

GENERAL AGREEMENT ON TARIFFS AND TRADE

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

Draft prepared by the Working Party on Balance-of-
Payments Restrictions

Introduction

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 the 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 Eleventh Session, held in October-November 1956. 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 publications and other 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 writing of the previous report in October 1955. In the annex a concise description is given of the discriminatory restrictive systems of the contracting parties concerned, and of the more important modifications introduced in the period under review.¹

2. In their replies to a questionnaire issued for the purpose of gathering information for this report, or in other communications, twenty-three of the thirty-five contracting parties 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	Japan	Rhodesia and
Austria	France	Kingdom of the	Nyasaland
Brazil	Federal Republic	Netherlands	Sweden
Burma	of Germany	New Zealand	Turkey
Ceylon	Greece	Norway	United Kingdom
Chile	India	Pakistan	Uruguay
Denmark	Italy		

¹ A draft of the annex will be circulated separately.

The Governments of Indonesia and the Union of South Africa have stated that they are not acting under any of the provisions of Article XIV.

3. Ten contracting parties, namely Belgium, Canada, Cuba, Czechoslovakia, the Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States have reported that they do not restrict imports for balance-of-payments reasons.

The Balance-of-Payments Situation

4. Before reviewing the events in 1956 it may be useful briefly to outline the developments in the preceding three years. Beginning in 1953 improvements in the international payments position enabled many countries, notably those in Western Europe, to relax the restrictions which had been introduced to safeguard their monetary reserves. Beginning in 1954 many of the measures taken were directed in a more substantial way than hitherto towards the relaxation of restrictions on imports from the dollar area, and considerable progress was made in the reduction of the discriminatory elements of the restrictions. In 1955 the aggregate gold and dollar holdings of the countries outside the United States continued to grow, but at a lower rate than in the two preceding years. The increase in 1955 was largely confined to Continental Western Europe, and the aggregate holdings of the sterling area fell by a significant amount. However, as pointed out in last year's report, most of the important trading nations, in some cases in spite of falling reserves, maintained in 1955 the gains already made in the relaxation of restrictions and reduction of discrimination.

5. During the first half of 1956, United States exports (excluding goods under military grants) rose from the 1955 level of \$14.3 billion to a seasonally adjusted annual rate of \$16.4 billion. The corresponding figures for United States imports were \$11.5 billion and \$12.5 billion. As a result the surplus in the trade balance of the United States increased from \$2.8 billion in 1955 to an annual rate of \$3.9 billion in the first half of 1956. The balance on services and private remittances was relatively stable, showing a deficit of \$1.4 billion for 1955 and an annual rate of \$1.6 billion for the first half of 1956. The current account surplus for the United States thus increased from \$1.4 billion in 1955 to an annual rate of \$2.3 billion in the first half of 1956. United States Government non-military grants and related capital movements also remained fairly steady, the figures being \$2.1 billion for 1955 and \$1.9 billion at an annual rate for the first half of 1956. Outflows of other types of United States Government and private capital, however, increased sharply, rising from \$1.2 billion in 1955 to an annual rate of \$2.6 billion in the first half of 1956.

6. During the first half of 1956, the official gold and dollar reserves of the world outside the United States rose by about \$660 million as a result of transactions with the United States (compared with increases of approximately \$630 million in each half of 1955), and by approximately \$250 million as a result of new gold production. The total increase in the official

reserves outside the United States attributable to these sources amounted to \$90 million in the half year or \$1,820 million at an annual rate. Data on the amount of United States Government net expenditure abroad during the first half of 1956 have not yet become available. In 1955, United States Government net expenditure abroad was about \$4.8 billion, an amount which considerably exceeded the amount of gold and dollar reserves gained by the outside world through transactions with the United States.

7. The basis of the favourable developments in recent years has been the recovery of production from the dislocation caused by the war, and the sustained high level of economic activity in many countries, particularly in the industrial countries in Europe. Although in 1956 increased inflationary pressures became manifest in a number of countries, the overall balance-of-payments position in the more important trading nations was not seriously affected. Thus further progress could be made in the relaxation of restrictions and in the introduction of more flexible arrangements for the settlement of international payments. Reflecting the continued accumulation of reserves outside the United States there has been since 1955 a somewhat greater supply of dollars and other convertible currencies available for use in international trade, and a stronger tendency to settle payments deficits in gold or convertible currencies. The higher ratio of 75 per cent gold to 25 per cent credit established for European Payments Union settlements since August 1955, and the increased purchases and sales of transferable sterling against dollars by certain countries (in some cases to influence their European Payments Union balances), as well as transfers made through the partly convertible D-mark, are all indications of that tendency. Another significant development has been the conclusion of the multi-partner payments arrangement between Brazil on the one hand and certain European countries on the other, which resulted from a revision of the bilateral agreements previously governing the trade and payments relations between them. This arrangement, which has been extended and may be further extended by including more participants, represents an important step in expanding the use of the techniques of multilateral payments. A somewhat similar arrangement has been entered into by Argentina with certain of its European trading partners. Other instances are the successful negotiation by countries such as Finland of agreements for the use of transferable currencies, and the diminution in the use by Japan of bilateral clearing in favour of payments arrangements making wider use of convertible and transferable currencies. These instances all reflect the general trend towards discarding the use of bilateral approaches in favour of broader payments arrangements. These developments, together with the greater degree of transferability of sterling and certain other currencies, have been beneficial not only to the countries directly concerned, but to all countries outside the dollar area, and are of interest to all contracting parties insofar as they constitute a progress towards a fully multilateral and non-discriminatory system of trade and payments.

8. In assessing the world payments situation a distinction must be made between the long-term tendencies which have affected the demand for various classes of products since before the war and the more temporary policies which have tended to modify the impact of these tendencies upon the payments position of industrial and primary producing countries. Whereas the world demand for manufactured goods has shown itself capable of very rapid expansion, the demand

for important classes of primary products has failed to rise at the same rate. One of the main reasons has been the decline in the requirements for certain raw materials per unit of manufacturing output which reflects itself upon international trade through a number of concomitant developments. The gradual replacement of certain natural raw materials by manufactured substitutes, the expansion of the production of natural raw materials and foodstuffs in industrial countries, and the increased local consumption of the primary producing areas have led to a relative decline in international trade in primary products and also of trade between the industrial and the non-industrial parts of the world.

9. The effect of this situation upon international payments, however, depends on a number of other factors. The trade position of both industrial and primary producing countries is influenced by the steadiness of economic activity in the industrial areas. Even minor fluctuations in such activity may have large effects on the world demand for primary products, and also on the international markets for manufactured goods. To the extent that the European countries have recently become more competitive as suppliers of manufactures and especially of capital goods, payments problems tend to be less exclusively a dollar question. This development is further supported by the stability of the United States economy and by the policies of the United States Government. United States Government expenditure abroad has in recent years played an important part in the international balance of payments. The report of the International Monetary Fund for the year ended 30 April 1956 noted that about one-quarter of the supply of United States dollars available to the rest of the world since 1950 has been from that source¹, and that drastic changes in the United States aid programme might be unlikely for the near future, though allocations to individual countries will no doubt vary widely. While the importance of extraordinary overseas expenditure by the United States Government is recognized, other contracting parties might feel more confidence in removing their discriminatory restrictions if the favourable balance of payments of the rest of the world with the United States were more firmly based on normal commercial and financial transactions.

10. It should not be overlooked that the United States programme for the disposal of agricultural surplus commodities² makes it possible for other countries to acquire such commodities without disbursement of dollars. On the other hand, such shipments of agricultural surpluses are a matter of serious concern to the other countries that export the products involved. It is the avowed policy of the United States to assure that sales of agricultural surpluses will not unduly disrupt world prices or materially impair international trade relations. Nevertheless, there is concern that these sales could be an important factor in limiting the trade prospects of some of the primary producing countries.

¹ See also paragraph 6 above.

² According to rough estimates given in the GATT publication International Trade 1955 shipments of surplus agricultural commodities under the various disposal and aid programmes amounted to about \$1,000 million in 1955, compared with about \$340 million in 1954.

11. In conjunction with the overriding need for imports necessary for economic development, the basic as well as the more temporary factors, such as the greater market instability of primary commodities, contribute to explaining why most of the countries which during the past year had serious payments problems are to be found in the primary producing regions. At the same time, the prospects for continued improvements in the payments position of the industrial countries should not be unfavourable, if inflationary pressure is held in check.

Relaxation of Restrictions

12. In the period under review - November 1955 to October 1956 - further measures of relaxation were taken by a number of contracting parties, and in many cases the relaxation either was related directly to imports from the dollar area or was of a general nature covering dollar as well as other imports.

13. In discussing progress made in liberalizing imports from a certain area it has been the recent practice to indicate the proportion of such imports freed from restriction on the basis of trade in a previous year. In the case of the liberalization of dollar imports by European countries, for example, the calculation is generally based on the respective countries' imports from the United States and Canada in 1953. While such calculations are useful in indicating the proportion of changes made over a period of time, they are likely to be misleading unless their limitations are understood. For one thing actual imports in the base year may have been subject to severe restrictions or concentrated on particular sectors, with many traditional imports either prohibited or strictly limited in quantity, so that a high percentage of liberalization is not necessarily indicative of a state approaching the natural pattern of imports which would obtain if all restrictions were dispensed with. Nor are the percentages for different countries mutually comparable, as their imports in the base year may have been subject to substantially different degrees of restrictions. A further limitation in the value of such calculations is that up to now they do not take into account commodities under state trading which, in the case of some countries, are an important element in their total trade. On the other hand, it should be noted that relaxations of restrictions through increases in quotas or the adoption of more liberal criteria in licensing imports are not reflected in the liberalization percentages; measures of this kind have contributed to the increase of European imports from the dollar area.

14. In Western Europe, two contracting parties which had adopted no dollar liberalization measures introduced a free list of imports from North American or dollar countries: in January 1956 France freed some 230 products from quantitative restrictions when imported from Canada and the United States, the products representing about 11 per cent of French imports from these countries in 1953. In March, the Norwegian authorities announced that a more liberal policy would be followed in licensing imports of dollar origin; this was followed in July by the formal liberalization of 83 per cent of dollar imports; and a few more items have been added to the list with effect from November 1956 and April 1957. Some of the West European countries which had adopted dollar liberalization measures added further products to their existing lists: In November 1955, Denmark raised its dollar liberalization from 38 to

55 per cent. In January 1956, Sweden extended its dollar list to include certain important industrial materials, and with further additions in July raised the level from 64 to 68 per cent. In April, Italy replaced its old list of August 1954 with a substantially enlarged list raising the dollar liberalization percentage from 24 to 40. As from 19 June, the German dollar liberalization percentage had been raised from 68 to over 92. In October, Austria raised dollar liberalization from 8 to 40 percent. No changes were made in the period under review in the dollar liberalization percentages of the Benelux countries, Greece or the United Kingdom.¹

15. The measures of relaxation mentioned above, which benefit exports from the dollar area, represent a reduction in the discriminatory element of restrictions. Relaxations, however, took place also in a number of cases which only affected exports from defined groups of countries outside the dollar area. In Western Europe, the liberalization of intra-European trade was pursued and made further progress. A number of countries concerned added to their lists of unrestricted imports. The changes in the past year may be seen from the following table:

Liberalized Imports expressed as
percentages of private imports from OEEC countries in 1948²

	<u>1 November 1955</u>	<u>1 August 1956</u>
Austria	83.5	90.3
Benelux	95.6	95.6
Denmark	78.0	85.5
France	77.5	82.3
Germany	91.3	91.5
Greece	95.0	95.0
Italy	99.7	99.1
Norway	75.0	78.0
Sweden	93.0	92.6
United Kingdom	85.0	93.7

¹ All the percentages referred to in this paragraph are calculated on the basis of actual private imports in 1953. Although the percentages of liberalization are calculated on the basis of imports from Canada and the United States only, the countries listed here, except Austria, France and Norway, apply the liberalization to imports from all countries in the dollar area. The list of countries considered as belonging to the dollar area, however, differs from country to country: in general it includes the United States, Canada, Bolivia, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Republic of Honduras, Liberia, Mexico, Nicaragua, Panama, Philippines and Venezuela.

² In the case of Austria, Germany and the Benelux countries the base year is 1952, 1949 and 1955 respectively.

16. In recent years the liberalization of trade by these countries has been extended from the field of intra-European trade to cover imports from a wide area, usually covering all the countries in the EPU area, which include the member countries of the European Payments Union (i.e. the members of OEEC) their dependent overseas territories, the countries in the sterling, Belgian, Dutch, French, Italian and Portuguese currency areas, and Indonesia. Among the countries named in the preceding paragraph, the Benelux countries, Denmark, Greece, Italy, Norway, Sweden and the United Kingdom reduced their restrictions to a similar extent on imports from all EPU countries. Except for a limited number of products, German liberalization is extended to countries whose currencies are linked with those of EPU members. Austria applies liberalization to all EPU countries, except those in the sterling area, although imports from outer sterling countries are licensed liberally, account being taken of the clearing facilities provided by virtue of the United Kingdom's membership in the EPU. Furthermore, most of these countries have also extended such treatment to imports from a certain number of countries outside the EPU area. While the advance in this field is welcomed it is hoped that further progress will be made.

17. Similar action of liberalization was taken by Finland. The Finnish free list of imports was extended in November and December 1955, and the value of goods included for which licences were issued automatically was raised to about 50 per cent of total Finnish imports. Part of the list is applicable to imports payable in any currency, including dollars.

18. Outside Europe, measures of relaxation were taken notably by Ceylon, India, Japan, the Federation of Rhodesia and Nyasaland and the Union of South Africa. In the past year Ceylon suspended monetary ceilings on dollar imports thus permitting practically unlimited importation from the dollar area. India's import policy and procedures were modified with a view to permitting expanded imports to meet the rising requirements of the country particularly in the industrial sector; as far as dollar imports were concerned, quotas were increased for six import items in the two licensing periods of 1956. In the course of the past year Japan expanded its foreign exchange budget, extended the global quota system and enlarged the coverage of the automatic approval system. In the case of the Federation of Rhodesia and Nyasaland, some 385 tariff items and sub-items which had formerly been either prohibited or subject to quota were de-restricted, making a total of about 500 out of some 720 tariff items or sub-items which may be imported from the dollar area without limitation. As a consequence of further relaxation announced by the Union of South Africa in October 1956 for application in 1957, imports of lower priced motor cars are likely to increase and a modified restricted list is expected to result in a considerable reduction in the number of products under restriction.

Other Modifications of Restrictions

19. The external earnings of many countries depending on the export of a few primary commodities, such as wool, coffee and cocoa, were adversely affected in 1955-56 by the decline in the prices of such products. Some of these countries were also faced with internal-inflationary pressures and a high level of demand for imports, and consequently with balance-of-payments difficulties. In 1955, Australia had twice intensified its import restrictions while taking

internal financial and fiscal measures with a view to restoring equilibrium. In July 1956, extensive changes were made in the import control policy and system; these were designed to introduce a greater degree of selectivity and flexibility in the control of imports and at the same time to exercise some further restraint over the flow of imports during 1956/57. These changes were related to imports of non-dollar origin only. In October 1955, Australia brought into force an "all countries" licensing list of products which could be imported from any source under the quotas established. This list has been expanded in 1956 by the addition of three more products, making a total of fourteen items.

20. During the year, fundamental changes were made in the import control and exchange allocation systems of Chile, Indonesia and Uruguay. These changes have been made recently, and some of them seem to be still in a stage of development. Their significance with respect to trade has therefore not been fully appraised.

General Observations

21. Among the industrial countries considerable progress has been made in the past three years in the relaxation of restrictions and in the reduction of discrimination, but in many of them restrictions are still maintained on a large section of their imports, which, in the case of European countries, consist principally of agricultural products. Dollar liberalization has usually not applied to manufactured goods to the same extent as to raw materials and certain other essential commodities. Most countries to a varying extent retain the practice, evolved during the war and postwar years, under which imports of dollar and non-dollar origin are controlled separately and restricted by different methods. The experience of those contracting parties which in the last few years have discarded all discrimination in the administration of their restrictions has not so far substantiated fears previously expressed that their monetary reserves would be threatened by an inordinate inflow of dollar goods, and it may be that other countries could afford to remove discrimination without disastrous consequences. On the other hand, the experience of one country or in one year is not necessarily a conclusive guide to the probable experience of another country or in another year as economic conditions may be different.

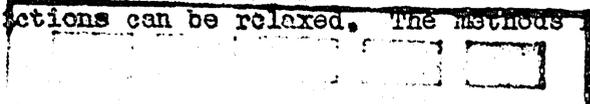
22. It has been noted that contracting parties have been using various methods of liberalization with varying degrees of risk in regard to the balance of payments, and these methods deserve careful consideration by more contracting parties. For example, to substitute overall quotas for administrative discretionary restriction or to broaden the categories of products in which licences are transferable might be of value to the import and export trade. Where outright liberalization is not felt possible, to establish lists of products for which licences would normally be issued automatically would seem to be a useful means of testing the pressure of demand and the limits to which liberalization could be pursued.

23. Many countries of the world, both in the industrial and primary producing areas, are still faced with persistent or renewed pressures of inflation, and a fundamental solution to their balance-of-payments problem will have to be sought in the correction of the basic elements of disequilibrium. The Sixth Annual Report noted with approval ~~the tendency of countries faced with balance-~~

of-payments difficulties to seek solutions through measures other than the restriction of imports. It is gratifying that this encouraging tendency has continued. Further relaxations of restrictions and reductions of discrimination will no doubt be more easily achieved when the effects of such internal measures, most of which have been taken recently, are more fully felt. But account has to be taken of the special circumstances of each country. In countries where effective measures to stabilize wages and prices and to curb internal demand are in force and where the success of such measures depends on the full support of all sections of the population, including those which are bearing the brunt of the measures, the Government may feel it unwise to risk further or potential burdens on the external reserves of the country. Further, the success of a country's policies directed at the maintenance or extension of its trade liberalization can be significantly influenced by the policies of other contracting parties. Just as member countries having balance-of-payments deficits should take the necessary steps to correct the payments disequilibrium, so those in strong creditor positions, of which there are a number, should frame their external policies having regard to their effects on other member countries.

24. While the restrictions are applied for balance-of-payments reasons, the choice of products to restrict is often influenced by considerations closely linked with the desire to protect domestic producers for a variety of historical, political and social reasons. In the industrial countries such considerations are sometimes a predominant factor in the maintenance of restrictions on agricultural imports, which are of serious concern to the exporters of such products. As for the countries which are in the process of rapid development or which are suffering from sudden fluctuations in export earnings, while the greater need for them to ration available foreign exchange and to restrict imports is generally recognized, the selection of products for the application of the restrictions is often made in such a way as to afford incidental protection to domestic industries. In many cases, both in the industrial area and in the latter type of countries, the selection of products is determined by the current availabilities of domestically produced like products, or by the capacity of local industries, irrespective of relative costs; in some cases the import of products which are available from domestic production is severely restricted or totally prohibited so that domestic producers are totally sheltered from foreign competition. The provision of such protection is not always limited to cases where the benefiting industry is expected eventually to become efficient and self-sustaining, and therefore capable of withstanding competition without excessive protection.

25. As early as 1950 the CONTRACTING PARTIES had directed their attention to questions relating to the situation in which quantitative restrictions maintained on balance-of-payments grounds were used in effect for protective and other commercial purposes or had incidental protective effects. After a careful examination of the questions, the CONTRACTING PARTIES concluded that insofar as such restrictions invariably have incidental protective effects on domestic industries, contracting parties should, wherever possible, employ, in their own interest and in the spirit of the Agreement, certain methods to stimulate efficiency and to prepare domestic industries for the time when import restrictions can be relaxed. The methods recommended were:



- (a) avoiding encouragement of investment in enterprises which could not survive without this type of protection beyond the period in which quantitative restrictions may be legitimately maintained;
- (b) finding frequent opportunities to impress upon producers who are protected by balance-of-payments restrictions the fact that these restrictions are not permanent and will not be maintained beyond the period of balance-of-payments difficulties;
- (c) administering balance-of-payments restrictions on a flexible basis and adjusting them to changing circumstances, thereby impressing upon the protected industries the impermanent character of the protection afforded by the restrictions;
- (d) allowing the importation of "token" amounts of products, which otherwise would be excluded on balance-of-payments grounds, in order to expose domestic producers of like commodities to at least some foreign competition and to keep such producers constantly aware of the need ultimately to be prepared to meet foreign competition;
- (e) avoiding, as far as balance-of-payments and technical considerations permit, the allocation of quotas among supplying countries in favour of general licences unrestricted in amount or unallocated quotas applying non-discriminatorily to as many countries as possible; and
- (f) avoiding as far as possible narrow classifications and restrictive definitions of products eligible to enter under any given quota.

In the same report of 1950 the CONTRACTING PARTIES also noted certain circumstances in which the import restrictions administered with protective effect would be inconsistent with the provisions of the Agreement.

26. In reviewing the progress made in narrowing the area of discrimination the CONTRACTING PARTIES have noted that the existence of discriminatory restrictions not only against the dollar area but also among countries with inconvertible currencies makes it increasingly apparent that quantitative restrictions seriously affect the trade of all countries. If continued progress is to be made in the freeing of world trade of quantitative restrictions all countries must continue to move toward the final goal of a fully multilateral and non-discriminatory system of trade and payments.

27. The round of consultations to be undertaken by the CONTRACTING PARTIES pursuant to paragraph 4(b) of Article XII during 1957 is expected to throw new light on the use and effects of import restrictions and on the prospects for further progress in their elimination.

