

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

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

Draft Prepared by the Drafting Group

1. Under paragraph 1(g) of Article XIV of the General Agreement the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of Article XIV which permit the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report deals with discriminatory restrictions applied by contracting parties on balance-of-payments grounds during the period under review. The report has been drawn up by the CONTRACTING PARTIES at their seventeenth session held in Geneva during October-November 1960.
2. At present, the following [seventeen] contracting parties state that they maintain restrictions on imports under Articles XII or XVIII:B to safeguard their balance of payments: Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, Greece, India, Indonesia, Japan, New Zealand, Norway, Pakistan, Turkey, Union of South Africa [and Uruguay]. Among these the following [eleven] exercise some degree of discrimination as between sources of supply under Article XIV:1(b): Austria, Brazil, Burma, Chile, Denmark, Finland, Greece, India, Japan, Norway and [Uruguay].
3. When the last report was drawn up in October-November 1959 there were twenty-four contracting parties applying restrictions for balance-of-payments reasons. The seven which have since ceased to do so are: Australia, France, Ghana, the Federation of Malaya, the Federation of Rhodesia and Nyasaland, Sweden and the United Kingdom, all of which had also been making use of the provisions of Article XIV.
4. The process of reduction of import restrictions and discrimination applied on balance-of-payments grounds began several years ago and has quickened since the end of 1958 when external convertibility was extended to include most of the important trading currencies. This resulted in an almost complete elimination of the former distinction between these currencies and greatly reduced the scope of the discriminatory restrictions which contracting parties could justify under the provisions of Article XIV of the General Agreement. In October 1959 the

Executive Board of the International Monetary Fund took a decision on discriminatory restrictions imposed for balance-of-payments reasons. In that decision the Fund noted the substantial improvement in the reserve position of the industrial countries in particular and the widespread moves towards external convertibility. The Fund considered that there was no longer any balance-of-payments justification for discrimination by its members whose current receipts were largely in externally convertible currencies. The Fund recognized that a reasonable time might be needed for the elimination of discriminatory restrictions, but it considered that this time should be short and it expected that its members would proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism. In the case of countries with a substantial portion of their current receipts still subject to limitations on convertibility, particularly in payments relations with State-trading countries, the Fund would be prepared to consider whether balance-of-payments considerations would justify the maintenance of some degree of discrimination, although not as between countries having externally convertible currencies. In this connexion the Fund reaffirmed its basic policy on bilateralism as stated in a previous decision of June 1955.

5. In the Tenth Annual Report on Discrimination the CONTRACTING PARTIES reaffirmed that the removal of discrimination applied under Article XIV of the General Agreement was a vital step towards the achievement of the objectives of the Agreement and the expansion of international trade. There was a consensus that the remaining discrimination applied under Article XIV of the Agreement should quickly be eliminated.

6. In 1959 and the first half of 1960 although the overall foreign exchange reserves of the primary producing and less-developed countries as a group showed some improvement, they did not recover to the level at the end of 1956. Moreover, a number of these countries have suffered a further reduction in the level of their foreign exchange reserves. On the other hand, the combined total gold and foreign exchange reserves of the industrial countries outside the dollar area which had increased at a rapid rate in 1958 continued to increase, though less rapidly, despite substantial payments to international financial institutions, with the result that the scope for the maintenance of import restrictions on balance-of-payments grounds was further reduced.

7. The progress which has been made in 1959 and 1960 is not only reflected in the fact that a number of countries have ceased to apply restrictions on balance-of-payments grounds under Articles XII and XVIII:B and have ceased to invoke Article XIV for the justification of discriminatory restrictions, but also in the reduction of the level of restrictions and the degree of discrimination by countries continuing to resort to the balance-of-payments provisions of the Agreement. Progress in eliminating dollar discrimination

has been particularly conspicuous; a number of countries have narrowed or eliminated the distinction between their dollar and their non-dollar free lists, and have extended their global quotas to include countries from the dollar area. However, many contracting parties applying restrictions continue to discriminate against imports from dollar countries. In some cases this remaining discrimination is of a formal nature, i.e. imports from dollar countries still require licences, which are normally issued automatically, while no such licences are required for imports of the same products from non-dollar sources.

#### Recent Changes in Discrimination

8. The following paragraphs note a number of the more important recent changes concerning the application by contracting parties of discriminatory import restrictions under Article XIV of the General Agreement.

9. As from 1 October 1960, Australia removed restrictions from imports of motor vehicles from the dollar area. By this step the last element of discrimination, whether against the dollar area or any other sources, was abolished.

10. Effective 7 July 1960, Austria took action to eliminate the last remnant of discrimination against imports from the United States and Canada by liberalizing certain textile and agricultural products.

11. In January 1960, France issued a new list showing goods imports of which were restricted for all sources of supply. This conversion to a negative list of restricted items, together with the modifications introduced on the occasion of this conversion, also reduced the element of discrimination in the former free lists. Subsequently, several steps of liberalization were taken, in many cases covering imports from non-dollar, non-EEC GATT countries.

12. Since 1 January 1960, the group of countries benefiting from Finland's multilateral trade and payments arrangements has been enlarged to include also France, the United States of America, Canada, Tunisia and Iceland.

13. Ghana, on 25 February 1960, placed on the free list imports of all types of machinery from Japan. On 19 March 1960, dollar discrimination was eliminated as a result of the removal of all import restrictions except those applied on arms and ammunition, explosives, gold, cinematographic film, petroleum products, unmanufactured tobacco and tobacco manufactures.

14. Since 18 December 1959, India permitted importers to utilize for imports from the dollar area the full value of the licences held by them for importing items other than capital goods from the "soft currency" area. As a result, imports from the dollar area were placed on par with imports from the "soft currency" area.
15. Japan undertook several steps during 1960 to remove dollar discrimination. On 1 January 1960 dollar discrimination was removed for copper scrap and copper alloys scrap, abaca fibre, lauan wood and gypsum. In April 1960 dollar discrimination was removed for iron and steel scrap and beef tallow. Another step taken on 1 July 1960 removed dollar discrimination on cattle hides, calf skin and kip skin. This reduced the number of dollar discrimination items to only two.
16. With effect from 1 July 1960 the Federation of Malaya terminated the remaining licensing procedures in respect of certain imports from the dollar area and the OEEC countries as well as imports from Czechoslovakia. From that date the Federation of Malaya ceased to maintain any restrictions on imports from those countries concerned and removed the remaining element of discrimination under Article XIV. Further, with effect from 16 August 1960, the licensing procedure in respect of imports from Japan was also removed.
17. On 1 July 1960, the Government of Norway announced a new liberalization measure covering approximately 400 items. This and previous liberalization lists were made applicable to all GATT countries except Japan, thus reducing substantially the previously existing element of discrimination in the Norwegian import system.
18. Through measures on 1 April and 1 August 1960 Sweden has further extended its list of liberalized items, with the result that practically all items can be imported freely from all contracting parties. Trade with a few GATT Member countries, however, continues to be conducted under bilateral trade agreements and imports under these agreements are subject to licensing. Licences for imports from these countries are generally freely granted.
19. Prior to January 1960, only a few items remained subject to restriction from the dollar area when imported into the Federation of Rhodesia and Nyasaland. At the beginning of this year the Federation announced the liberalization of the following items previously restricted from dollar countries; blankets, rugs and sheets, certain piecegoods, canvas tarpaulin, tents, cutlery, and metal furniture. As from 1 July all restrictions applied for balance-of-payments reasons were removed.

20. On 1 February 1960, the United Kingdom removed controls from dollar imports of tobacco and tobacco manufactures (other than cigars) and from fresh, chilled and frozen fish, synthetic rubber and **transitors**. Import restrictions are now retained on a very small number of products and there is no longer any discrimination arising from balance-of-payments considerations.

21. With the implementation of the Decree of 29 September 1960 which provided for the elimination of quantitative restrictions on all imports regardless of their source, Uruguay has completed the process of import liberalization set out under the Exchange Reform Law of 17 December 1959.

### General Observations

22. Despite the further progress which has been made since the adoption of the Tenth Annual Report under Article XVI:1(g) on the Discriminatory Application of Import Restrictions, discriminatory import restrictions are still being applied by a number of countries on a significant proportion of trade. In particular, the welcome progress which has been made in reducing dollar discrimination, as referred to in paragraph 7, has not always been accompanied by equal progress in removing discrimination against imports from non-dollar sources. A number of countries have continued to maintain distinctions in their import control systems between sources of supply. For example, some European countries have continued to accord different treatment to imports from OEEC sources, or to OEEC and dollar sources, from that which they apply to imports from non-OEEC, or non-OEEC non-dollar sources. Such a distinction cannot be justified on balance-of-payments grounds when trade can be conducted in externally convertible currencies. Furthermore, the reduction of import restrictions by many countries, following the improvement in their balance-of-payments position, has not benefited all imports equally. For example, remaining restrictions are often concentrated on agricultural products, thus tending to discriminate, albeit on a de facto rather than a formal basis, against contracting parties largely dependent for their foreign exchange earnings on agricultural exports.

23. Although considerable progress has been made in recent months in reducing reliance on bilateral arrangements, particularly as between contracting parties, a number of countries continue to maintain bilateral arrangements which directly or indirectly affect trade. Some of these appear to contain discriminatory elements as the result of commitments to open quotas for specific quantities of designated imports from bilateral partners. Other bilateral arrangements contain indicative commodity lists or target quotas which, in conditions where restrictions extend over a wide range of imports and where there is scope for the exercise of administrative discretion, can give rise to apprehension regarding the impact of such arrangements on trade interests.

24. The CONTRACTING PARTIES, in drawing up this report on discriminatory restrictions applied under Article XIV of the General Agreement, noted that there were many other instances where trade was subject to discrimination for other than balance-of-payments reasons.

25. The CONTRACTING PARTIES welcomed the progress which has been made during the past year towards dismantling discriminatory restrictions. They noted, however, that discriminatory restrictions were still being used by a number of contracting parties notwithstanding the fact that the justification for the application of discriminatory restrictions under Article XIV of the General Agreement has been largely eliminated by the establishment of external convertibility for most of the major trading currencies since the end of 1958. The CONTRACTING PARTIES reaffirmed their position, as stated in the Tenth Annual Report on the Discriminatory Application of Import Restrictions, that the removal of discrimination applied under Article XIV is a vital step towards the achievement of the objectives of the General Agreement and the expansion of international trade. The CONTRACTING PARTIES therefore urged contracting parties still applying discriminatory restrictions under Article XIV of the General Agreement to eliminate these as quickly as possible.