

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES

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

Text prepared and submitted by Working Party 4 on Balance-of-Payments
Restrictions, for approval by the CONTRACTING PARTIES

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 for the use of discrimination. The present report is drawn up by the CONTRACTING PARTIES pursuant to these provisions at their Ninth Session which took place between October 1954 and February 1955, and is based on information supplied by governments either in writing or in the course of their consultations with the CONTRACTING PARTIES during that Session, and on data gathered from other sources including information supplied or published by the International Monetary Fund. The report is devoted principally to an examination of the general trend in the field of discriminatory restrictions between the writing of the fourth annual report in October 1953 and the present report. In the Annex a brief description is given of the discriminatory restrictive system in each of the contracting parties concerned, and of the more important modifications introduced during that period.

2. In statements submitted in 1954 at the request of the CONTRACTING PARTIES or in other communications twenty-one of the thirty-four 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	Finland	Norway
Austria	France	Pakistan
Brazil	Germany	Rhodesia and Nyasaland
Burma	India	Sweden
Ceylon	Italy	Turkey
Chile	Netherlands	United Kingdom
Denmark	New Zealand	Uruguay

The Government of Japan, whose commercial relations with most contracting parties are based upon the Agreement, has stated that it resorts to the provisions of paragraph 1(b) of Article XIV.

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

4. At the Eighth Session in October 1953, when the last report was drawn up, the CONTRACTING PARTIES noted that there had been a marked improvement in the world dollar situation and that certain contracting parties whose payments position had improved, had made substantial reductions in their restrictions and discrimination. The CONTRACTING PARTIES' report on consultations in 1953¹ mentioned certain fortuitous and temporary, as well as certain fundamental factors to which the general improvements in 1953 might be attributed. In part, the improvement had resulted from the heavy volume of United States off-shore purchases and military and other expenditure abroad. Dollar expenditure was limited by the continued restrictions against imports from the dollar area and the sustained high level of economic activity in the dollar area had the effect of maintaining and expanding the level of imports from the rest of the world. The more important factor underlying increased strength of the economies of countries outside the dollar area was the genuine improvement in their competitive capacity in relation to the United States.

5. In the period now under review the improvement in the international payments situation has generally continued, although, as will be discussed later, there remain a few countries for which the difficulties of preceding years have persisted. There have been further increases in gold and dollar reserves held outside the United States. Given the improved competitive position of the non-dollar world, the reduction made by some governments in their discriminatory restrictions on the imports of certain commodities from the dollar area did not lead to an increase in the proportion of dollar imports taken. Against this general background, a number of the more important trading countries have continued to introduce greater freedom in their international transactions and to reduce the degree of restrictions previously imposed on imports. In contrast to the liberalization measures taken by governments prior to 1953, many of these measures have been more directly related to imports from the dollar area.

6. Since the Fourth Annual Report, the United Kingdom has continued to reduce discrimination. Further items, mainly food and raw materials, have been added to the list of those commodities which can be imported from all sources without an individual licence; the more significant commodity coming within this category was raw cotton and this move was associated with the reopening of the commodity market in cotton for both spot and future transactions. In addition, where import from the dollar area is still restricted, quotas have been opened, or if already existing increased, for a considerable range of items, and less stringent criteria governing the licensing of the import of chemicals and machinery from the dollar area have been introduced.

¹ Basic Instruments and Selected Documents, Second Supplement, page 36.

7. Among other sterling area countries, Now Zealand has relaxed its control on imports from the dollar area: more items are permitted to be imported, quotas have been increased for a larger number of products, and a more liberal policy has been adopted in 1955 for licensing essential imports from that area. The Union of South Africa eliminated all discrimination in the application of its import restrictions as from 1 January 1954. Consequently, the relaxations introduced in 1954 have covered dollar imports as well as those from other countries. Pakistan, although it continues to discriminate in some items subject to bilateral commitments, made licences for all the other goods valid for imports from any source in the world.
8. The German Federal Republic has freed a large proportion of its dollar imports from control. Italy has published an extended list of commodities which could be imported from the dollar area without licence. The Netherlands has been easing its restrictions on dollar imports since October 1953, and a large number of items are now free from quota restrictions when imported from the dollar area. Denmark has introduced relaxations in the issue of licences for imports from the dollar area, and has extended liberalization to certain imports from that area, a substantial proportion of its dollar imports being now included in a general free list. Sweden has relaxed its restrictions on dollar imports in a similar manner, an extensive list of products are free from restrictions and may be imported from all countries.
9. AS for those imports which remain under discriminatory licensing control, a number of governments, e.g., Australia, Norway and Sweden, have indicated that because the dollar problem has become less severe, prices and other commercial considerations have been allowed to play an increasingly important part in determining the source of imports.
10. These outstanding instances indicate that restrictions on imports from hard-currency areas, especially the dollar area, have been greatly reduced in the past year. As a result, the general level of such restrictions still maintained by most countries is lower than at any time since the war. This development, even seen against the background of a general trend of relaxing over-all restrictions and continual liberalization of soft-currency imports, provides ground for believing that there has been a substantial reduction in the general degree of discrimination in the application of restrictions. Although in most countries a stricter control is still maintained over dollar imports than on other imports, it is understood that many governments have relaxed the standards by which applications for import licences from the dollar area are considered. The re-opening of commodity markets, the restoration of private trading and the easing up of internal controls which have taken place in certain countries must have further contributed to the freedom of traders, and lessened the hindrance to the trade being conducted on the basis of price and other commercial considerations.
11. In certain countries, the reduction of discrimination, made possible by the improved payments and reserve position, has been undertaken also in pursuance of a long-term policy of preparing their economies for the time when the major currencies of the world will have become convertible. These objectives have been approached with caution, and the progress made generally

reflects the varying strengths in the external financial position of the countries concerned. To the extent that the improved strength is due to the more fundamental and enduring factors making for a more balanced international economic relationship, further progress is to be expected.

12. While the situation has thus shown considerable improvement, discrimination is still being practised against particular countries and currencies, and there still remains a significant degree of discrimination against imports from the dollar area in many parts of the world. The relaxations in discriminatory restrictions have applied in particular to imports of industrial raw materials and other basic commodities, but, even in this field, certain important products remain subject to discrimination in various countries. While a few countries have in the past year introduced some measures of relaxation with respect to imports of manufactured products, a wide range of such products remain subject to severe discrimination, often amounting to prohibition. In addition, there are some countries that have not yet found it possible to introduce any appreciable relaxation in their restrictions on dollar imports.

13. The general improvement in the dollar payments situation has not been shared by all countries. The balance-of-payments difficulties of certain primary producing countries caused by the decline in the prices of their basic exports in 1953 have continued in the period under review. The vicissitudes in the fortunes of these countries seem to point to a basic underlying problem which has not been solved. Balanced against the recently attained strength in many primary product prices has been the shadow of agricultural surpluses which have been a cause of concern to most primary producing countries.

14. As the CONTRACTING PARTIES have repeatedly urged in the past, governments applying balance-of-payments restrictions should minimize their incidental protective effects, and in particular avoid encouraging the establishment of uneconomic industries so dependent on protection as to generate pressure for the maintenance of restrictions beyond the period in which they could be justified on legitimate financial grounds. With the reduction in quantitative restrictions, the scope for bilateral trade agreements has been narrowed. However, a substantial part of world trade, in particular that between certain European countries on the one hand and the countries of Asia and Latin America on the other hand, is still governed by bilateral trade agreements, and there remains a hard core of discriminatory practices for commercial, rather than financial reasons. The commercial motivation for such arrangements has been revealed most clearly by the changing character of trade agreements. The emphasis on agreements aimed at a balancing of trade between partners has shifted to agreements which give each participant special advantages for particular commodities in the market of the partner country. Another problem that may hinder progress to freer trade is to be found in the field of exchange policy. Several of the contracting parties maintain multiple rates of exchange for balance-of-payments reasons under the Articles of Agreement of the International Monetary Fund. Such exchange systems have commercial effects which may tend to involve discrimination as among commodities and trading areas. The ultimate abolition of such systems is among the objectives of the International Monetary Fund. Progress has been made in reducing these practices, but certain discriminatory features still affect world trade.

15. The use of such devices as discriminatory bilateral agreements may, in certain circumstances, particularly during periods of acute international imbalance in which most currencies are inconvertible, be unavoidable. But it is clear that such practices should have a diminishing rôle in a world moving towards convertibility. Although the problems mentioned above are by no means the only ones which may persist to the detriment of a rapid move to freer trade, it would clearly be in the interest of international trade and of the countries concerned if vigorous action were taken for their elimination so that discrimination was not perpetuated where the balance-of-payments difficulties had ceased to exist.

A N N E X

The text of the Annex, which contains notes on the restrictive systems and methods used by the 22 governments referred to in paragraph 2 of the Report, is to be found in W.9/188 in draft form. It is being checked with the delegations concerned, and will be circulated at a later stage for the information of contracting parties.

