

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/337

2 March 1955

Limited Distribution

CONTRACTING PARTIES
Ninth Session

REPORT OF WORKING PARTY 4 ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

I. The Fifth Annual Report under Article XIV:1(g)

1. As instructed by the CONTRACTING PARTIES the Working Party prepared the text of such a report for 1954 (L/331) which has been submitted to the CONTRACTING PARTIES for approval.

II. Consultations under Article XVI:1(g)

2. Under paragraph 1(g) of Article XIV, contracting parties still entitled to take action under the provisions of sub-paragraph 1(c) of Article XIV or of Annex J are required to consult the CONTRACTING PARTIES annually as to any deviations from Article XIII still in force pursuant to those provisions and as to its continued resort to such provisions. During 1954, such consultations were initiated by five governments, namely Australia, Ceylon, New Zealand, the Federation of Rhodesia and Nyasaland and the United Kingdom. The Working Party was instructed to conduct these consultations at this Session.

3. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them regarding these consultations and in each case the Fund had accepted the invitation to consult. Consequently, the representative of the Fund participated in the consultations conducted by the Working Party. In accordance with the procedure agreed to, the Fund supplied the CONTRACTING PARTIES with the results of its own consultations with the governments concerned as well as the background material prepared in the Fund in connection with those consultations. These were taken into account by the Working Party as basic reference in the consultations.

4. The Working Party has concluded the consultations with Australia and New Zealand. Owing to the circumstances of the Session it has not been able to hold the consultations initiated by Ceylon, the Federation of Rhodesia and Nyasaland and the United Kingdom. In view of the short time left before the close of the Session and the pressure of work, rather than conduct the consultations with these three governments in a perfunctory manner, the Working Party recommends that they be dispensed with and that the obligations of these governments to consult under Article XIV:1(g) be deemed to have been fulfilled for 1954. This recommendation has been formulated particularly in view of the fact that these governments will shortly be obliged to initiate their 1955 consultations under the same provisions.

5. In the course of the consultations the representatives of Australia and New Zealand referred to and supplemented the data supplied by the Fund in justification of the maintenance of the discriminatory import restrictions, amplified the written data on the application of the restrictions, and answered various questions on the different aspects of the restrictions. In general discussions took place on all questions on which members of the Working Party showed an interest, and the representatives of the consulting governments indicated that they had taken full note of the views expressed by other delegations. In certain cases requests were made by other contracting parties regarding the possibility of liberalizing restrictions on imports of particular commodities, and the representatives of the consulting governments expressed their willingness to convey these requests to the attention of their governments for sympathetic consideration. A summary note on the consultations with each of the two governments is contained in Annex II.¹

III. Operation of Article XIV:1(g) in 1955

6. In accordance with its terms of reference the Working Party also considered the appropriate procedures which should be adopted by the CONTRACTING PARTIES for the preparation of the Sixth Annual Report on Discrimination and for the conduct of consultations under Article XIV:1(g) in 1955.

7. In the course of preparing the 1954 report under those provisions, certain members of the Working Party expressed concern over the inadequacy of the procedure that had been adopted for this purpose; in particular, they regretted the insufficient information supplied by contracting parties on the basis of which the report had to be drawn up. However, in view of the fact that the Agreement was being reviewed and since it was expected that a new set of rules and procedural provisions governing the review of, and consultations on, balance-of-payment restrictions would result from the deliberations of this Session, the Working Party considered that little advantage would be gained from considering at this stage an improved procedure the applicability of which might be of very short duration. As for the reviews and consultations provided for in the revised Agreement a new set of procedural arrangements will be required and the CONTRACTING PARTIES will no doubt instruct the Executive Secretary to consider the question and make recommendations before the revised provisions come into force.

8. The Working Party, therefore, agreed to recommend that the present existing procedures for the report and consultations under the existing provisions of the Agreement be continued in 1955. Accordingly, it is proposed that for the preparation of the 1955 report, the CONTRACTING PARTIES should request that governments applying discriminatory restrictions provide revised answers to the questionnaire drawn up at the Seventh Session²; such replies

¹ The Working Party suggests that the Annex should not be derestricted along with the principal text of the Report.

² See Basic Instruments and Selected Documents, First Supplement, pages 46-48.

should be sent to the Executive Secretary three months prior to the opening of the Tenth Session. In this connexion the Working Party proposes that the governments be requested to supply the fullest possible information on the questions asked in the questionnaire. The CONTRACTING PARTIES should also call the attention of the contracting parties once again to the agreed rule requiring that any contracting party modifying its import restrictions furnish detailed information promptly to the Executive Secretary.

9. As for the consultation under Article XIV;1(g), the Working Party proposed that any government which wishes to initiate such consultation in 1955 should so notify the Executive Secretary in the course of March 1955 so that he may inform the contracting parties and the International Monetary Fund at the end of that month. Any such consultations initiated should take place at the Tenth Session of the CONTRACTING PARTIES, if the International Monetary Fund is by then ready to consult with the CONTRACTING PARTIES in connexion therewith pursuant to Article XV.

A N N E X

Notes on the Consultations under
Paragraph 1(g) of Article XIV

I. CONSULTATION WITH AUSTRALIA

Australian Statement

1. The Australian representative stated that the Government of Australia continued to find it necessary to make use of the provisions of Article XIV of the Agreement in as much as its import restrictions discriminated against imports from the dollar area. Licences for imports of goods originating in the dollar area remained in general restricted to essential goods which were not available from other countries in adequate quantities or on reasonable cost and delivery terms. Imports from the dollar area consisted mainly of capital goods and raw materials as well as some manufactures and other producer goods. Token imports of some less essential commodities were, however, permitted.

2. Estimates of Australia's balance of payments with the dollar area had been supplied by the International Monetary Fund in the background material. According to more recent estimates the trade balance for the financial year 1953/54 was a deficit of \$55 million compared with a deficit of \$86 million in 1952/53. Purchases by dollar-area countries of Australian goods totalled \$161 million compared with \$154 in 1952/53. Purchases of wool and sheep skins by the dollar area amounted to \$84 million, almost exactly the same as in 1952/53, and remained in volume considerably less than these in previous post-war years. The volume of wool (greasy, scoured, carbonized) sold to the United States and Canada in the last five years was

	<u>thousand bales</u>
1949/50	513
1950/51	677
1951/52	574
1952/53	300
1953/54	280

3. Other exports to the dollar area maintained in 1953/54 the high level reached in the previous year. The chief commodities were ores and concentrates, lead, sugar, copper, pig-iron, dried and canned fruit, meats and other foodstuffs. Individually some of these exports fell over the year, but in total they reached a value of \$77 million, compared with \$71 million in 1952/53 which itself was about \$15 million more than the previous best year.

4. Australia's imports from the dollar area amounted to \$216 million in 1953/54 as against \$240 million in 1952/53. This slight decline reflected a sluggish demand for dollar goods which lasted for about eighteen months. During that time licences were not being taken up to the permitted limit. Apart from the large stocks which had been filled up in the import boom year 1951/52, demand generally slackened off in Australia, and supplies from non-dollar sources were becoming available at competitive prices. Since the first quarter of 1954, however, imports had again tended to rise.
5. Invisibles in 1953/54 gave a net deficit of \$86 million compared with the revised figure of \$40 million in 1952/53, and the current account showed a deficit of \$141 million compared with a revised \$126 million for 1952/53. The unfavourable trend in invisibles was largely due to the virtual cessation of premium gold sales in 1954 and to some unusually large outward transfers of profits and dividends. The capital account surplus was \$55 million in 1953/54 as against a revised figure of \$100 million in 1952/53. Under the heading "Monetary Movements", \$24 million were repurchased from the Fund, \$96 million were estimated to have been drawn from the sterling area dollar pool, and Australian dollar balances declined by \$14 million.
6. During 1953/54 restrictions on dollar imports were relaxed, particularly where it could be shown that commodities were available from the dollar area at lower cost or on better terms than from non-dollar sources. In this manner Australia was acting in line with the world-wide trend towards removal of discrimination. Major commodities such as raw cotton, timber and newsprint were now licensed for import from the dollar area up to the full extent of importers' requirements so that, in effect, there was no discrimination as between sources of supply for these goods.
7. During the year discussions were held with the United States and Canada on the question of token imports. For a number of years Australia had admitted token imports of certain North American products, such as typewriters, accounting machines, in order to allow traditional commercial connections to be maintained. Following the discussion this year, more items had been added to the list (e.g. canned salmon). Consideration would be given to any other commodity should the question be raised by an interested country.
8. The Australian representative concluded that the prospects for Australia's dollar position in 1954/55 remained uncertain at this stage. The position was also bound up with that of the whole sterling area, and, as far as Australia's own dollar balance of payments was concerned, the main determining factors were the amount of wool that North America would purchase and the price at which it would be bought. Although it was stated that stocks of apparel wools in the United States were at low levels and it could be hoped that after two poor years purchases of Australian wool would be again on the increase, it was as yet too early to make any forecasts on which policy could be based.

Consultation with the International Monetary Fund

9. In accordance with the procedure adopted at the Eighth Session, the International Monetary Fund had been asked to make available to the CONTRACTING PARTIES the results of its own consultations with the same governments together with the background papers prepared in the Fund in connection therewith. Accordingly the Fund had transmitted to the CONTRACTING PARTIES the results of its 1954 consultation with the Government of Australia, under Article XIV, Section 4, of the Fund Agreement, together with copies of background material prepared in connection with that consultation. The results of the Fund's consultation were as follows:

"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.

"The financial year of 1953/54 in Australia was one of stability and general recovery from the crisis of 1951/52 and the state of near balance achieved by mid-1953 improved further in 1953/54 under monetary and fiscal policies designed to prevent the resurgence of inflationary pressures. Australian international reserves continued to rise during the past year, although at a slower rate than in 1952/53 but have been declining in recent months.

"The Fund notes that, during the year, the Australian Government has responded to improvements in Australia's position by relaxing restrictions. However, in view of the likelihood of decreased export earnings in 1954/55, precautionary measures have recently been taken to bring certain imports under closer control. The Fund welcomes the statement of the Australian Government that it is anxious to remove restrictions and discrimination as soon as possible.

"In concluding the 1954 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia."

10. The representative of the Fund drew attention to these documents and explained that although the background paper, dated 11 June 1954, gave some indication of the emergence of certain problems faced by Australia - such as the increase in imports and the likely decline in exports, especially the difficulties facing the export of wheat, it did not fully reflect the latest development. The results of the Fund consultation,

quoted above, were however based on these latest developments. Thus they made reference to the recent decline in international reserves, to the likelihood of decreased export earnings in 1954/55 and to precautionary measures taken to bring certain imports under closer control (see L/244).

11. On the balance of payments, the latest information showed an overall current account deficit in 1953/54 of £A 191 million. In July-September 1954 the balance of trade was in deficit in the amount of £A 55 million as compared with a surplus of £A 33 million in the same period in 1953. In conclusion, the Fund representative stated that the Fund's data generally supported those provided by the Australian representative and that the Fund's later data agreed exactly with the revised dollar balance-of-payment figures which he presented.

Discussion of various problems

12. The United States representative indicated that his delegation was glad to hear of the improved balance-of-payments situation of Australia which had enabled it further to relax its import restrictions. In particular it was gratified to hear the assurance that the Australian Government was anxious to reduce in so far as possible the discriminatory element of its restrictions. The United States Government hoped that the Australian Government would soon be in a position further to reduce and eventually to eliminate the discrimination in the application of its import restrictions.

13. The Canadian representative, while sharing the general views of the United States representative and while expressing satisfaction over the relaxation of restrictions on such imports as newsprint, salmon and lumber from the dollar area, regretted that the relaxation of restrictions on dollar imports had not been fully in keeping with that for non-dollar goods. In particular, most semi-processed commodities were still under restriction and the recent increases in Canadian exports to Australia had been due to relaxations in regard to a very limited range of goods, a wide range of traditional exports of importance to Canada being still prohibited in effect or permitted in very limited quantities. Owing to the stringent restrictions, current Canadian exports to Australia remained at barely one-half of the prewar level. Canadian exports to Australia were much less diversified than in previous years and it continued to be difficult for new products to be introduced or for established exports to be expanded in the Australian market. The Canadian Government hoped that both in the interest of the exporting countries and in Australia's own interest a more liberal control policy could be evolved in the near future, especially for imports of traditional importance. Many traditional exports of manufactured products from Canada to Australia had been significantly reduced or entirely eliminated as a result of discriminatory import controls. Numerous examples of such products were mentioned. The Australian representative stated that his delegation would be glad to convey the views and desire expressed by the Canadian representative to the attention of his Government.

14. The United States and Canadian representatives expressed satisfaction on the undertaking by the Australian delegation that its Government was prepared to consider any further requests regarding imports. Their respective Governments would in due course communicate with the Australian Government regarding additional commodities for which they desired the issue of licences for imports. Upon this the Australian representative further assured the two delegations that his Government would always be prepared to discuss problems relating to any particular commodity.

15. The United States representative referred to a recent action by the Australian Government to increase the percentage of domestic tobacco required to be used in the manufacture of tobacco products other than cigarettes and enquired about its purpose and the possibility of relaxing this requirement. The Australian representative stated that he was not in possession of the latest information on that subject, but suggested that the United States representative might like to discuss it further with the Australian delegation.

16. The Netherlands representative referred to the measures recently taken by the Australian Government which affected the products previously admitted on the non-quota restricted basis. The transfer of these goods under Category A quota control and the limitation of the importation to 100 per cent of base-year imports would have certain unfavourable consequences for exporters. It was the desire of the Netherlands Government that in introducing this measure the Australian Government would give special consideration to goods already covered by firm orders. The Netherlands representative wished to know if licences would be issued without limitation for such goods.

17. In reply, the Australian representative drew attention to the fact that this measure related to non-dollar imports, and hence did not fall under the purview of the present consultation. Whilst his delegation would have no objection to answering the questions raised following the precedent set in the consultations of previous years, the required information was not at his disposal. If the Netherlands representative had any specific cases to raise his delegation would be prepared to discuss them.

II. CONSULTATIONS WITH NEW ZEALAND

New Zealand Statement

1. The representative of New Zealand referred to the background paper prepared by the International Monetary Fund on the economic position of New Zealand and on the restrictive system employed, and called attention to the fact that the consultation initiated by New Zealand with the CONTRACTING PARTIES was on the subject of discrimination in terms of Article XIV:1(g). Just as it was New Zealand's policy to go as fast and as far as possible in removing quantitative controls generally, so also had their objective been to eliminate the element of discrimination in the application of these controls as circumstances permitted. New Zealand clearly recognized the validity of the statements which had been made regarding the undesirable effects of discrimination. The New Zealand Government particularly deplored the restriction of the consumers' freedom of selection.
2. For these reasons New Zealand had been moving steadily towards eliminating discrimination. If progress made seemed to have been slow, it should be noted that experience had shown the danger of moving so fast that a worse situation arose than existed before, so as to require a drastic re-application of discriminatory measures.
3. The relaxation of discriminatory control had been effected in two ways. Firstly, the number of "global exemptions" had been progressively increased. Goods covered by such exemptions could be freely imported from any country, as distinct from those covered by ordinary exemptions which still required a licence for importation from scheduled countries. Ninety-eight items were now the subject of global exemption, and the list had been repeatedly added to over the past year. It remained the hope of the New Zealand Government that this process would continue. The wide range of commodities already covered included many items of major importance in New Zealand's import trade, for example:

Canned fish; dried prunes; sulphur; surgical materials; automobile tyres of certain sizes; ball bearings; chain belting; computing, accounting and book-keeping machines and cash registers; engines for motor vehicles, tractors and aeroplanes; electro-chemical and electro-metallurgical appliances; X-ray tubes; crawler tractors; sewing machines; knitting machines; artificers' tools; various metals; aeroplanes; automobile spares; lubricating oil; timber; plastic moulding powder.

4. The second method was by administrative action within the existing control. Under this method items remained subject to control, but licences were issued on a more liberal basis, in some cases virtually without limitation. During 1954 announcements were made regarding items for which such increased provision would be made; and also concerning items for which hitherto little or no licensing provision had been made for imports from scheduled countries, but for which licences would now be issued. Consideration was at present being given to the announcement of a further list of items in this category.

5. New Zealand's balance of trade and payments vis-à-vis the dollar area was extremely sensitive, and a very minor change in the extent, for example, to which New Zealand wool was purchased in the United States, or a slight fluctuation in prices, could completely change the situation. This might clearly be seen in the movements in the balance of payments on current account with the dollar area in the last few years. In the year ending 31 March 1952 the credit deriving from exports to the dollar area was £(NZ)43.4 millions and the surplus on current account was over £9 millions. For the year ending 31 March 1953 exports to the dollar area represented £29.4 millions and there was a deficit of £0.3 millions on current account. In 1953/54 exports fell further to a little over £21 million and there was an almost exact balance on current account. The effect of the considerable lessening of discrimination during 1954 had scarcely yet appeared in the trade and payments statistics but even without further liberalization a deficit was expected in exchange transactions with the dollar area for some time to come, unless a significant increase took place in the area's imports from New Zealand.

6. The New Zealand representative concluded that, dependent as New Zealand was on a narrow range of exports, and with the possibility of expanding trade with the principal dollar markets in some of the most important of these commodities limited by restrictive import measures, it was apparent that there were limits to the speed with which New Zealand could feel justified in dismantling its discriminatory controls.

Consultation with International Monetary Fund

7. The representative of the International Monetary Fund pointed out that the Fund had not held a consultation on exchange restrictions with New Zealand, and that consequently the procedure for the conduct of the 1954 consultations under article XIV: 1(g) of the General Agreement, as it applies to the submission of material by the Fund, was not fully applicable in this case; the Fund did not have available the results of a consultation with New Zealand such as was submitted to the CONTRACTING PARTIES in connection with their consultation with Australia. The Fund had, however, prepared certain factual material on the restrictive system and the economic position of New Zealand. After it was drafted, this material had been submitted informally to the New Zealand authorities, and was revised in the light of certain suggestions made by the New Zealand authorities and taking account of later information. The revised material, dated 13 December 1954, had been made available to the CONTRACTING PARTIES.

The Fund representative added that the Fund was very grateful to the New Zealand authorities for their assistance in the preparation of this paper.

Discussion of various problems

8. The Canadian representative observed that the market improvement in the balance-of-payments position of New Zealand, as revealed in the statement made by the New Zealand representative and in the background paper prepared by the Fund, was a cause of congratulation, and that the action taken by the New Zealand Government in the past year to relax its restrictions as the payments position improved was sincerely appreciated. The resulting expansion of Canada's trade with New Zealand was welcomed by his Government. The increases, however, had started from a low level, and even at its present level, Canadian exports to New Zealand remained considerably below prewar levels in value, and particularly so in volume. It was gratifying to be assured that it was the New Zealand Government's policy to take advantage of any further improvements in the country's payments position to increase imports from the dollar area. Whilst the New Zealand delegation had indicated that further relaxations might take the form of easing administrative controls and of freer issue of licences, the Canadian delegation would hope that the global exemption list could be substantially further enlarged to enable more diversified imports from the dollar area.

9. The United States representative said that his delegation shared the views of the Canadian delegation both with regard to the gratifying improvement in New Zealand's balance of payments and on the desirability of further reductions in the discrimination against imports from the dollar area. It was sincerely hoped that it would soon be possible for New Zealand to relax further its control on dollar imports. The United States delegation would be glad to explore with the New Zealand delegation the possibility of admitting certain token imports as provided for in paragraph 3(c) (ii) of Article XII, and of allowing additional imports, among other things, of motor vehicles, radio tubes, tobacco and raisins.

10. In reply, the New Zealand representative stated that his delegation shared the hope of the Canadian and United States representatives that the area of controlled imports would further be reduced and that discrimination would wither away. But to this end the New Zealand delegation would hope that circumstances including the market conditions and commercial policies in certain dollar countries in so far as they affected New Zealand's staple exports, would turn out to be such as to make it possible for New Zealand to purchase increased amounts of dollar goods. As regards token imports, even in the most strictly restricted category of goods, imports were permitted in exceptional circumstances, and as for other goods, in varying degrees, the objective was to permit imports in at least minimum commercial quantities as circumstances permit. The New Zealand delegation welcomed the proposals regarding particular commodities, and would be glad to discuss them if advance notice had been given, so that the delegation could be properly briefed and staffed with commodity experts for that purpose. In general, the New Zealand

Government would be glad to consider proposals relating to particular commodities, and his delegation would be prepared to discuss with any other delegations arrangements to this end; and interested contracting parties could always approach the New Zealand Government through the normal diplomatic channels.

11. The United States representative indicated that in the circumstances his delegation would like to consult with the New Zealand delegation further to explore the ways and means of discussing those particular commodities. The Canadian representative said that he would have welcomed more detailed commodity discussions as part of the consultations under Article XIV. In the view of the Canadian delegation, in spite of the steps that had been taken in the past year the discriminatory element in New Zealand's import restrictions was still substantial. A large part of Canada's traditional exports to New Zealand, especially in the field of manufactured goods, remained under severe restriction or wholly excluded. Exports of many products to New Zealand had been reduced or eliminated and it remained very difficult for new products to be introduced or for established exports to be expanded in the New Zealand market. It was hoped that the continued improvement in New Zealand's terms of trade and the dollar saving resulting from increased industrial production, particularly in pulp and paper, would lead to further early relaxations on products of interest to Canada.

12. In the course of the consultation questions were asked by certain representatives on New Zealand's balance-of-payments position and the administration of its quantitative restrictions. In reply to the representative of Canada, the New Zealand representative said that the subsequent decline in the country's international reserves from the peak reached in June 1954 was partly due to seasonal changes in international payments, but it also reflected a noticeable worsening trend in the balance of payments; there was a deficit on current account amounting to £30.5 million in the first ten months of 1954, whereas the corresponding period of 1953 had produced a surplus of £25 million.

13. In answer to a question by the representative of Cuba, the New Zealand representative pointed out that as a member of the sterling area participating in the dollar pool, New Zealand maintained no independent gold or dollar reserves, and that the arrangements inside the sterling area involved no specified drawing rights such as to show in a definite way the availability of foreign exchange for payments in a given period. The commercial policy of the New Zealand Government had to be reviewed in the light of the estimated receipts and payments with the different currency areas. Upon this the Cuban representative drew attention to the desirability of avoiding bilateral balancing as a principle in conducting international trade.

14. In clarifying an ambiguity pointed out by the Canadian representative in the available data, the New Zealand representative informed the Working Party that the EE category list of imports free from licence from all sources was increased from 45 to 98 items on 30 July 1954 with immediate effect; the increase was not announced then for application in 1955 as might be inferred from some unofficial reports. No new items had been added in the global list since that time.

15. The Norwegian representative, referring to the data supplied by the Fund showing a fall of New Zealand's exports to the United States and Canada from £32.5 million in 1952 to £21.3 million in 1953, enquired as to the corresponding figures for 1954 and prospects for 1955. The New Zealand representative replied that generally speaking New Zealand's balance-of-payments with the dollar area was always sensitive and precarious, depending as the country was, on two or three commodities which were subject to market fluctuations in price and demand. Even minor variations in the demand for wool could have severe repercussions on the volume or price of this major item of New Zealand's exports. The same applied to hides and skins, and as regards dairy products, expansion of exports would depend on changes in commercial policy in certain other countries which were not yet in sight. The economic resources of the country were not such that its exports could be diversified. The decline in the value of New Zealand's exports to the United States and Canada in 1952-53 reflected the fall in wool prices as well as the limited fall in United States purchases. As for 1954, New Zealand's current account with the dollar area was in precise balance, but this was partly based on estimates, as the figures were not yet available for the last months.

16. The Norwegian representative called attention to the expansive features of the New Zealand economy. The high level of employment, the establishment of new industries such as paper manufacturing and the rapid expansion in general, coupled with a general shortage of labour had inevitably exerted pressure on prices. In the circumstances New Zealand should be congratulated for its success in combining rapid expansion with internal stability. In the view of the Norwegian representative this policy gave assurance to further improvement in its external financial position and to the possibility of further reductions and elimination of the quantitative controls and restrictions that were being maintained at present.

17. The Cuban representative expressed the hope that the Fund would be able to include in any documentation which it might supply such expanded factual information as to enable the CONTRACTING PARTIES to determine whether and to what extent the degree of discrimination was justified. This was especially desirable in the case of New Zealand as the country was not a member of the Fund.

