GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES
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Working Party 8 on Balance-of-Payments Restrictions.

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

(This draft has been prepared by the secretariat to serve as a basis of discussion at the Working Party. The text of the Annex will be circulated separately.)

1. 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 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 Tenth Session held in October - December 1955. 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 information supplied by the International Monetary Fund. The report is devoted principally to an examination of the general trend in the field of discriminatory restrictions during the first ten months of 1955. In the Annex a brief description is given of the discriminatory restrictive system of each of the contracting parties concerned, and of the more important modifications introduced during the year.

2. In statements submitted in 1955 at the request of the CONTRACTING PARTIES or in other communications, twenty-two of the thirty-five contracting parties to the Agreement 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	Germany	Pakistan
Austria	Greece	Rhodesia and Nyasaland
Burma	India	Sweden
Ceylon	Italy	Turkey
Chile	Japan	United Kingdom
Denmark	Netherlands	Uruguay
Finland	New Zealand	
France	Norway	

3. [This paragraph will indicate the position of the thirteen contracting parties which are not resorting to the provisions of Article XIV, and will be completed after further information has been obtained through discussions in the Working Party.]

4. It was noted in last year's report[1] that the general improvement in the world dollar situation which began in 1953 had continued in 1954, and that there had remained only a few countries, notably those largely dependent upon the export of raw materials, for which the difficulties of preceding years had not been lessened. Although this continuing trend was due in part to several special factors of uncertain duration and magnitude, such as the sustained volume of United States off-shore purchases and military and other expenditure abroad, the vigorous recovery of industrial production, especially in Europe, had enabled most major trading countries to withstand the effects of a recession in the United States and to continue to increase their gold and dollar reserves. The general improvement during 1953-54 encouraged a number of the more important trading countries to introduce greater freedom in their international transactions and to reduce the degree of restriction on imports. Especially in 1954 many of these measures of relaxation had been extended to imports from the dollar area.

5. Toward the end of 1954, although the dollar payments position of the non-dollar world remained favourable and gold and dollar reserves continued to increase outside the United States, the rate of such increase had been substantially reduced. Dollar imports into Western Europe rose substantially. At the same time, a number of raw material producing countries, which had been facing difficulties, suffered further reversals. Latin American exports in particular suffered from a decline in raw material prices and a sharp reduction in sales.

6. In the fourth quarter of 1954, United States exports (excluding exports financed by military aid) reached an annual rate of $14.2 billion, compared to $12.5 billion in the previous twelve months. In the same period, United States imports remained unchanged at an annual rate of $10.3 billion. In the first half of 1955 these exports declined slightly to an annual rate of $13.9 billion, while imports increased to $11 billion. Preliminary figures for the third quarter indicate little further change in these figures. Net receipts of gold and dollars by the rest of the world through transactions with the United States fell to an annual rate of about $1.3 billion in the last quarter of 1954 from the level of $1.5 billion in the previous twelve months. This decline continued in the first half of 1955, when such net receipts of gold and dollars by the rest of the world amounted to an annual rate of $950 million.

7. It is noteworthy that most important trading nations in 1955 have maintained the gains already made in the reduction of discriminatory restrictions on dollar imports, and many have made further progress. In Europe, Denmark, the Federal Republic of Germany, Greece, the Netherlands, Sweden and the United Kingdom, and among other sterling countries, India, Pakistan and the Union of South Africa,

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[1] Basic Instruments and Selected Documents, Third Supplement, pp. 63-77

which had in the preceding year substantially reduced their discriminatory restrictions or totally eliminated discrimination, took no retrogressive steps. In a number of other cases further measures of relaxation have been taken by governments in 1955.

8. The United Kingdom has continued its policy of reducing discrimination against dollar goods, and in the course of 1955 a number of products, namely hides and skins, some fats and oils, cotton linters, phosphate rocks, some ferrous alloys and aluminium, have been added to the list of commodities which may be imported free of licence from all sources. As a result of these measures, over 50 per cent[1] of United Kingdom's imports from the dollar area are now free from restrictions. In April 1955 an extension of the German free list brought that country's level of liberalized private dollar imports to over 60 per cent of such imports in 1953, and this percentage has since been raised to 68. In January 1955 Sweden announced a further relaxation of dollar restrictions. The goods covered by the free list then accounted for about 58 per cent of Swedish private imports from the United States in 1953. Effective from 21 February 1955, Denmark established a new general free list. In October 1955 some further restrictions on Danish imports from the dollar area were removed, thus increasing the share of dollar imports freed of quantitative restrictions from the previous level of 38 to 55 per cent of such imports in 1953. In Austria a new list of liberalized imports from the dollar area was put into force on 15 July 1955, whereby liberalized dollar imports were brought to a level of some 8.5 per cent of Austrian 1953 imports from the United States and Canada.[1]

9. As noted in paragraph 4, the general improvement in the dollar payments situation in 1953-1954 had not been shared by all countries. The weakening of the reserves position of several primary producing countries in the second half of 1954 led to cases of intensification in import restrictions though not necessarily to increase discrimination. In at least one case, namely Australia, intensification of import restrictions in April 1955 had the effect of reducing the level of discrimination against dollar goods, as the reduction in quotas affected non-dollar imports only. Further measures for restricting imports, introduced in October 1955 affected imports from both dollar and non-dollar countries, but at the same time a move was made in the direction of reducing discrimination by providing for licences for a list of basic materials to be issued on a "world global quota" basis.

10. A brief description of the extent and types of restrictions applied to imports from different sources by each of the twenty-two contracting parties listed in paragraph 2, is given in the Annex. It will be seen that a considerable

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[1] In December 1954 the OEEC adopted a Recommendation concerning the relaxation of dollar restrictions, and the percentages of liberalized dollar imports mentioned in this paragraph are as reported to or calculated by that Organization, except in the case of the United Kingdom, for which the comparable figures (liberalized imports in relation to total private imports from the United States and Canada on the basis of 1953 imports) would be 56 per cent. It should be noted that, because of the differing percentages of trade conducted by state enterprises, figures covering liberalization of private trade do not correctly reflect the relative progress of different countries toward liberalization of total trade.

number of these countries have established either a global free list of goods permitted to be imported from any source either without licence or under licences which are freely issued, or a dollar or hard-currency list permitting similarly unrestricted imports from defined dollar areas. Global lists, varyingly referred to as World Exemption List, World Open General Licence, or Unrestricted List, etc., and dollar lists are in force in Austria, Ceylon, Denmark, Germany, Greece, India, the Netherlands, New Zealand, Rhodesia and Nyasaland, Sweden and the United Kihgdom. Most dollar free lists have been introduced in recent years, and as mentioned in paragraph 8, for some of these countries such lists cover a substantial proportion of the dollar imports.

11. In addition to these formal measures for reducing discrimination against dollar imports there is reason to believe that the degree of such discrimination has in many cases also been reduced in the area governed by administrative decisions. This inference is drawn from the statements of many governments maintaining such controls and from the reduced incentives, in some cases, toward continued discrimination against dollar goods. Under the renewed European Payments Union, for example, net surpluses or deficits, beginning with the second half of 1955, have been settled on a basis of 75 per cent gold and 25 per cent credit instead of the previous ratio of 50 per cent each.

12. The progress made in the relaxation of restrictions discriminatory against dollar goods has not been uniform as between the different classes of commodities imported. The emphasis in relaxation has been mainly on those goods the importance of which could directly contribute to lowering costs of production such as industrial raw materials and other basic commodities. As pointed out in last year's report, in a considerable number of countries a wide range of manufactured goods remains subject to discriminatory restrictions.

13. Even with the qualification that progress toward the relaxation of dollar discrimination has been uneven both as between countries and as between commodity groups, it remains gratifying that this progress has continued at a time when the rate of improvement in the dollar position of most countries was being lowered. Moves in the direction of dollar liberalization by major trading countries before the advent of convertibility of their currencies should make easier the adjustment process following convertibility, and the further progress made in 1955 should therefore facilitate the movement towards convertibility when the time is ripe. In addition to the reduction in discrimination in the administration of import restrictions, further progress has been made by some countries in the restoration of "de facto convertibility" through extending the transferability of their currencies or through other measures. There has been an encouraging tendency by nations faced with balance-of-payments difficulties to strengthen their competitive position by internal fiscal and economic measures instead of the introduction of further restrictions on trade.

14. In the past the severity of the restrictions that were applied against imports of dollar goods has tended to divert attention from the existence in most countries of restrictions applied in a discriminatory manner as between goods

imported from different non-dollar countries. But the progress made toward the relaxation of dollar discrimination and the virtual disappearance of the original monetary reasons for this non-dollar discrimination forces attention upon the substantial body of such discrimination that still persists.

15. The liberalization of intra-European trade under the OEEC has freed to a large extent imports within that region from licensing restrictions. The percentages reached in the liberalization of intra-European trade vary from country to country, but most of them have maintained the high level which was reached in the previous year and some of them have reached a higher level. It was decided by the OEEC early in 1955 that further progress should be made in the liberalization of intra-European trade; the general rule, which has been put into effect on an experimental basis and subject to escape provisions, is that commodities on the liberalization list must represent by the end of September of 1955 at least 90 per cent by value of each country's 1948 imports from other member countries instead of the 75 per cent previously required and that the minimum percentage for each separate category (i.e. food and feeding stuffs, raw materials and manufactures) be 75 per cent instead of 60 per cent. Although the average level of liberalized imports of all OEEC countries has since been raised from 80 per cent to a little more than 85 per cent, the targets of 90 percentage for all imports and 75 per cent for each category have not been attained by all OEEC members; only Germany, the Netherlands, Italy, Sweden and two other members have reached levels higher than 90 per cent. For most OEEC countries, furthermore, the liberalization of agricultural imports remains at a substantially lower level than other products particularly in view of the more widespread use of state trading in this Sector. As for the area of intra-European trade which is not covered by liberalization, it may be noted that imports are sometimes still affected by bilateral trade agreements involving quotas concluded between member of OEEC although the payments facilities provided by EPU have eliminated all need for such discrimination.[1]

16. In recent years the entire sterling area participates, through the United Kingdom, in the payments mechanism of EPU and most outer sterling countries maintain no discriminatory restrictions in favour of sterling imports and against other imports of non-dollar origin. While a number of Western European countries extend to the sterling area the liberalized treatment granted to other EPU members, this is not always the case.[2] On balance, however, the larger part of the total trade among sterling area and Western European countries has now been freed from quantitative restriction, while imports into these countries from other non-dollar countries, for which payments cannot be made through the mechanism of the EPU, are subject to restrictions which, though less severe than those against dollar imports, are more restrictive than those applied on imports from within the EPU clearing area.

17. Continued resort to bilateral agreements between countries in the non-dollar area, if not in all cases resulting directly in discrimination, has tended

[1] See Annex on the position of individual countries.

[2] Among the OEEC countries which are listed in paragraph 2, Greece applies no discrimination to most imports, Denmark, Italy, Norway and Sweden apply liberalization to all EPU, including sterling area countries, and Germany has a liberalization list for EPU imports which is only slightly more limited than its OEEC list.

to preserve conditions favourable to discrimination and to delay the time when the selection amongst sources of imports will be determined by competitive factors. A substantial part of the trade between certain European countries on the one hand and countries of Asia and Latin America on the other, as well as the non-liberalized portion of intra-European trade, is still governed by bilateral trade agreements. The number of such agreements entered into differs from country to country and changes from time to time, but in many European countries a considerable number of agreements are in force. For example, according to information supplied by the governments concerned, Austria has twenty-one such agreements, Denmark has twenty-three, Germany forty-four, Italy thirty-four, Norway..... Sweden ..... and Turkey twenty-four agreements. In the case of Finland and France, bilateral trade agreements are in force with most of their trading partners, covering a high proportion of their trade. Countries in the sterling area mostly maintain bilateral agreements only in exceptional cases. For example, Burma has four agreements and Ceylon, India, Pakistan and the Federation of Rhodesia and Nyasaland each have either one or two agreements relating to a single or a few commodities.[1] These agreements often establish favourable quotas for the importation of goods by one partner from the other or provide some other form of favoured treatment. For example, some OEEC countries extend OEEC treatment to imports from outside countr with whom they have trade or payments agreements and not to countries with whom such agreements do not exist. Some countries which have established regimes of Open General Licence for most non-dollar goods nevertheless withhold this treatment from the goods originating in certain countries. In certain cases, where no other discrimination is practiced as between non-dollar goods, specially favourable treatment is given to certain goods originating in countries with whom barter agreements have been made.

However, with more currencies approaching the status of convertibility countries using inconvertible currencies are finding it more difficult to obtain from their trading partners those reciprocal advantages without which bilateral quota arrangements would serve little purpose. The widening of the transferability of currencies, notably the pound sterling and Deutsche Mark, has greatly reduced the need for other countries to discriminate among non-dollar currencies. Of interest in this connexion is the payments agreement recently entered into by the Governments of Brazil, Germany, the Netherlands and the United Kingdom under which payments for imports and exports between Brazil and the three European countries can be effected in any of the latters' currencies. By virtue of the limited transferability thus created for the Brazilian cruzeiro and the Dutch guilder the system has been referred to as an arrangement of limited convertibility, and it seems to have set an example for payments and trade arrangements among other countries; for example under the recently concluded bilateral agreement between Finland and Switzerland, Finland is permitted to use 20 per cent of its net earnings from transactions with Switzerland for payments to other EPU countries and similarly to use other EPU currencies for payments to Switzerland up to 20 per cent its net deficit.

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[1] The country notes in the Annex will give the position of each country in detail.

18. In spite of the decreasing need for bilateral agreements for balance-of-payments reasons some countries have been reluctant to relinquish their resort to this device. Some producers of primary commodities see in such agreements a means of maintaining exports that are important in their trade, and sometimes of preventing a decline in the prices of these exports. Even when no present advantage is to be derived from such arrangements, and when clear advantages are manifest in a policy of freer trade, some governments hesitate to deprive themselves of this means of protection so long as their competitors have not renounced the use of bilateral arrangements.

19. The General Agreement permits the use of discriminatory restrictions as a transitional measure to meet the peculiar post-war situation of payments disequilibrium. The Agreement requires, however, that each contracting party dismantle discriminatory restrictions, whether achieved by bilateral quota agreements or by unilateral action, as rapidly as its balance-of-payments situation permits. For the maintenance of discrimination by one country increases the difficulty that others face in the adoption of non-discrimination and the establishment of currency convertibility. If each country delays action in this field until all risk is removed the achievement of ultimate non-discrimination and the full benefits of multilateral trade is certain to be postponed indefinitely.[1]

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[1] In a policy decision adopted on 22 June 1955, the International Monetary Fund urged the full collaboration of all its members to reduce and to eliminate as rapidly as practicable reliance on bilaterism. It noted that "unless this policy is energetically pursued by all countries, both convertible and inconvertible, there is serious risk that widespread restrictions, particularly of a discriminatory character, will persist. This whole problem is one not only for countries which maintain bilateral arrangements but also for other countries whose domestic and foreign economic policies may adversely affect the balance of payments of other members".