conditions obtaining at the time the consultation was initiated. After a discussion, the Working Party agreed to recommend to the CONTRACTING PARTIES that the consultation be discontinued, and that the Netherlands obligation to consult under Article XIII:4(b) be deemed to have been fulfilled.

5. The representative of the Fund informed the Working Party that the Fund did not expect to complete its own consultation with the Government of the Union of South Africa, and that it was not in a position to submit data relating to New Zealand, before the end of the Eighth Session. Consequently, the Working Party only proceeded with the following consultations:

Under Article XIII:4(b):

Brazil
Chile
Finland
Pakistan
Sweden

Under Article XIV:1(g):

Australia
Ceylon
Italy
United Kingdom

Under both Provisions:

Southern Rhodesia.

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

7. As in last year's consultations, the representative of each of these consulting governments were willing to discuss the entire range and impact of its import restrictions, in spite of the varying provisions of the Agreement pursuant to which the consultation was initiated. The representatives of the consulting governments amplified in the course of the consultations the information furnished concerning the restrictions and their discriminatory application. Questions were put by members of the Working Party on the administrative details of the restrictions, their effects on internal prices and domestic production, their impact on imports, etc. In each case the consulting government's representative showed the utmost readiness, within the limits of the information at his disposal, to answer these questions and provide additional data. Further, the representatives of the governments whose restrictions were the subject of the consultations indicated that they had taken full note of the views expressed by the representatives of other contracting parties and that these views, in some cases including specific requests and recommendations, would be conveyed to their respective governments for sympathetic consideration. Generally, there was a full and frank discussion on all questions on which members of the Working Party showed an interest. A detailed note on the consultations with each of the ten governments is given in the Annex, and these notes contain certain information which is considered necessary to be regarded as "restricted" or confidential.

8. In conducting these consultations, the Working Party has arrived at certain general conclusions which are indeed relevant to all discriminatory restrictions applied pursuant to the provisions of the Agreement and which may be briefly stated. The lessening of inflationary pressures in many countries, as has been pointed out by representatives at the plenary meeting, has reduced the high demand for imports. The supply situation of many goods has been eased owing to the increased production in the non-dollar world, where improved productivity and more stabilized costs in many countries have made their products more competitive with those from dollar sources. These developments, coupled with the sustained high level of economic activity in the dollar area, have resulted in a great amelioration of the world dollar situation in the past eighteen months. The improvement is attributable mainly to these fundamental readjustments although account must be taken of factors such as the United States military expenditure abroad or the import restrictions applied by non-dollar countries. It should therefore be taken as an opportunity for the non-dollar countries to begin dismantling the structure of discriminatory restrictions built up since the war. The falling of non-dollar prices into line with dollar prices should help to lessen the risks of moving towards the non-discriminatory application of restrictions. On the other hand, if the goal of world trade on a fully balanced and self-sustaining basis is to be achieved, both creditor and debtor countries will have to pursue appropriate policies. It is gratifying to note that serious consideration is being given by the governments of certain important countries to the formulation of consistent policies in this field, and that a renewed and vigorous determination to pursue policies leading to the achievement of

the basic objectives of convertibility and multilateral trade has been manifest both in the pronouncements and action of many governments.

9. An encouraging feature of the past year has been the endeavours by a number of contracting parties, as their balances of payments improved, to reduce their restrictions and discrimination, which attests to a growing recognition of the desirability of such measures of liberalization. However, this is not to say that there are no further steps that could be taken by many of the governments applying restrictions to reduce the harmful effects of the restrictions. For example, a complete prohibition is still maintained by many countries on the import of certain "non-essential" goods, especially from the hard-currency areas, and, in spite of the obligation undertaken by the contracting parties "not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade", the token import method is by no means used by all governments applying restrictions involving prohibition.

10. The 1952 report on the discriminatory application of restrictions had given considerable attention to the ineffectiveness of restrictive measures alone as a means of redressing disequilibrium and to the relationship between internal monetary and fiscal policies pursued by governments and their balance-of-payments position. In several cases, substantial improvements in the external financial position had been noted consequent upon the introduction of anti-inflationary policies. The Working Party was gratified to note that these conclusions had been further confirmed by developments in an increasing number of countries. It is no accident that those countries which have moved most courageously in the direction of controlling inflation should have made the greatest progress in overcoming their domestic and external economic problems. Last year's report also stressed the undesirable effects of import restrictions and the inherent dangers of discrimination. The Working Party was of the impression that in the past year those contracting parties which pursued policies of reducing discrimination and import restrictions, especially in the fields of raw materials and basic foodstuffs, obtained substantial benefits by way of lower import expenditure and increased competitive power. This suggests that under certain circumstances countries in balance-of-payments difficulties may find that reduction of discrimination may contribute to the general improvement in their external financial position.

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

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

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

13. At the time of writing this report, in October 1953, twenty-two of the thirty-three contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balances of payments and are exercising some degree of discrimination between sources of supply as permitted under paragraph 1(b) and/or 1(c) of Article XIV or under Annex J; these are:

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

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

15. When the third report was drawn up in October 1952, the CONTRACTING PARTIES found that the general trend had been the intensification of import restrictions and that in the process the policy and degree of discrimination had been modified by many countries with the result that the earlier sharp

distinction between hard and soft currency imports had become less defined; as the intensifications principally affected imports from non-dollar countries, the degree of discrimination against dollar goods had been reduced and, in addition, certain countries modified their discrimination policy in favour of dollar imports.

16. In the period covered by the present report, however, the general tendency of intensifying import restrictions was first arrested, and then reversed. Many of the countries which had intensified their import restrictions in the previous year to meet the contingencies of a crisis brought into effect various measures to reduce the more sharply felt incidence of the restrictions. As the year went by, definite steps of relaxation were taken by some countries whose balances of payments had improved. However, this trend was not universal, as the external financial position of some countries did not improve and new restrictions were in some cases introduced.

17. In the sterling area, the United Kingdom began a process of relaxation with the announcement of the quotas for licensed imports from soft-currency countries for the first half of 1953 and a further step in this direction was taken in April 1953 when imports from Western Europe were further liberalized, and increased quotas were provided for the second half of 1953. In taking these measures, the United Kingdom Government had particularly in mind the importance of the traditional trade with Western European countries and the need to relieve the difficulties then experienced by France and Italy partly as a consequence of the United Kingdom restrictions. In the case of Australia, some relaxations of the import licensing restrictions took place towards the end of 1952 and at the beginning of 1953. Further relaxations were introduced in April 1953, when the percentages of permitted imports were increased. Additional relaxations of the same nature took effect in July and October. In the case of New Zealand although the restriction on imports through the allocation of foreign exchange were more severe in 1953 compared with the previous year, relaxations were foreshadowed in the announced import policy for 1954. In Western Europe the trend continued in the direction of liberalization of soft-currency imports. Most countries were able to maintain the level of liberalization previously reached and in certain cases, increased percentages of liberalization imports were announced.

18. [Paragraph to be drafted to cover other areas.]

19. The relaxations mentioned above related almost exclusively to imports from countries outside the dollar area. With the improvement in the general dollar payments position the administrative control of imports from the dollar area in some cases has been applied with less severity and conditions for the granting of licences have been less stringent. But public announcements of a change in the dollar import policy have been made by few governments. Greece was able to dispense completely with licensing restrictions on imports irrespective of origin, and Belgium and the Netherlands announced in February and

September 1953 respectively measures to relax their restrictions on dollar imports. The United Kingdom continued its policy of reducing discrimination in the import arrangements for essential food and raw materials. In the raw material field, by September 1953 unrestricted importing from all sources had been permitted for softwood, pitwood, copper, lead, zinc and a number of minor raw materials. A similar policy has been introduced for some foodstuffs; for example, the trade in cereals has been returned to private import arrangements under non-discriminatory open licences. The import of raw cotton from the dollar area has remained controlled but the proportion of raw cotton taken from the dollar area has increased. Most other raw materials subject to control have been licensed more freely than before and some, e.g. aluminium and nickel, have been returned to private import. Furthermore, the re-opening of the London Metal Exchange for international commodity dealings has enabled unhampered trade in copper, lead and zinc irrespective of sources of supply or destination. Thus, while the relaxation by many countries of their restrictions on soft-currency imports, in reversing the trend of intensification described in the last report, have resulted in increased discrimination against dollar imports, the more significant operations by some important trading nations point to the other direction.

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

20. Pursuant to paragraph 3 of its terms of reference, the Working Party considered the appropriate procedures which should be adopted by the CONTRACTING PARTIES for the conduct of consultations, and for the preparation of the Fifth Annual Report on Discrimination, under Article XIV:1(g) in 1954.

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

22. Governments continuing to take action under the provisions of Article XIV:1(c) or of Annex J beyond March 1954, will be required to consult with the CONTRACTING PARTIES pursuant to Article XIV:1(g). It is proposed that the CONTRACTING PARTIES adopt for the conduct of any such consultation which

may be initiated in March 1954 the same procedures that were used in 1952 and 1953. Such governments should initiate their 1954 consultations in the same manner as in previous years by the submission in March 1954 of a statement giving details of the measures of discriminatory import restriction involved and the purpose and policy of their application.

23. The Executive Secretary should be instructed to inform the contracting parties and the International Monetary Fund at the end of March 1954 of the governments which initiated consultations and to invite the Fund to consult with the CONTRACTING PARTIES in connection with these consultations pursuant to Article XV. It is again considered that these consultations could be more effectively carried out if, before the opening of the Ninth Session, the Fund would make available to the CONTRACTING PARTIES the results of its own 1954 consultations with the same governments, together with the background papers prepared in the Fund in connection therewith.

A N N E X

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

AUSTRALIA

Consultation under Article XIV: 1 (g)

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

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

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

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

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

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

In the financial year of 1952/53 there was a considerable improvement in the Australian balance of payments and a marked increase in reserves. Despite the over-all improvement, Australia remains in deficit with the dollar area. Australian international reserves are held largely in sterling, and are no longer low. This improvement was in part achieved by the severe intensification of import restrictions against the non-dollar world imposed in 1952.

The Fund notes that, as a result of monetary, fiscal and other measures taken by the Australian Government, internal inflationary pressure has abated and a state of near balance in the economy was achieved in 1953. The Fund notes the rise in money supply and bank liquidity which might give rise to inflationary pressure in future. It recommends the continuance of monetary and fiscal policies designed to prevent the resurgence of inflationary pressure.

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

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

5. It was suggested by a member of the Working Party that the problem of the dollar deficit would be more advantageously solved by an expansion of exports to the dollar area rather than by the continued restriction on imports therefrom. The Australian representative was therefore invited to describe the difficulties in expanding Australia's exports to the dollar area. The Australian representative stressed the important position held by wool in the country's exports to the United States, and the difficulties caused by the considerable fluctuations in American purchases from year to year, by the late arrival in the season of American purchasers. As wool was sold by open auction, there was little the Australian Government could do to increase exports of wool to the dollar area. As for other commodities, American purchases were often marginal and likewise subject to wide fluctuations, and the promotion of new types of goods for export to America was inhibited by the high selling costs required for introducing them on to the new market. These natural difficulties were of long standing, but they had of late been supplemented by artificial trade barriers, e.g. with respect to dairy products.

6. In discussing the discriminatory application of Australia's import restrictions, the representatives of Canada and the United States referred to the fact that in spite of the general improvement in its balance of payments, a marked increase in reserves and a reduced dollar deficit, Australia had apparently not taken any measures of relaxation regarding imports from the dollar area. The disappointment shared by countries in the dollar area was all the greater as the import of a wide variety of "non-essential" goods remained completely prohibited from the dollar area. Under the provisions of Article XII: 3(c) the contracting parties applying import restrictions were expected not to prevent unreasonably the import of minimum quantities of goods the exclusion of which would impair regular channels of trade, and to avoid unnecessary damage to the commercial and economic interests of other contracting parties. The readiness with which Australia had responded to the improvements in its general balance-of-payments position by relaxing restrictions against non-dollar imports was most encouraging and it was gratifying that the Australian Government had undertaken to keep the dollar restrictions constantly under review. It was hoped that a scheme of token imports could be introduced for dollar goods so as to avoid

further impairment of regular channels of trade and any permanent distortion of the normal trade pattern. The United States representative further pointed out that the recent fall in the prices of non-dollar goods more into line with those supplied from the dollar area would ensure an easier working of the normal market mechanism and reduce the risks involved in relaxing dollar import restrictions.

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

FINLAND

Consultation under Article XIII: 4 (b)

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

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

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

The Fund notes that Finland as a consequence of the reduced demand for its export products has suffered a serious decline in its foreign exchange reserves in the course of 1952. The Fund welcomes the various measures adopted by the Finnish authorities to achieve domestic stability and thus strengthen the balance-of-payments position.

The Fund welcomes the endeavors of the Finnish authorities further to reduce the volume of trade transactions taking place on a compensation basis.

The Fund also takes note of the recent decision by the Bank of Finland to discontinue on December 31, 1952, the retention of foreign exchange on account of exporters' receipts and agents' commissions.

In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Finland.

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

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

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

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

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

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

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

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

SOUTHERN RHODESIA

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

1. The Working Party was informed by the representative of the International Monetary Fund that in its 1952 consultation with the United Kingdom in respect of Southern Rhodesia the Fund did not make any addition to its conclusions which it had drawn in regard to the United Kingdom itself. The Fund's 1953 consultation with the United Kingdom included Southern Rhodesia and therefore again no separate conclusions were made. The Fund therefore invited the attention of the Working Party to the results of the Fund's 1952 and 1953 consultations with the United Kingdom as relevant to the CONTRACTING PARTIES' consultation with Southern Rhodesia.¹ The Fund representative also drew attention to the two background papers prepared in the Fund in connection with its 1952 consultation on Southern Rhodesia (one of which was revised recently), and another relating to its consultation in 1953.

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

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

¹ See page 23 for the results of the Fund's 1953 consultations with the United Kingdom.

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

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

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

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

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

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

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

SWEDEN

Consultation under Article XIII: 4 (b)

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

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

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

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

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

Sweden is experiencing in 1952 a small deficit in its over-all balance of payments. Sweden has eliminated almost all of its restrictions on trade and invisibles with the OEEC countries, while maintaining tight restrictions on imports from the dollar area. The present level of gold and hard currency reserves and earnings does not permit substantial relaxation on dollar payments. However, because of the need for dollar imports, Sweden's present policy is to use increases in dollar receipts for increases in payments on dollar imports.

The Fund notes that Sweden has taken measures to achieve domestic stability, including the planning for an over-all budgetary surplus, other fiscal measures designed to discourage private investment, and a tighter credit policy. The Fund feels that in the present circumstances anti-inflationary measures should be continued and, if necessary, strengthened.

The Fund notes that Sweden is engaging in certain foreign exchange transactions some of which involve multiple currency practices, others of which may involve multiple currency practices. The Fund also notes the reasons given by Sweden for the maintenance of these practices. The Fund is informed that Sweden has abolished its retention quota practices related to exports of certain Swedish dairy products. In view of the study now being undertaken by the Fund on dollar retention quotas and other similar practices in member countries, the Fund's conclusions as to these Swedish measures are being deferred.

In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Sweden.

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

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

5. The representative of the United States drew attention to the data on Sweden's current dollar payments position supplied by the Fund in the supplementary background material, which showed that the situation was somewhat more optimistic than that presented by the Swedish representative. The trade deficit with the United States for the first six months of 1953 was only slightly more than one-third of the deficit in the corresponding period in 1952. The monetary reserves of the Central Bank at the end of August 1953 also had shown an increase over the end of 1952. The representative of the United States made it clear that in calling the attention of the Working Party to these data he was not challenging the general conclusions of the Fund.

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

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

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

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

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

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

UNITED KINGDOM

Consultation under Article XIV: 1. (g)

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

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

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

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

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

The Fund notes with satisfaction the greater measure of domestic stability; the improved balance-of-payments situation, especially vis-à-vis the dollar area; and the increase in reserves of the United Kingdom since the last consultations in 1952. It regards it as important that the task of increasing the reserves should proceed, concurrently with the further relaxation of restrictions and a reduction of discrimination, since larger reserves and less restricted trade are essential for the successful achievement of convertibility on a firm basis. To help achieve this objective, it considers that the United Kingdom should continue to pursue policies designed to prevent inflation and to improve productivity so as to maintain and improve the competitive position of the United Kingdom in world markets.

The United Kingdom has relaxed some of the emergency restrictions against OEEC and other non-dollar countries imposed in 1951/52. Furthermore, the opening of certain commodity markets has resulted in a considerable general relaxation of restrictions and a reduction in discrimination.

The Fund notes that during the past year the Government of the United Kingdom has held discussions with other Commonwealth Governments, and also with the United States and other countries, with a view to laying the foundations for a firm move towards sterling convertibility. The Fund welcomes these efforts in view of the importance of sterling as an international currency, and in view of the great advantages which the convertibility of sterling would therefore bring, not only to the United Kingdom itself, but also to other countries.

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

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

6. The question was raised by the representative of Norway as to whether the internal fiscal policies pursued by the United Kingdom had not had an unduly deflationary effect on the economy. The United Kingdom representative, with reference to the statistical data supplied by the Fund, assured the Working Party that the level of production and employment in 1953 were quite different from those in the previous year. In 1953, unemployment had fallen and production had continued to rise and the Government could not be accused of having deliberately pursued a policy of creating deflation and unemployment.

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

8. The Working Party then discussed the methods of administering dollar import restrictions. The United Kingdom representative described the methods in some detail covering both those commodities free from administrative restriction and those remaining subject to licence. Reference was made to the facts (a) that raw material trade had generally been returned to private hands, (b) that trade in essential foodstuffs was still to a large extent conducted on government account with the important exception of cereals and animal feeding stuffs, (c) that machinery and capital equipment were subject to individual licence, (d) that most other manufactured goods were admitted under the token import scheme, and (e) that special arrangements were made for the import of tobacco. The only major item remaining under almost complete prohibition was motor cars, but some imports were now admitted through an exchange of licensing arrangements with France and Germany and a small number of American cars were now allowed to be sold in the United Kingdom after being admitted for exhibition purposes.

9. A discussion took place on the long-term purchase contracts for certain agricultural products, such as sugar and tobacco, entered into by the United Kingdom Government. The Cuban and United States representatives contended that these contracts were usually made for an unduly long duration, running far beyond the period in which the world transitional difficulties and the sterling area's financial imbalance were expected to last. The prices provided in these contracts were often much higher than those prevailing on the world market and it was doubtful whether the agricultural industries developed under the stimulus of the assured markets could, in all cases, eventually reach a position of self-sustainment. The United Kingdom representative in replying emphasized that in the first place the imbalance between the dollar area and the rest of the world had by no means been solved for good, and, secondly, the tendency of a chronic shortage of food for the increasing populations in many parts of the world justified long-term measures to stimulate production. The main purposes of these contracts were to assist the building up of supplies, but the prices provided in the contracts were not always higher than free market prices, which were themselves often of limited validity. These plans for development were essentially a long-term proposition and should not be linked too closely to the day-to-day contingencies in the balance-of-payments, supply-and-demand, or price situation. The United Kingdom representative, however, was not in a position to answer a question put to him, as to whether the reasons given for having these long-term contracts implied that they would be maintained even after the external financial difficulties of the United Kingdom had been solved on a lasting basis.

10. In discussing the prospects for further relaxation, the United Kingdom representative emphasized the need for caution. In taking those measures in the past year, especially in freeing the commodity markets, the United Kingdom had been carefully watching developments in the world financial and market situation. So far no untoward developments had arisen but this might be attributed to the attendance of certain factors: first, the course of world prices had been downwards, and had thus not encouraged speculative buying; secondly, the general strength of sterling had remained strong; thirdly, the United States balance of payments had been developing in a way favourable to freer trade; and lastly the diversion of trade to the London free market had remained limited because other countries were not severely restricting access by their importers to dollar sources. Insofar as none of these factors could be regarded as permanent, risks could not be taken under all circumstances without regard to developments in these fields.