

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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

Draft Prepared by the Secretariat¹

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 restriction imposed for balance-of-payments reasons. The present report has been drawn up by the CONTRACTING PARTIES at their fifteenth session held in Tokyo during October-November 1959. It is based on information supplied by the contracting parties concerned or derived from discussions and consultations during the past year, and on data gathered from other sources including publications and 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 introduction of non-resident convertibility by countries in the monetary areas of Western European countries in December 1958.

2. At present, twenty-five of the thirty-seven contracting parties state that they maintain restrictions on imports to safeguard their balance of payments. These are: Australia, Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, France, Ghana, Greece, India, Indonesia, Italy, Japan, Federation of Malaya, New Zealand, Norway, Pakistan, Federation of Rhodesia and Nyasaland, Sweden, Turkey, Union of South Africa, United Kingdom and Uruguay. Of these contracting parties, Ceylon, Indonesia, Pakistan and the Union of South Africa state that they are not acting under any of the provisions of Article XIV. The remaining twenty-one countries applying restrictions for balance-of-payments purposes are exercising

¹ Following the established practice the secretariat has prepared this advance draft on the basis of available information. It is intended that a revised draft will be circulated at the fifteenth session which will take account of new developments and any additional information that may become available by that time. In particular the concluding paragraphs will have to be recast in the light of discussions at the session.

some degree of discrimination as between sources of supply, as permitted under Article XIV or under Annex J, as follows:

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

3. The other twelve contracting parties, namely Belgium, Canada, Cuba, Czechoslovakia, the Dominican Republic, the Federal Republic of Germany, Haiti, Luxemburg, the Netherlands, Nicaragua, Peru and the United States, state that they do not restrict imports for balance-of-payments reasons. Among these the Netherlands ceased to resort to the provisions of Article XII in February 1959.

4. The degree of discrimination used by the twenty-one contracting parties resorting to Article XIV or Annex J varies considerably as does the general level of their import restrictions. Some of them, e.g. Brazil, Greece and the Federation of Malaya, now apply restrictions substantially in a non-discriminatory manner. Australia, France, Japan and the United Kingdom have made major moves in the removal of dollar discrimination. Other contracting parties, including Ghana, New Zealand and the Federation of Rhodesia and Nyasaland also have taken important steps towards the removal of discriminatory dollar restrictions from their import-licensing systems.

Changes in Discriminatory Restrictions Announced Prior to External Convertibility

5. A number of significant changes were announced or introduced by contracting parties prior to the advent of external convertibility. In Western Europe, the Government of France announced on 18 December 1958 that effective January 1959 quantitative restrictions would be abolished in respect of about 40 per cent (1948 basis) of imports from OEEC countries and their overseas territories, and in respect of 13 per cent (1953 basis) of imports from Canada and the United States. The quotas for certain imports which were not to be affected by the new liberalization measures were to be increased by 20 per cent. Apart from these measures certain changes were made in the quota arrangements within the European Economic Community.

6. In the United Kingdom, the removal of restrictions from a wide range of chemicals and allied products from the dollar area was announced in August 1958. In a statement to the Commonwealth Trade and Economic Conference at Montreal in September 1958, the President of the Board of Trade stated that restrictions on dollar imports of industrial, agricultural and office machinery were to be abolished almost entirely. He also stated that imports of canned salmon (except from Eastern Europe) and newsprint would be completely freed from restriction and that Colonial Governments would be invited to relax restrictions on a wide range of goods.

7. A number of countries outside Europe also made important changes in the discriminatory application of their import restrictions prior to the introduction of external convertibility. Discrimination was removed by Australia for a number of capital equipment items imported from the dollar area in August 1958, and for a further list of dollar products in December. The Federation of Malaya announced in December that effective 1 January 1959, import restrictions would be removed on twenty-three items from the dollar area. In the New Zealand licensing schedule for 1959 announced in October 1958, despite a further reduction in the level of imports, dollar discrimination was substantially reduced through the introduction of global licences on a much wider basis; except for seventy-two items, all licences would be valid for the importation of goods from any country.

Changes in Discriminatory Restrictions Since the Introduction of External Convertibility

8. The currency moves at the end of 1958 made possible the realization of a long-cherished step in the direction towards freer multilateral trade. Following these moves, a number of countries, principally those in the monetary areas of Western European countries, have taken important steps towards adjusting their import control systems in accordance with the new conditions. This has resulted in an acceleration in the pace at which discriminatory restrictions have been removed.

9. Early in 1959 the Government of the Netherlands freed from quantitative restrictions a number of imports from dollar countries. Although licences were still required they were being granted automatically for liberalized products. This measure entirely eliminated the differentiation which had existed between imports into the Netherlands from dollar and Western European countries, and the Netherlands declared that it no longer applied restrictions on balance-of-payments grounds.

10. Further liberalization of Italian imports from the dollar area increased to more than eighty per cent on the basis of 1953 trade the goods which can be freely imported from dollar countries. In accordance with the decision announced prior to external convertibility, the Government of France freed from quota restrictions on 13 January 1959 a wide range of raw materials imported from the dollar area and from non-OEEC countries.

11. Effective 1 January, Norway expanded the dollar import free list to include all goods at that time freely imported into Norway from OEEC countries. In February, Denmark extended the application of the OEEC free list to the dollar area; by this move, the liberalization percentage for dollar imports has been raised from 70 to 80 per cent.

12. Further important relaxations in the United Kingdom's controls on imports of goods from the dollar area were announced in May 1959. The effect of these measures was to remove quantitative restrictions on a wide range of consumer goods from the dollar area, to open to the dollar area global quotas covering some other imports, and to increase certain dollar quotas.

13. Important liberalization measures were also introduced by most United Kingdom dependent overseas territories. For the most part, these measures became effective as from 1 January 1959 or 1 July 1959. Bermuda announced that a number of items which were previously prohibited from the dollar area, were to be liberalized. The Government of Mauritius issued an Open General Licence for various categories of goods from the dollar area. In Trinidad and Tobago, a general relaxation of control of goods from the dollar area was announced. Nigerian import licensing restrictions were also removed on an extensive list of commodities originating in the dollar area. Formerly, import licences were required in Nigeria for the import of all dollar goods other than wheat flour. Liberalization of dollar imports was also extended to all British East Africa. The Governments of Kenya, Uganda and Tanganyika introduced open general licences permitting unrestricted importation from the dollar area of selected lists of commodities. Prior to the new de-control action dollar imports into British East Africa were limited to items considered essential to the economy of the three East African States and to items unavailable from sterling area and other soft currency sources. Those restrictions continued to apply to goods not on the new list. The Governments of the three areas making up British Borneo - the colonies of Sarawak and North Borneo and the State of Brunei - have also placed a number of items under open general licence. Effective 15 May, the Government of Malta issued an open general licence for various categories of goods from the dollar area. On 1 July Fiji eliminated all controls on imports from the dollar area on consumer goods (except motor cars) and on capital goods (except for a few specified products).

14. On 1 April, the Australian Government removed import licensing discrimination against about 330 items of dollar imports. The items in question cover trade worth about £170 million a year and represented about 20 per cent of all Australian imports. Up to that date 50 per cent of Australian imports had been freed from currency discrimination and from 1 April, 70 per cent were licensed on a non-discriminatory basis thus giving Australian industry access to the cheapest market for most of the country's imports of materials and equipment. Effective 1 August, still further licensing discrimination was removed for dollar imports. As a result of this latest relaxation of restrictions on imports from the dollar area, about 90 per cent of Australian imports could come from any source. For the remaining 10 per cent, provision was being made to widen trade with the dollar area and it was the stated intention of the Government to proceed towards the lifting of the remaining controls on dollar imports.

15. Prior to January 1959, dollar imports into Western Samoa were severely restricted. In January, controls on all dollar imports were removed subject to the requirement that the goods must be genuinely required for use within Western Samoa, and that Western Samoa's overseas funds must be adequate to permit continuation of unrestricted imports.

16. The Federation of Rhodesia and Nyasaland also announced important changes in its import licensing system following the move to external convertibility. Controls were removed from a number of goods originating in the dollar area. Further steps in the same direction were taken in September 1959.

17. On 10 July, the Ghana Government announced moves to liberalize seven categories of imports from the dollar area. Prior to these liberalizations, individual licences were required for the import into Ghana of all dollar goods other than wheat flour.

18. The Governments of Singapore and the Federation of Malaya, which apply co-ordinated import control policies, announced in July that discriminatory restrictions on the direct import of dollar goods would cease as from 1 August. Goods which might be imported freely under open general licence from OEEC countries were also permitted to be imported without specific licences from the dollar area. It was now possible to import directly from the dollar area those goods which previously could only be imported through Hong Kong. This had the effect of reducing the cost of dollar imports by from 5 to 7 per cent.

General Observations

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

moves to external convertibility taken at the end of 1958 by various countries in Europe and elsewhere, the consultations assumed a new importance to the CONTRACTING PARTIES. The moves to external convertibility had special significance for the general level of the remaining restrictions as well as for the problem of discrimination. They reflected the improved balance-of-payments position of the Western European countries concerned. Many of these countries had for the most part eliminated the inflationary pressures which had threatened their economies for most of the post-war period and had achieved the monetary conditions necessary for a strong balance-of-payments position. In 1958 the external payments position of industrial countries was also substantially favourably affected by changes in their terms of trade viz-à-viz the primary producing countries. The outflow of gold and dollars from the United States, which reflected the sustained level of United States' special payments abroad, has continued to contribute to the increase in the monetary reserves of Western European countries. The rise in gold and dollar reserves in these countries brought about renewed confidence in the currencies of Western Europe. This confidence was bolstered still further by the decision of the International Monetary Fund to increase the Fund's resources, which constituted a secondary line of reserves which could be relied upon in an emergency.

20. The CONTRACTING PARTIES have, therefore, witnessed, for the first time since the General Agreement came into being, the return of Western Europe as a whole and certain other countries, to the favourable reserve and balance-of-payments position from where it was possible for them to proceed with confidence towards the dismantling of the restrictive import systems which had distorted their domestic economies and international trade.

21. The considerable progress which has been made in the general relaxation of restrictions and in the reduction of discrimination has been accomplished with no serious ill-effects to the reserve and balance-of-payments position of the Western European countries taken as a group. The experience of those countries which have discarded all discrimination in the administration of restrictions, has not so far substantiated the fear that by liberalizing dollar imports, monetary reserves would be threatened by an inordinate inflow of dollar goods. In fact, developments in 1959 have been distinctly good and no widening of the "dollar gap" has materialized. On the contrary, concern about the dollar has expressed itself in recent months as a result of the marked deterioration in the overall balance of payments of the United States since 1958 which has led to substantial losses of gold.

22. Despite the recent progress which has been made, import restrictions are still being applied on a large proportion of trade in a discriminatory manner. Further, whereas there have been important steps in the removal of dollar discrimination, progress in the removal of discrimination against imports from certain other sources has been less pronounced. In Western Europe, some countries, e.g. France, the Federal Republic of Germany and Austria, have not completely extended OEEC liberalization to non-OEEC countries, while other OEEC countries have extended such treatment only to specified areas such as the outer sterling area countries. While in certain cases imports from

sources which are officially subject to discrimination are being licensed liberally, there are still cases where trade is being severely damaged by the continuation of this discriminatory treatment.

[23. Whatever considerations may be behind the decisions to continue the discriminatory practices up to the present, it is encouraging to learn that many of the governments concerned are currently examining in a serious manner the possibility of totally eliminating them. If this culminating step is realized in the near future it will have been due in no small measure to the unflinching efforts made by the CONTRACTING PARTIES. Their last report on the use of import restrictions¹, it will be recalled, concluded with an earnest advice to governments that:

"....The significance of the convertibility measures for trade policy may be clarified by noting that, in the new circumstances, a country that earns one of the newly convertible currencies is free to use it, just as it has been able to use a dollar currency, to buy imports from suppliers around the world without distinction. Convertibility thus is significant not only for the countries that made their currencies externally convertible but also for the countries whose trade is carried on in convertible currencies of other countries.

"With the bulk of world trade now being conducted on a convertible currency basis there is a unique opportunity for the achievement of the world-wide system of non-discriminatory trade on a multilateral basis which the contracting parties sought when they created the General Agreement."⁷

¹ Review of Import Restrictions under Articles XII:4(b) and XVIII:12(b) - Report Adopted by the CONTRACTING PARTIES at their fourteenth session in May 1959.