RESTRICTED

W.11/12/Rev.1
1 November 1956

Special Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

CONTRACTING PARTIES
Eleventh Session

Working Party on Balance-of-Payments Restrictions

Draft of the Seventh Annual Report under Article XIV:1(g) on the Discriminatory Application of Import Restrictions

Revised Draft prepared by the Secretariat

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 the Agreement permitting the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report has been drawn up by the CONTRACTING PARTIES at their Eleventh Session, held in October-November 1956. It is based on information supplied by the contracting parties concerned either in writing or in the course of discussions and consultations at that Session, and on data gathered from other sources, including publications and other documents of the International Monetary Fund. The report is devoted principally to an examination of the developments in the field of discriminatory import restrictions since the writing of the previous report in October 1955. In the annex a concise description is given of the discriminatory restrictive systems of the contracting parties concerned, and of the more important modifications introduced in the period under review.[1]

2. In their replies to a questionnaire issued for the purpose of gathering information for this report, or in other communications, twenty-three /twenty-five/ of the thirty-five /thirty-seven/ contracting parties have stated that they maintain restrictions on imports to safeguard their balance of payments, and are exercising some degree of discrimination as between sources of supply as permitted under paragraphs 1(b) and/or 1(c) of Article XIV, or under Annex J. These are:

Australia	Finland	Japan	Rhodesia and Nyasaland
Austria	France	/Laos/	Sweden
Brazil	Federal Republic of Germany	Kingdom of the Netherlands	/Tunisia/
Burma	Greece	New Zealand	Turkey
Ceylon	India	Norway	United Kingdom
Chile	Italy	Pakistan	Uruguay
Denmark			

[1] A draft of the annex will be circulated separately.

3. The Government of Indonesia and the Union of South Africa have stated that they are not acting under any of the provisions of Article XIV. Ten contracting parties, namely Belgium, Canada, Cuba, Czechoslovakia, the Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States have reported that they do not restrict imports for balance-of-payments reasons.

The Balance-of-Payments Situation

4. Before reviewing the events in 1956 it may be useful briefly to outline the developments in the preceding three years. Beginning in 1953 improvements in the international payments position enabled many countries, notably those in Western Europe, to relax the restrictions which had been introduced to safeguard their monetary reserves. Beginning in 1954 many of the measures taken were directed in a more substantial way than hitherto towards the relaxation of restrictions on imports from the dollar area, and considerable progress was made in the reduction of the discriminatory elements of the restrictions. In 1955 the aggregate gold and dollar holdings of the countries outside the United States continued to grow, but at a lower rate than in the two preceding years. The increase in 1955 was largely confined to Continental Western Europe, and the aggregate holdings of the sterling area fell by a significant amount. However, as pointed out in last year's report, most of the important trading nations, in spite of falling reserves in some of them, maintained in 1955 the gains already made in the relaxation of restrictions and reduction of discrimination.

5. During the first half of 1956, transactions with the United States led to an increase in the rest of the world's official gold and dollar reserves of about $660 million, compared with increases of approximately $630 million in each half of 1955. In addition, the rest of the world's reserves during this period rose at a semi-annual rate of approximately $250 million as a result of new gold production. US imports rose from $11.5 billion in 1955 to a seasonally adjusted annual rate of $12.5 billion in the first half of 1956. The corresponding figures for US exports (excluding goods under military grants) were $14.3 billion for 1955 and $16.4 billion for the first half of 1956. The balance on services and private remittances was approximately the same in both periods, showing a deficit for the US of $1.4 billion for 1955 and a deficit of $1.6 billion at a seasonally adjusted annual rate for the first half of 1956. United States Government non-military grants and related capital movements also remained fairly steady, the figures being $2.1 billion for 1955 and $1.9 billion at an annual rate for the first half of 1956. Outflows of other types of United States Government and private capital, however, increased sharply, rising from $1.2 billion in 1955 to $2.6 billion at an annual rate in the first half of 1956. In addition to the transactions mentioned, there were relatively small inflows into the US of foreign private capital; errors and omissions in the statement also showed net receipts in both periods. For the second half of [1955] the inflow on these items amounted to about $0.9 billion.

6. Reflecting the continued accumulation of reserves outside the United States there has been since 1955 a somewhat greater supply of dollars and other convertible currencies available for use in international trade, and a stronger tendency to settle payments deficits in gold or convertible currencies. The higher ratio of 75 per cent gold to 25 per cent credit established for European Payments Union settlements since August 1955, and the increased purchases and sales of transferable sterling against dollars by certain countries in some cases to influence their European Payments Union balances, as well as transfers made through the German Beko mark, are all indications of that tendency. A significant development has been the conclusion of the multi-partner payments arrangements between Brazil and Argentina on the one hand and certain European countries on the other, which resulted from a revision of the bilateral agreements previously governing the trade and payments relations between them. These arrangements, which have been extended and may be further extended by including more participants, represent an important step in expanding the use of the techniques of multilateral payments. Other instances are the successful negotiation by countries such as Finland of agreements for the use of transferable currencies, and the diminution in the use by Japan of bilateral clearing (with the so-called "open-account countries") in favour of payments arrangements using convertible currencies. These instances all reflect the general trend towards discarding the use of bilateral approaches in favour of multilateral arrangements.

These developments, together with the notable degree of transferability of currencies as the sterling and the Beko mark, have been beneficial not only to the countries directly concerned, but to all countries outside the dollar area, and have laid the ground on which further progress towards convertibility of the major currencies of the world could be achieved.

7. In assessing the world payments situation a distinction must be made between the basic long-term tendencies which affect the demand for various classes of export goods and the more temporary policies which tend to modify the impact of these tendencies upon the payments position of industrial and primary producing countries. Basically, the world demand for manufactured goods is capable of nearly indefinite expansion, while the demand for primary products does not tend to rise at the same rate. The main reason for this lag is the decline in the requirements for raw materials per unit of manufacturing output which reflects itself upon international trade through a number of concomitant developments. The gradual replacement of natural raw materials by manufactured substitutes, the expansion of the production of natural raw materials and foodstuffs in industrial countries, and the increased local consumption of the primary producing areas have led to a relative decline in international trade in primary products and also of trade between the industrial and the non-industrial parts of the world.

8. The effect of these basic trends upon international payments, however, depends on a number of other factors. The trade position of both industrial and primary producing countries is influenced by the steadiness of economic activity in the industrial areas. Even minor fluctuations in such activity

may have large effects on the world demand for primary products, and also on the international markets for manufactured goods. The notable degree of stability achieved in the United States economy in the last years has therefore at least been partly responsible for the widespread support that has been gained for freer and more fully multilateral payments and trade arrangements. To the extent that the European countries have recently become more competitive as suppliers of manufactures and especially of capital goods, payments problems tend to be less exclusively a dollar question. This development is further supported by the policies of the United States Government. United States Government expenditure abroad has in recent years played an important part in the international balance of payments. As noted in the report of the International Monetary Fund for the year ended 30 April 1956, about one-quarter of the supply of United States dollars available to the rest of the world since 1950 has been from that source, and in 1955 the total of United States Government net expenditure abroad was about $4.8 billion, an amount which considerably exceeded the $1.1 billion gained in gold and dollar reserves from normal transactions with the United States by the rest of the world. In the view of the Fund, drastic changes in the United States aid programme are unlikely for the near future, though allocations to individual countries will no doubt vary widely. Moreover, it should not be overlooked that the United States programme for the disposal of agricultural surplus commodities makes it possible for other countries to acquire such commodities without disbursement of dollars and to that extent the world's supply of dollars is augmented.

9. On the other hand, such shipments of agricultural surpluses are a matter of serious concern to the other countries that export the products involved. It is the avowed policy of the United States to assure that sales of agricultural surpluses will not unduly disrupt world prices or materially impair international trade relations. Nevertheless, there is concern that these sales could be an important factor in limiting the trade prospects of some of the primary producing countries.

10. In conjunction with the peremptory need for imports necessary for economic development, the basic as well as the more temporary factors reviewed contribute to explaining why most of the countries which during the past year had serious payments problems are to be found in the primary producing regions. At the same time, the prospects for continued improvements in the payments position of the industrial countries should not be unfavourable, if inflationary pressure is held in check.

Relaxation of Restrictions

11. In the period under review - November 1955 to October 1956 - further measures of relaxation were taken by a number of contracting parties, and in many cases the relaxation either was related directly to imports from the dollar area or was of a general nature covering dollar as well as other imports.

12. In Western Europe, two contracting parties which had adopted no dollar liberalization measures introduced a free list of imports from North American or dollar countries: In January 1956 France freed some 230 products from quantitative restrictions when imported from Canada and the United States, the products representing about eleven per cent of French imports from these countries in 1953. In March, the Norwegian authorities announced that a more liberal policy would be followed in licensing imports of dollar origin; this was followed in July by the formal liberalization of 83 per cent of dollar imports; and a few more items have been added to the list with effect from November 1956 and April 1957. Some of the West European countries which had adopted dollar liberalization measures added further products to their existing lists: In November 1955, Denmark raised its dollar liberalization from 33 to 55 per cent. In January 1956, Sweden extended its dollar list to include certain important industrial materials, and with further additions in July raised the level from 64 to 68 per cent. In April, Italy replaced its old list of August 1954 with a substantially enlarged list raising the dollar liberalization percentage from 24 to 40. As from 19 June, the German dollar liberalization percentage has been raised from 68 to over 92. In August, Austria announced that it intended shortly to raise dollar liberalization from 8 to 40 per cent.[1]

13. At present, dollar liberalization lists are in force in all the contracting parties in Western Europe except Turkey. Any system of expressing in percentages the degree of liberalization achieved is apt to be misleading and the following table gives only a rough approximation of the progress made by these countries.

Liberalized dollar imports expressed as a percentage of private imports from the US and Canada in 1953 [2]

	As at 1 July 1956
Austria	8
Benelux	87
Denmark	55
France	11
Germany	92.7
Greece	99
Italy	40
Norway	83
Sweden	68
United Kingdom	56

[1] All the percentages referred to in this paragraph are calculated on the basis of actual private imports in 1953.

[2] Although the percentages of liberalization are calculated on the basis of imports from the two countries only, all the countries listed here (with the exception of France) apply the liberalization to imports from all countries in the dollar area. The list of countries considered as belonging to the dollar area, however, differs from country to country: in general it includes the United States, Canada, Bolivia, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Republic of Honduras, Liberia, Mexico, Nicaragua, Panama, Philippines and Venezuela.

14. The measures of relaxation mentioned above, which benefit exports from the dollar area, should contribute to a reduction in the discrimatory element of restrictions. Relaxations, however, took place also in a number of cases which only affected exports from defined groups of countries outside the dollar area. In Western Europe, the liberalization of intra-European trade was pursued and made further progress. A number of countries concerned added to their lists of unrestricted imports. The changes in the past year may be seen from the following table:

Liberalized Imports expressed as percentages of private imports in 1948[1]

	1 November 1955	1 August 1956
Austria	34.1	90.3
Benelux	91.1	91.1
Denmark	78.0	85.5
France	77.5	82.3
Germany	91.3	91.5
Greece	95.0	95.0
Italy	99.7	99.1
Norway	75.0	78.0
Sweden	93.0	92.6
United Kingdom	85.0	93.7

15. In recent years the liberalization of trade by these countries has been extended from the field of intra-European trade to cover imports from a wide area, usually including all the countries in the EPU area, which consists of the member countries of the European Payments Union (i.e. the members of OEEC), their dependent overseas territories and the countries in the sterling, Belgian, Dutch, French, Italian and Portuguese currency areas, and Indonesia. Among the countries named in the preceding paragraph, the Benelux countries, Denmark, Greece, Italy, Norway, Sweden and the United Kingdom apply liberalization to imports from all EPU countries. Except for a limited number of products German liberalization is extended to countries whose currencies are linked with those of EPU members. Austria applies liberalization to all EPU countries, except those in the sterling area, although imports from outer sterling countries are licensed liberally, account being taken of the clearing facilities provided by virtue of the United Kingdom's membership in the EPU. Furthermore, most of these countries have also extended such treatment to imports from a certain number of countries outside the EPU area.

---

[1] In the case of Austria and Germany, the basis year is 1952 and 1949 respectively.

16. Similar action of liberalization was taken by Finland. The Finnish free list of imports was extended in November and December 1955, and the value of goods included for which licences were issued automatically was raised to about 50 per cent of total Finnish imports. Part of the list is applicable to imports payable in any currency, including dollars.

17. Outside Europe, measures of relaxation were taken notably by Ceylon, India, Japan, the Federation of Rhodesia and Nyasaland and the Union of South Africa. In the past year, Ceylon added a considerable number of items to its open general licences permitting free imports from the dollar area and from other sources. India's import policy and procedures were modifield with a view to permitting expanded imports to meet the rising requirements of the country particularly in the industrial sector; as far as dollar imports were concerned, quotas were increased for six import items in the two licensing periods of 1956. In the course of the past year Japan expanded its foreign exchange budget, extended the global quota system and enlarged the coverage of the automatic approval system. In the case of the Federation of Rhodesia and Nyasaland, some 385 products which had formerly been either prohibited or subject to quota were de-restricted, making a total of 500 out of 720 tariff sub-items which may be imported from the dollar area without limitation. Under the new import control regulations of the Union of South Africa published in November 1956 for application in 1957, a modified restricted list is expected to result in a considerable reduction in the number of restricted products.

Other Modifications of Restrictions

18. The external earnings of many countries depending on the export of a few primary commodities, such as wool, coffee and cocoa, were adversely affected in 1955-1956 by the decline in the prices of such products. As a rule such countries were also faced with internal inflationary pressures and a high level of demand for imports, and consequently with balance-of-payments difficulties. In 1955, Australia had twice intensified its import restrictions while taking internal financial and fiscal measures with a view to restoring equilibrium. In July 1956, extensive changes were made in the import control policy and system; these were designed to introduce a greater degree of selectivity and flexibility in the control of imports and at the same time to exercise some further restraint over the flow of imports during 1956/57. These changes were related to imports of non-dollar origin only. In October 1955, Australia brought into force an "all countries" licensing list of products which could be imported from any source under the quotas established. This list has been expanded in 1956 by the addition of three more products, making a total of fourteen items.

19. During the year, fundamental changes were made in the import control and exchange allocation systems of Chile, Indonesia and Uruguay. These changes have been made recently, and some of them seem to be still at an experimental stage. Their significance with respect to trade has therefore not been fully appraised.

General Observations

20. Among the industrial countries considerable progress has been made in the past three years in the relaxation of restrictions and in the reduction of discrimination, but in many of them restrictions are still maintained on a large section of their imports, which, in the case of European countries, consist principapply of agricultural products. When dollar imports are liberalized the liberalization normally does not apply to manufactured goods to the same extent as to raw materials and certain other essential commodities. Most countries find it necessary to continue the system, evolved during the war and postwar years, under which imports of dollar and non-dollar origin are controlled separately and restricted by different methods. The experience of those contracting parties which in the last few years have discarded all discrimination in the administration of their restrictions has not so far substantiated fears previously expressed that their monetary reserves would be threatened by an inordinate inflow of dollar goods, and it may be that other countries could afford to remove discrimination without disastrous consequences. On the other hand, the experience of one country or in one year is not necessarily a conclusive guide to the probable experience of another country or in another year as economic conditions may be different. Moreover many countries feel that the balancing of their account with the dollar area still relies to a substantial extent on exceptional income, and that until the major currencies of the world become convertible there will be risks in eliminating the distinction between restrictions on dollar and non-dollar imports.

21. While urging contracting parties to relax restrictions and reduce discrimination the CONTRACTING PARTIES are fully aware of the circumstances in individual countries. For example, in countries where effective measures to stabilize wages and prices and to curb internal demand are in force and where the success of such measures depends on the full support of all sections of the population including those which are bearing the brunt of the measures the Government may feel it unwise to risk further or potential burdens on the external reserves of the country. On the other hand the CONTRACTING PARTIES have also noted that there are different ways of experimenting with liberalization with varying degrees of risks in regard to the balance of payments. For example, to substitute overall quotas for administrative discretionary restriction or to broaden the categories of products in which licences are transferable would be of value to the import and export trade. Where outright liberalization is inadvisable in view of uncertainty, to establish lists of products for which licences would normally be issued automatically would be a useful means of testing the pressure of demand and the limits to which liberalization could be pursued. It will be in the interest of all countries if such methods are given careful consideration by more contracting parties.

22. Many countries of the world, both in the industrial and primary producing areas, are still faced with persistent or renewed pressures of inflation, and a fundamental solution to their balance-of-payments problems will have to be sought in the correction of the basic elements of disequilibrium. The Sixth Annual Report noted with approval the tendency of countries faced with balance-of-payments difficulties to seek solutions through measures other than the introduction of further restrictions on trade. It is gratifying that this encouraging tendency has continued; in the consultations held at the Eleventh Session, the CONTRACTING PARTIES have found that some of the countries faced with balance-of-payments difficulties continue to resort to fiscal and monetary measures to relieve the pressure of internal demand, rather than introduce new restrictions on imports. However, if such policies are to be successful, all contracting parties will have to play a role. If member countries' policies are to strengthen their economies at the expense of their neighbours, problems will arise. Just as member countries having balance-of-payments deficits should take the necessary steps to correct the payments disequilibrium, so those in strong creditor positions, of these there are a number, should frame their external policies having regard to their effects on other, weaker, member countries. Creditors have responsibilities as well as debtors and should be prepared to take steps to offset a persistent tendency to balance-of-payments surplus.

23. While the restrictions are applied for balance-of-payments reasons, the choice of products to restrict is often influenced by considerations closely linked with the desire to protect domestic producers for a variety of historical, political and social reasons. As for the countries which are in the process of rapid development or which are suffering from sudden fluctuations in export earnings, while the greater need for them to ration available foreign exchange and to restrict imports is generally recognized, the selection of products for the application of the restrictions is often made in such a way as to afford incidental protection to domestic industries. In many cases it is determined by the current availabilities of domestically produced like products, or by the capacity of local industries, irrespective of relative costs; in some cases the import of products which are available from domestic production is severely restricted or totally prohibited so that domestic producers are totally sheltered from foreign competition. The provision of such protection is not always limited to cases where the benefiting industry is expected eventually to become efficient and self-sustaining, and therefore capable of withstanding competition without excessive protection.

24. As early as 1950 the CONTRACTING PARTIES had directed their attention to questions relating to the situation in which quantitative restrictions maintained on balance-of-payments grounds were used in effect for protective and other commercial purposes or had incidental protective effects. After a careful examination of the questions, the CONTRACTING PARTIES concluded that in so far as such restrictions invariably have incidental protective effects on domestic industries, contracting parties should, wherever possible,

employ, in their own interest and in the spirit of the Agreement, certain methods to stimulate efficiency and to prepare domestic industries for the time when import restrictions can be relaxed. The methods recommended were:

(a) Avoiding encouragement of investment in enterprises which could not survive without this type of protection beyond the period in which quantitative restrictions may be legitimately maintained;

(b) Finding frequent opportunities to impress upon producers who are protected by balance-of-payment restrictions the fact that these restrictions are not permanent and will not be maintained beyond the period of balance-of-payment difficulties;

(c) Administering balance-of-payment restrictions on a flexible basis and adjusting them to changing circumstances, thereby impressing upon the protected industries the impermanent character of the protection afforded by the restrictions;

(d) Allowing the importation of "token" amounts of products, which otherwise would be excluded on balance-of-payment grounds, in order to expose domestic producers of like commodities to at least some foreign competition and to keep such producers constantly aware of the need ultimately to be prepared to meet foreign competition;

(e) Avoiding, as far as balance-of-payment and technical considerations permit, the allocation of quotas among supplying countries in favour of general licences unrestricted in amount or unallocated quotas applying non-discriminatorily to as many countries as possible; and

(f) Avoiding as far as possible narrow classifications and restrictive definitions of products eligible to enter under any given quota.

The CONTRACTING PARTIES also noted that in cases where the import restrictions were administered in a manner calculated to afford undue protection to domestic production and where there was evidence of pressure exerted by domestic interests in this regard, they were inconsistent with the provisions of the Agreement.

/25. In 1951 the CONTRACTING PARTIES undertook a general review of the restrictions then in force. Since that time many changes have taken place in the balance-of-payments position, in productive capacity, internal stability, market conditions and trade interests, as well as in the many aspects of the administration of import restrictions. In view of these changes the CONTRACTING PARTIES considered at the Eleventh Session that there would be advantage in re-examining the situation through an exchange of views between the CONTRACTING PARTIES and governments applying restrictions. It has therefore been agreed that a general round of consultations should be held in the course of 1957 and arrangements are being made to that end. While spectacular results should not be expected these consultations should make limited contributions to the reduction of restrictions and discrimination. At any rate the careful

stocktaking that will be made by the governments concerned in preparation for the consultations, and the free exchange of views between responsible officials and the evaluation of the effects of the restrictions which will be involved in the consultations will at least contribute to a clearer understanding of the problems facing the countries and of the possibility of further progress in the direction of freer and more multilateral trade./