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Working Party on Balance-of-Payments Restrictions

DRAFT REPORT ON THE CONSULTATION WITH AUSTRALIA

Introduction

1. The Working Party has conducted the annual consultation under paragraph 1(g) of Article XIV with Australia which, as a country invoking paragraph 1(c) of Article XIV, is required to consult annually with the CONTRACTING PARTIES on the retention of discrimination. The consultation was initiated by the Australian Government in March 1958. In opening the consultation the Australian representative made a statement reviewing the changes which had taken place in the Australian economy during 1957-58, the prospects for the balance of payments and movements in reserves in the current financial year and the status of its discriminatory restrictions against dollar goods. This statement is reproduced as Annex I to this report. In the discussion which ensued the Working Party broadly followed the "Plan" which had been adopted by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The present report summarizes the main points in the Australian statement and the discussion.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the consultation with Australia and had accepted that invitation. The representative of the Fund called attention to the results of the Fund's 1958 consultation with Australia (see Annex II) which, together with two papers dated 7 August and 9 September 1958 containing background material for that consultation, had been supplied by the Fund.

The Balance-of-Payments and Monetary Reserve Situation

3. The Australian representative stated that the chief feature of the economy during 1957-58 was the heavy fall (by about one third compared with 1956-57) in farm income. This was caused by a combination of factors. Production, particularly of wheat and wool, was reduced as a result of bad seasonal conditions over wide areas of Australia, but of much more importance was the general fall in the export prices of major agricultural commodities. The average price of wool, for example, was more than 20 per cent lower in 1957-58 than in the previous season. These, and similar factors affecting other significant exports, such as

metals, produced a steep fall in export income from £978 million in 1956-57 to £814 million in 1957-58.¹

4. The impact of this considerable reverse on the Australian economy generally had so far been largely offset on the internal side by the appropriate use of monetary and fiscal measures. At the same time, due attention had been paid to the need to keep a proper balance between overall demand and available resources.

5. On the external side the fall in export income occurred concurrently with an increase in imports which, following the series of import licensing relaxations during 1957, rose by £73 million to £791 million in 1957-58. Payments for "invisibles" also increased with the result that, despite a continued inflow of both private and official capital, international reserves fell by £42 million during the year to a total of £525 million at 30 June 1958. During the previous year international reserves had risen by £212 million. The effect of the various depressive factors was most marked in the second half of 1957-58 when reserves fell by £65 million.

6. The Australian representative considered, moreover, that the current situation did not provide any ground for optimism. Wool prices had again fallen sharply (to a level about 25 per cent below the previous season's average price), and, although seasonal prospects appeared brighter, it was certain that exports in 1958-59 would be less than in 1957-58 and perhaps a good deal less. On the other hand the overall level of import licensing had been maintained unchanged for some time and the Government hoped to be able to keep imports at a rate of about £800 million f.o.b. International reserves had continued to fall during the seasonally adverse September quarter and had declined by about £100 million or some 15 per cent since the beginning of 1958.

7. The Working Party noted the background against which the Australian Government had had to shape both its overall import licensing policy and, within that policy, the degree of discrimination practised. Gratification was expressed by members of the Working Party at the measures which had been taken to relax restrictions and reduce discrimination, and it was appreciated that those measures had been taken in the face of adverse balance-of-payments conditions which might have invited a more restrictive policy. In fact, since the measures of intensification in 1955 and 1956 the overall restrictions had been considerably relaxed and there had been a series of small but consistent forward moves to liberalize dollar imports. The hope was expressed that Australia would be successful in achieving and maintaining the necessary internal and balance-of-payments conditions for continuing in this direction. The Working Party welcomed the stated intention of the Australian Government to attempt to maintain the present level of imports at a time when Australia was facing a prospective further decline in exports receipts and reserves.

¹ Figures throughout in this paper refer to Australian pounds.

8. It was pointed out that the recent developments in the Australian economy illustrated once more the extreme sensitivity of the balance-of-payments position of countries dependent for their external income on exports of a limited number of primary commodities.

9. Commenting on the observations made by the Australian representative in his introductory statement concerning the uncertain extent and speed of the recovery of the United States economy, the representative of the United States recalled the considered statements made during the Ministerial discussion by Mr. D. Dillon, Under-Secretary of State for Economic Affairs of the United States, that "present indications were that the whole of the decline in economic activity would have been recovered by the end of the year". Moreover in contrast with 1957, when the outflow of gold and dollars from the United States was interrupted for the first time in a number of years, the transactions during the first half of 1958 had permitted the rest of the world to increase their gold and dollar holdings by approximately \$1,500 million. Thus the decline in economic activity in the United States had not been accompanied by a turn in the balance of payments adverse to the rest of the world but rather by developments decidedly favourable to the rest of the world. The change since 1957 provided a different general background for the consultations this year as compared with last. In making this observation, however, it was noted that the consultations under Article XIV must focus on the balance of payments of the individual consulting country.

10. During the discussion it was emphasized that, considering the substantial progress that had been made towards convertibility and broader transferability of currencies, the rationale for discrimination and for viewing a country's balance of payments according to different currency areas rather than in its entirety had diminished. Advantage should be taken by countries in deficit of this improvement in the world's payment situation to economize foreign exchange by permitting importers to make their purchases at the most advantageous prices in the most competitive market. The representative of Australia pointed out that the general validity of these considerations had not been ignored by his Government. That the Australian authorities were fully aware of this could be deduced from the very nature of the relaxation in dollar discrimination which had recently been effected. It was to a large extent the overall balance-of-payments and reserves position which now inhibited the licensing authorities from reducing discrimination at a faster pace. If the discriminatory restrictions which still applied to a range of dollar imports, for example consumer goods, were removed, there could be a tendency for total imports to rise. The representative of the United Kingdom pointed out that no doubt the Australian Government also had in mind Australia's membership in the sterling area.

11. Members of the Working Party representing countries in the dollar area doubted whether further reduction in discrimination against dollar goods would be followed by serious increases in total imports. In fact, with the post-war growth and modernization of the productive capacity in many countries it could no longer be generally assumed that dollar goods enjoyed the same competitive advantages as previously. In the view of these representatives, it should be possible, while maintaining the size of

quotas, to permit importers to make their purchases in the dollar area. Such measures would not necessarily lead to increased imports but might merely result in some change in the pattern of imports. Furthermore, as indicated by experience in some countries, the licensing of dollar imports could cause a fall in the price of similar non-dollar goods. It was recalled, for example, that according to the Australian delegation at the Article XII consultations in 1957, this had, in fact, happened in a number of cases.

12. Although he agreed in principle with these views the Australian representative pointed out that there were real licensing difficulties in putting them into practice without increasing, at least in the short run, the potential level of imports. This was particularly the case where quotas were held by individual importers. Representatives of dollar countries contended that whilst this might be true of certain imports, it was certainly not the case with all items. They wondered whether the problems outlined by the Australian representative did not reflect the rigidities which inevitably develop when discriminatory restrictions are maintained over a long period.

System and Methods of Discriminatory Restrictions

13. The Australian representative explained in response to a question the different methods of control at present in use. These methods were envisaged as being different stages in the process of liberalizing the restrictions. The list of goods, which were exempt from licensing from all sources, had been increased by the addition of a number of items which had previously been licensed up to full requirements. Further items, although subject to administrative control, were being licensed without discrimination and thus new licensing categories had been introduced. Under the first of these, the import replacement category, importers were permitted to obtain licences on request provided licences held unused at any point of time did not exceed twice the value of licences used (i.e. imports made) in the preceding licensing period. This technique allowed current demand for the particular imports to be met and was a step in the process of further liberalization. Some of the items (about 50 per cent) in this category were licensed without discrimination as to source of supply. The second category covered the establishment of quotas, about half of which were available for use for imports from any source of supply, for items previously licensed mainly on an administrative basis. This had the twofold advantage of lessening the burden on both the administration and the importer and of enabling the importer to obtain licences on request within his quota. Thus the further liberalization, as circumstances permitted, of the licensing of both dollar and non-dollar goods might proceed either by licensing without discrimination as to source within the administrative (or another) category or by the transfer of an item to a less restricted category (e.g. quota, import replacement or exemption from licensing) or by a combination of both of these means.

14. Representatives of dollar area countries urged the Australian Government to continue its efforts to relax its import restrictions and remove discrimination against dollar area goods. They noted that where non-dollar imports were licensed on a quota basis while dollar imports of similar goods

were subject to administrative licensing, exporters in the dollar area would be at a considerable disadvantage because of the uncertainty of, and the time needed for, obtaining a licence. This was particularly true of commodities for which there was intensive competition. These representatives urged the Australian Government to consider, as an interim measure preliminary to complete liberalization, the establishment of dollar quotas for items for which non-dollar quotas were in existence. The Australian representative confirmed that this conformed with the general direction in which the import licensing system had been evolving.

Reduction of Discriminatory Restrictions

15. The Working Party noted from the Australian representative's statement that discriminatory restrictions are applied against goods of dollar area origin other than those included in the Australian "world" licensing list but over the last eighteen months there had been a considerable reduction in the level of this discrimination. Currently about one third of total imports were free of restriction as to source, whilst no licences were required for about 17 per cent of them. A little more than twelve months ago almost all imports were subject to licence and only 20 per cent of total imports were free of restriction as to source. The Australian representative recalled that his country had joined with other Commonwealth countries at the recent Commonwealth Conference in Montreal in stating that trade discrimination should continue to be progressively removed in view of the advantages to be gained by so doing and he emphasized that the Australian aim was to move towards this objective in a steady and sustainable manner. However, there were a number of uncertainties in the foreseeable balance-of-payments situation, and the speed with which the objective could be attained depended on the course of future events.

16. On the question of the actual extent to which price differences affected the administrative licensing of imports from different sources, the Australian representative explained that, generally speaking, licences were issued for dollar imports when their price was lower than that of comparable non-dollar imports.

Effects of Discriminatory Restrictions

17. The Norwegian representative considered that the Australian import controls were particularly unfavourable to Norwegian exports. Approximately one third of Norwegian exports to Australia consisted of pulp, paper and paper board which were classified in Category A and subject to administrative licensing. The hope which his Government had entertained that these products might benefit from measures of relaxation had so far not been fulfilled. Norway's exports were, therefore, more severely affected than those of most other contracting parties. Although somewhat outside the scope of the consultation, the representative of Australia undertook to convey those views, as well as any similar request that might be made by a contracting party, to his Government which would, no doubt, give them careful consideration. The United States representative stated that his delegation would wish to discuss with the Australian delegation the restrictions applied on certain goods in which United States exporters were interested.

Prospects of Eliminating Discriminatory Restrictions

18. Commenting on the prospects of further removal of import restrictions, the representative of Australia said that, notwithstanding the decline in the external reserves and the discouraging prospects of the overall balance of payments, his Government had currently decided to maintain unchanged the present level of import licensing, and hoped to be able to avoid any intensification of the existing restrictions. He referred to the recent Commonwealth Conference in Montreal where the need for a progressive reduction in discrimination had been recognized. He pointed out that the action taken in the past year was an indication of the intentions of his Government in this regard. The speed with which the Montreal objective could be attained would, however, depend on the course of future events.

19. In concluding the consultation the Working Party noted with gratification that in a policy statement the Australian Government had reaffirmed its intention to relax the restrictions and remove discrimination as soon as practicable. The steps which had been taken earlier in the year had contributed to maintaining the momentum towards freer trade, and were evidence of the forthrightness of the Australian policy.

ANNEX I

Statement by the representative of Australia

1. I think it would be appropriate for me to begin by expressing our appreciation to those of the staff of the International Monetary Fund and the GATT secretariat who have been concerned in the preparation of the background papers for this consultation with Australia under Article XIV:1(g).
2. Strictly speaking we are not here concerned with the rather wider aspects of the reasons for the existence in Australia of import restrictions, or of the measures taken on the broad economic policy front to reduce the need for them. These are more properly subjects for consideration when we come, as next year we shall, to consult under Article XII of the GATT.
3. Notwithstanding this, the Australian Government has always felt itself under a moral obligation, within the spirit of the GATT, to provide other contracting parties with as much information as is necessary to assist them in understanding and arriving at conclusions upon the Australian position. That is an attitude to which we continue to adhere.
4. Accordingly, I think it might be of value to the Working Party if I were first to provide a brief resumé of the present economic situation in which Australia finds herself.
5. Undoubtedly, the chief feature of the Australian economy during the financial year 1957-58, just ended (i.e. July 1957 to June 1958), was the heavy fall in farm income. Our national income estimates show a fall in this sector of as much as one-third (from £A.540 million in 1956-57 to £A.360 million in 1957-58).
6. This heavy fall was brought about by a combination of factors. Reduced production (notably in wheat and wool) as a result largely of drought conditions over wide areas of Australia, was an important factor, but much more important was the general fall in the export prices of our major agricultural commodities. Thus, the average price realized for wool during the 1957-58 season was more than 20 per cent lower than the price realized during the previous season.
7. These, and similar factors operating in the case of some of our other important export commodities, such as metals, produced a steep fall in export income between the two years. From a total of £A.978 million in 1956-57 exports fell to £A.814 million in 1957-58.

8. The impact of this considerable reverse in our economic fortunes upon the Australian economy generally has so far been largely offset on the internal side by the use of such policy devices as the easing, within limits, of bank credit, some increase in public investment, and the continuing high level of public and business confidence, shown in the maintenance of a high level of consumer demand and of private investment. At the same time, due attention has been paid to the need to keep a proper balance between overall demand and available resources.

9. On the external side the fall in our export income was accompanied, during 1957-58, by increasing imports which, as a result of a series of import licensing relaxations during 1957, rose to £A.791 million from £A.718 million during 1956-57. At the same time our payments for "invisibles" rose from £A.167 million to £A.201 million.

10. This combination of factors has inevitably produced its effect upon our reserves position. Whereas in 1956-57 our international reserves (i.e. of gold and foreign exchange) rose by £A.212 million, in 1957-58, despite a continued inflow of both private and official capital, there was a fall of £A.42 million to a total of £A.525 million at 30 June last. This was, moreover, made up of a rise of £A.23 million in the first half of 1957-58, which was more than offset by a fall of £A.65 million during the second half, when the effect of the various depressive factors I have mentioned was most marked.

11. Nor has the situation which has developed since the end of 1957-58 given any ground for optimism. Since that time wool prices have again fallen steeply, and are now between 20 and 25 per cent lower than the average price of 62.5 pence a lb. realized last year. Seasonal conditions appear likely to be rather brighter as far as can yet be judged; but this will have little effect upon our export prospects for this present financial year. Exports during 1958-59 will most certainly be lower than they were in 1957-58 and perhaps a good deal less. Our international reserves continued to fall during the September quarter and since the beginning of 1958 we have lost about £A.100 million or some 15 per cent of them. On present indications we can only look forward to a continuation of this movement.

12. It is against this general background that we have had to consider both our overall import licensing policy and, within that policy, the degree of discrimination.

13. On the first question, I think we may say that our position is clear. Notwithstanding the changed circumstances in which we now find ourselves the Government has decided to maintain unchanged the present

level of import licensing. In his budget speech of 5 August last, the Treasurer, Sir Arthur Fadden said:

"Meanwhile the Government has said that it intends, if possible, to maintain imports at a rate of about £A.800 million f.o.b., which is approximately the same as in 1957-58, and we certainly hope that we will be able to do this. Neither the Government nor, I imagine, anyone else, has any wish to turn again to the expedient of tightening import restrictions."

14. I turn now, Mr. Chairman, to the second question which is the question before us - that of the discriminatory restrictions being applied by Australia against goods of dollar area origin other than those included in the Australian "world" licensing list.

15. As you know, Mr. Chairman, at the recent Commonwealth Conference in Montreal, Australia joined with other Commonwealth countries in stating that trade discrimination should continue to be progressively removed in view of the advantages to be gained by so doing. At the same time, I must emphasize that, notwithstanding what seems increasingly to be confirmed as the upturn in the economic situation in the United States, there remains a good deal of uncertainty as to the likely extent and speed of this recovery. Basically, therefore, while we have lent our support to the general objective of moving towards a world of freer trade and payments, it has also been one of our primary concerns not to take any steps in this direction which might subsequently need to be reversed. Our objective is above all to move towards these objectives in a steady and sustainable manner.

16. As the Working Party is aware, over the last eighteen months there has been a considerable reduction in the level of discrimination against imports from the dollar area. A little more than twelve months ago almost all Australian imports were subject to import licensing and only about 20 per cent of total imports was free of restriction as to source. Currently about one-third of our imports is free of restriction as to source, whilst no licences are required for about 17 per cent of them.

17. I need not take time now to describe the Australian import licensing situation or the changes which have been made over the past year. Detailed information on each of these is contained in the documents before us. I should imagine, however, that our system is very familiar to members of the Working Party.

18. Looking to the foreseeable future I have already indicated that our overall balance-of-payments prospects are not good. We have thus far been able to maintain a stable level of imports in the face of a continuing decline in overseas reserves and it is the Australian Government's hope that it can avoid an intensification of the existing restrictions.

19. On the question of discrimination the action taken over the past year or so in reducing the discriminatory element in the import licensing system is an earnest of the Government's intentions in this regard. I have already referred to the objectives to which we subscribed at Montreal. The speed with which those objectives can be realized depends very much on the course of future events.

20. Mr. Chairman, my colleague and I are ready to participate as fully as we can in this consultation.

ANNEX IIResults of the last IMF consultation with Australia,
concluded on 10 September 1958

1. The Government of Australia has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. During 1957/58 farm output was lower as a result of drought conditions, but industrial production expanded. Despite the considerable drop in export income of primary producers, expenditure on consumption and fixed capital investment increased and it is estimated that gross national product was slightly higher than in 1956/57. The employment situation was easier and the larger supplies coming to the market from the increased domestic output and imports contributed to the improvement in the state of balance of the economy; costs and prices were more stable than in most post-war years.
3. The budget for the year ended 30 June 1958, although including certain tax concessions, yielded a surplus of current revenues over current expenditures. The capital works and housing programmes of the States and local authorities were increased; capital expenditures, including those of the Commonwealth Government, were financed out of revenue and long-term borrowing and there was some net redemption of Treasury bills over the year. Toward the end of 1957 the restrictive credit policy was relaxed and bank credit to the private sector increased by about 8 per cent over the year 1957/58. The budget for the year ending 30 June 1959 provides for a smaller surplus of current revenue over current expenditures than in the previous fiscal year, and it is expected that some recourse to central bank financing will be necessary to cover an overall cash deficit. The Australian authorities state they are doing this advisedly in order to support domestic spending and so help to offset the effects of continued low export earnings.
4. In the course of 1957/58 there was a considerable decline in export prices of wool and of certain other primary products. The resulting fall in export receipts, combined with a 10 per cent increase in imports to £A 791 million following the relaxation measures taken early in 1957 and again in August, brought the current account into deficit; despite a continuing inflow of capital, international reserves declined over the year by more than £A 40 million to £A 525 million on 30 June 1958. The government intends, if possible, to maintain imports in 1958/59 at roughly the same level as in the previous year and is prepared to draw further on its foreign exchange reserves to support this policy.
5. The Fund welcomes the measures that have been taken to relax restrictions and to decrease discrimination and notes the intention of the Australian authorities to avoid intensifying restrictions despite a prospective further decline in export receipts and reserves. It believes that in order that restrictions and discrimination may be further reduced and ultimately eliminated, economic policies should aim at keeping a proper balance between overall demand and available resources.
6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia.