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1958 CONSULTATIONS UNDER ARTICLE XIV:1(g)

Reports of the Working Party on Balance-of-Payments Restrictions
on the consultations with Australia, Ceylon and
the Federation of Rhodesia and Nyasaland

I. AUSTRALIA

Introduction

1. The Working Party has conducted the annual consultation under paragraph 1(g) of Article XIV with Australia which, as a country invoking paragraph 1(c) of Article XIV, is required to consult annually with the CONTRACTING PARTIES on the retention of discrimination. The consultation was initiated by the Australian Government in March 1958. In opening the consultation the Australian representative made a statement reviewing the changes which had taken place in the Australian economy during 1957-58, the prospects for the balance of payments and movements in reserves in the current financial year and the status of its discriminatory restrictions against dollar goods. This statement is reproduced as Annex I to this report. In the discussion which ensued the Working Party broadly followed the "Plan" which had been adopted by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The present report summarizes the main points in the Australian statement and the discussion.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the consultation with Australia and had accepted that invitation. The representative of the Fund called attention to the results of the Fund's 1958 consultation with Australia (see Annex II) which, together with two papers dated 7 August and 4 September 1958 containing background material for that consultation, had been supplied by the Fund.

The Balance-of-Payments and Monetary Reserve Situation

3. The Australian representative stated that the chief feature of the economy during 1957-58 was the heavy fall (by about one third compared with 1956-57) in farm income. This was caused by a combination of factors. Production, particularly of wheat and wool, was reduced as a result of bad seasonal conditions over wide areas of Australia, but of much more importance was the general fall in the export prices of major agricultural commodities. The average price of wool, for example, was more than 20 per cent lower in 1957-58 than in the previous season. These, and similar factors affecting other significant exports, such as

metals, produced a steep fall in export income from £978 million in 1956-57 to £814 million in 1957-58.¹

4. The impact of this considerable reverse on the Australian economy generally had so far been largely offset on the internal side by the appropriate use of monetary and fiscal measures. At the same time, due attention had been paid to the need to keep a proper balance between overall demand and available resources.

5. On the external side the fall in export income occurred concurrently with an increase in imports which, following the series of import licensing relaxations during 1957, rose by £73 million to £791 million in 1957-58. Payments for "invisibles" also increased with the result that, despite a continued inflow of both private and official capital, international reserves fell by £42 million during the year to a total of £525 million at 30 June 1958. During the previous year international reserves had risen by £212 million. The effect of the various depressive factors was most marked in the second half of 1957-58 when reserves fell by £65 million.

6. The Australian representative considered, moreover, that the current situation did not provide any ground for optimism. Wool prices had again fallen sharply (to a level about 25 per cent below the previous season's average price), and, although seasonal prospects appeared brighter, it was certain that exports in 1958-59 would be less than in 1957-58 and perhaps a good deal less. On the other hand the overall level of import licensing had been maintained unchanged for some time and the Government hoped to be able to keep imports at a rate of about £800 million f.o.b. International reserves had continued to fall during the seasonally adverse September quarter and had declined by about £100 million or some 15 per cent since the beginning of 1958.

7. The Working Party noted the background against which the Australian Government had had to shape both its overall import licensing policy and, within that policy, the degree of discrimination practised. Gratification was expressed by members of the Working Party at the measures which had been taken to relax restrictions and reduce discrimination, and it was appreciated that these measures had been taken in the face of adverse balance-of-payments conditions which might have invited a more restrictive policy. In fact, since the measures of intensification in 1955 and 1956 the overall restrictions had been considerably relaxed and there had been a series of small but consistent forward moves to liberalize dollar imports. The hope was expressed that Australia would be successful in achieving and maintaining the necessary internal and balance-of-payments conditions for continuing in this direction. The Working Party welcomed the stated intention of the Australian Government to attempt to maintain the present level of imports at a time when Australia was facing a prospective further decline in exports receipts and reserves.

¹ Figures throughout in this paper refer to Australian pounds.

8. It was pointed out that the recent developments in the Australian economy illustrated once more the extreme sensitivity of the balance-of-payments position of countries dependent for their external income on exports of a limited number of primary commodities.

9. Commenting on the observations made by the Australian representative in his introductory statement concerning the uncertain extent and speed of the recovery of the United States economy, the representative of the United States recalled the considered statements made during the Ministerial discussion by Mr. D. Dillon, Under-Secretary of State for Economic Affairs of the United States, that "present indications were that the whole of the decline in economic activity would have been recovered by the end of the year". Moreover in contrast with 1957, when the outflow of gold and dollars from the United States was interrupted for the first time in a number of years, the transactions during the first half of 1958 had permitted the rest of the world to increase their gold and dollar holdings by approximately \$1,500 million. Thus the decline in economic activity in the United States had not been accompanied by a turn in the balance of payments adverse to the rest of the world but rather by developments decidedly favourable to the rest of the world. The change since 1957 provided a different general background for the consultations this year as compared with last. In making this observation, however, it was noted that the consultations under Article XIV must focus on the balance of payments of the individual consulting country.

10. During the discussion it was emphasized that, considering the substantial progress that had been made towards convertibility and broader transferability of currencies, the rationale for discrimination and for viewing a country's balance of payments according to different currency areas rather than in its entirety had diminished. Advantage should be taken by countries in deficit of this improvement in the world's payment situation to economize foreign exchange by permitting importers to make their purchases at the most advantageous prices in the most competitive market. The representative of Australia pointed out that the general validity of these considerations had not been ignored by his Government. That the Australian authorities were fully aware of this could be deduced from the very nature of the relaxation in dollar discrimination which had recently been effected. It was to a large extent the overall balance-of-payments and reserves position which now inhibited the licensing authorities from reducing discrimination at a faster pace. If the discriminatory restrictions which still applied to a range of dollar imports, for example consumer goods, were removed, there could be a tendency for total imports to rise. The representative of the United Kingdom pointed out that no doubt the Australian Government also had in mind Australia's membership in the sterling area.

11. Members of the Working Party representing countries in the dollar area doubted whether further reduction in discrimination against dollar goods would be followed by serious increases in total imports. In fact, with the post-war growth and modernization of the productive capacity in many countries it could no longer be generally assumed that dollar goods enjoyed the same competitive advantages as previously. In the view of these representatives, it should be possible, while maintaining the size of

quotas, to permit importers to make their purchases in the dollar area. Such measures would not necessarily lead to increased imports but might merely result in some change in the pattern of imports. Furthermore, as indicated by experience in some countries, the licensing of dollar imports could cause a fall in the price of similar non-dollar goods. It was recalled, for example, that according to the Australian delegation at the Article XII consultations in 1957, this had, in fact, happened in a number of cases.

12. Although he agreed in principle with these views the Australian representative pointed out that there were real licensing difficulties in putting them into practice without increasing, at least in the short run, the potential level of imports. This was particularly the case where quotas were held by individual importers. Representatives of dollar countries contended that whilst this might be true of certain imports, it was certainly not the case with all items. They wondered whether the problems outlined by the Australian representative did not reflect the rigidities which inevitably develop when discriminatory restrictions are maintained over a long period.

System and Methods of Discriminatory Restrictions

13. The Australian representative explained in response to a question the different methods of control at present in use. These methods were envisaged as being different stages in the process of liberalizing the restrictions. The list of goods, which were exempt from licensing from all sources, had been increased by the addition of a number of items which had previously been licensed up to full requirements. Further items, although subject to administrative control, were being licensed without discrimination and two new licensing categories had been introduced. Under the first of these, the import replacement category, importers were permitted to obtain licences on request provided licences held unused at any point of time did not exceed twice the value of licences used (i.e. imports made) in the preceding licensing period. This technique allowed current demand for the particular imports to be met and was a step in the process of further liberalization. Some of the items (about 50 per cent) in this category were licensed without discrimination as to source of supply. The second category covered the establishment of quotas, about half of which were available for use for imports from any source of supply, for items previously licensed mainly on an administrative basis. This had the twofold advantage of lessening the burden on both the administration and the importer and of enabling the importer to obtain licences on request within his quota. Thus the further liberalization, as circumstances permitted, of the licensing of both dollar and non-dollar goods might proceed either by licensing without discrimination as to source within the administrative (or another) category or by the transfer of an item to a less restricted category (e.g. quota, import replacement or exemption from licensing) or by a combination of both of these means.

14. Representatives of dollar area countries urged the Australian Government to continue its efforts to relax its import restrictions and remove discrimination against dollar area goods. They noted that where non-dollar imports were licensed on a quota basis while dollar imports of similar goods

were subject to administrative licensing, exporters in the dollar area would be at a considerable disadvantage because of the uncertainty of, and the time needed for, obtaining a licence. This was particularly true of commodities for which there was intensive competition. These representatives urged the Australian Government to consider, as an interim measure preliminary to complete liberalization, the establishment of dollar quotas for items for which non-dollar quotas were in existence. The Australian representative confirmed that this conformed with the general direction in which the import licensing system had been evolving.

Reduction of Discriminatory Restrictions

15. The Working Party noted from the Australian representative's statement that discriminatory restrictions are applied against goods of dollar area origin other than those included in the Australian "world" licensing list but over the last eighteen months there had been a considerable reduction in the level of this discrimination. Currently about one third of total imports were free of restriction as to source, whilst no licences were required for about 17 per cent of them. A little more than twelve months ago almost all imports were subject to licence and only 20 per cent of total imports were free of restriction as to source. The Australian representative recalled that his country had joined with other Commonwealth countries at the recent Commonwealth Conference in Montreal in stating that trade discrimination should continue to be progressively removed in view of the advantages to be gained by so doing and he emphasized that the Australian aim was to move towards this objective in a steady and sustainable manner. However, there were a number of uncertainties in the foreseeable balance-of-payments situation, and the speed with which the objective could be attained depended on the course of future events.

16. On the question of the actual extent to which price differences affected the administrative licensing of imports from different sources, the Australian representative explained that, generally speaking, licences were issued for dollar imports when their price was lower than that of comparable non-dollar imports.

Effects of Discriminatory Restrictions

17. The Norwegian representative considered that the Australian import controls were particularly unfavourable to Norwegian exports. Approximately one third of Norwegian exports to Australia consisted of pulp, paper and paper board which were classified in Category A and subject to administrative licensing. The hope which his Government had entertained that these products might benefit from measures of relaxation had so far not been fulfilled. Norway's exports were, therefore, more severely affected than those of most other contracting parties. Although somewhat outside the scope of the consultation, the representative of Australia undertook to convey those views, as well as any similar request that might be made by a contracting party, to his Government which would, no doubt, give them careful consideration. The United States representative stated that his delegation would wish to discuss with the Australian delegation the restrictions applied on certain goods in which United States exporters were interested.

Prospects of Eliminating Discriminatory Restrictions

18. Commenting on the prospects of further removal of import restrictions, the representative of Australia said that, notwithstanding the decline in the external reserves and the discouraging prospects of the overall balance of payments, his Government had currently decided to maintain unchanged the present level of import licensing, and hoped to be able to avoid any intensification of the existing restrictions. He referred to the recent Commonwealth Conference in Montreal where the need for a progressive reduction in discrimination had been recognized. He pointed out that the action taken in the past year was an indication of the intentions of his Government in this regard. The speed with which the Montreal objective could be attained would, however, depend on the course of future events.

19. In concluding the consultation the Working Party noted with gratification that in a policy statement the Australian Government had reaffirmed its intention to relax the restrictions and remove discrimination as soon as practicable. The steps which had been taken earlier in the year had contributed to maintaining the momentum towards free trade, and were evidence of the forthrightness of the Australian policy.

ANNEX I

Statement by the representative of Australia

1. I think it would be appropriate for me to begin by expressing our appreciation to those of the staff of the International Monetary Fund and the GATT secretariat who have been concerned in the preparation of the background papers for this consultation with Australia under Article XIV:1(g).

2. Strictly speaking we are not here concerned with the rather wider aspects of the reasons for the existence in Australia of import restrictions, or of the measures taken on the broad economic policy front to reduce the need for them. These are more properly subjects for consideration when we come, as next year we shall, to consult under Article XII of the GATT.

3. Notwithstanding this, the Australian Government has always felt itself under a moral obligation, within the spirit of the GATT, to provide other contracting parties with as much information as is necessary to assist them in understanding and arriving at conclusions upon the Australian position. That is an attitude to which we continue to adhere.

4. Accordingly, I think it might be of value to the Working Party if I were first to provide a brief resumé of the present economic situation in which Australia finds herself.

5. Undoubtedly, the chief feature of the Australian economy during the financial year 1957-58, just ended (i.e. July 1957 to June 1958), was the heavy fall in farm income. Our national income estimates show a fall in this sector of as much as one-third (from £A.540 million in 1956-57 to £A.360 million in 1957-58).

6. This heavy fall was brought about by a combination of factors. Reduced production (notably in wheat and wool) as a result largely of drought conditions over wide areas of Australia, was an important factor, but much more important was the general fall in the export prices of our major agricultural commodities. Thus, the average price realized for wool during the 1957-58 season was more than 20 per cent lower than the price realized during the previous season.

7. These, and similar factors operating in the case of some of our other important export commodities, such as metals, produced a steep fall in export income between the two years. From a total of £A.978 million in 1956-57 exports fell to £A.814 million in 1957-58.

8. The impact of this considerable reverse in our economic fortunes upon the Australian economy generally has so far been largely offset on the internal side by the use of such policy devices as the easing, within limits, of bank credit, some increase in public investment, and the continuing high level of public and business confidence, shown in the maintenance of a high level of consumer demand and of private investment. At the same time, due attention has been paid to the need to keep a proper balance between overall demand and available resources.

9. On the external side the fall in our export income was accompanied, during 1957-58, by increasing imports which, as a result of a series of import licensing relaxations during 1957, rose to £A.791 million from £A.718 million during 1956-57. At the same time our payments for "invisibles" rose from £A.167 million to £A.201 million.

10. This combination of factors has inevitably produced its effect upon our reserves position. Whereas in 1956-57 our international reserves (i.e. of gold and foreign exchange) rose by £A.212 million, in 1957-58, despite a continued inflow of both private and official capital, there was a fall of £A.42 million to a total of £A.525 million at 30 June last. This was, moreover, made up of a rise of £A.23 million in the first half of 1957-58, which was more than offset by a fall of £A.65 million during the second half, when the effect of the various depressive factors I have mentioned was most marked.

11. Nor has the situation which has developed since the end of 1957-58 given any ground for optimism. Since that time wool prices have again fallen steeply, and are now between 20 and 25 per cent lower than the average price of 62.5 pence a lb. realized last year. Seasonal conditions appear likely to be rather brighter as far as can yet be judged; but this will have little effect upon our export prospects for this present financial year. Exports during 1958-59 will most certainly be lower than they were in 1957-58 and perhaps a good deal less. Our international reserves continued to fall during the September quarter and since the beginning of 1958 we have lost about £A.100 million or some 15 per cent of them. On present indications we can only look forward to a continuation of this movement.

12. It is against this general background that we have had to consider both our overall import licensing policy and, within that policy, the degree of discrimination.

13. On the first question, I think we may say that our position is clear. Notwithstanding the changed circumstances in which we now find ourselves the Government has decided to maintain unchanged the present

level of import licensing. In his budget speech of 5 August last, the Treasurer, Sir Arthur Fadden said:

"Meanwhile the Government has said that it intends, if possible, to maintain imports at a rate of about £A.800 million f.o.b., which is approximately the same as in 1957-58, and we certainly hope that we will be able to do this. Neither the Government nor, I imagine, anyone else, has any wish to turn again to the expedient of tightening import restrictions."

14. I turn now, Mr. Chairman, to the second question which is the question before us - that of the discriminatory restrictions being applied by Australia against goods of dollar area origin other than those included in the Australian "world" licensing list.

15. As you know, Mr. Chairman, at the recent Commonwealth Conference in Montreal, Australia joined with other Commonwealth countries in stating that trade discrimination should continue to be progressively removed in view of the advantages to be gained by so doing. At the same time, I must emphasize that, notwithstanding what seems increasingly to be confirmed as the upturn in the economic situation in the United States, there remains a good deal of uncertainty as to the likely extent and speed of this recovery. Basically, therefore, while we have lent our support to the general objective of moving towards a world of freer trade and payments, it has also been one of our primary concerns not to take any steps in this direction which might subsequently need to be reversed. Our objective is above all to move towards these objectives in a steady and sustainable manner.

16. As the Working Party is aware, over the last eighteen months there has been a considerable reduction in the level of discrimination against imports from the dollar area. A little more than twelve months ago almost all Australian imports were subject to import licensing and only about 20 per cent of total imports was free of restriction as to source. Currently about one-third of our imports is free of restriction as to source, whilst no licences are required for about 17 per cent of them.

17. I need not take time now to describe the Australian import licensing situation or the changes which have been made over the past year. Detailed information on each of these is contained in the documents before us. I should imagine, however, that our system is very familiar to members of the Working Party.

18. Looking to the foreseeable future I have already indicated that our overall balance-of-payments prospects are not good. We have thus far been able to maintain a stable level of imports in the face of a continuing decline in overseas reserves and it is the Australian Government's hope that it can avoid an intensification of the existing restrictions.

19. On the question of discrimination the action taken over the past year or so in reducing the discriminatory element in the import licensing system is an earnest of the Government's intentions in this regard. I have already referred to the objectives to which we subscribed at Montreal. The speed with which those objectives can be realized depends very much on the course of future events.

20. Mr. Chairman, my colleague and I are ready to participate as fully as we can in this consultation.

ANNEX II

Results of the last IMF consultation with Australia,
concluded on 10 September 1958

1. 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.
2. During 1957/58 farm output was lower as a result of drought conditions, but industrial production expanded. Despite the considerable drop in export income of primary producers, expenditure on consumption and fixed capital investment increased and it is estimated that gross national product was slightly higher than in 1956/57. The employment situation was easier and the larger supplies coming to the market from the increased domestic output and imports contributed to the improvement in the state of balance of the economy; costs and prices were more stable than in most post-war years.
3. The budget for the year ended 30 June 1958, although including certain tax concessions, yielded a surplus of current revenues over current expenditures. The capital works and housing programmes of the States and local authorities were increased; capital expenditures, including those of the Commonwealth Government, were financed out of revenue and long-term borrowing and there was some net redemption of Treasury bills over the year. Toward the end of 1957 the restrictive credit policy was relaxed and bank credit to the private sector increased by about 8 per cent over the year 1957/58. The budget for the year ending 30 June 1959 provides for a smaller surplus of current revenue over current expenditures than in the previous fiscal year, and it is expected that some recourse to central bank financing will be necessary to cover an overall cash deficit. The Australian authorities state they are doing this advisedly in order to support domestic spending and so help to offset the effects of continued low export earnings.
4. In the course of 1957/58 there was a considerable decline in export prices of wool and of certain other primary products. The resulting fall in export receipts, combined with a 10 per cent increase in imports to £A 791 million following the relaxation measures taken early in 1957 and again in August, brought the current account into deficit; despite a continuing inflow of capital, international reserves declined over the year by more than £A 40 million to £A 525 million on 30 June 1958. The government intends, if possible, to maintain imports in 1958/59 at roughly the same level as in the previous year and is prepared to draw further on its foreign exchange reserves to support this policy.
5. The Fund welcomes the measures that have been taken to relax restrictions and to decrease discrimination and notes the intention of the Australian authorities to avoid intensifying restrictions despite a prospective further decline in export receipts and reserves. It believes that in order that restrictions and discrimination may be further reduced and ultimately eliminated, economic policies should aim at keeping a proper balance between overall demand and available resources.
6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia.

II. CEYLON

Introduction

1. The Working Party has conducted the annual consultation for 1958 under paragraph 1(g) of Article XIV with Ceylon which, as a country invoking the provisions of Annex J, is required to consult annually with the CONTRACTING PARTIES on the retention of discrimination. The consultation was initiated by the Government of Ceylon in March.

2. In opening the consultation the representative of Ceylon described the current balance-of-payments situation and economic developments in the country. His statement is reproduced as Annex 1 to this Report. In the discussion which ensued, the Working Party broadly followed the plan which had been adopted by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The present Report summarizes the main points in a statement made by the representative of Ceylon and the discussions.

Consultation with the International Monetary Fund

3. The International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the consultation with Ceylon and had accepted that invitation. The representative of the Fund stated that in accordance with the normal arrangement, the Fund had transmitted to the CONTRACTING PARTIES the results of the Fund's latest consultation with Ceylon (see Annex 2), together with three documents containing background material prepared in connexion with that consultation and additional background information on developments since that consultation.

Balance-of-Payments and Monetary Reserve Situation

4. The statement of the representative of Ceylon indicated that in 1957 the economy of Ceylon was faced with further adverse conditions. The value of exports continued to decline and the terms of trade further worsened. The volume of exports declined slightly and the prices of tea and rubber fell. On the other hand, the total value of imports increased considerably, partly due to a rise in import prices and partly due to an increase in volume, principally in the capital goods sector. The favourable balance of payments in 1956 had been replaced by a large deficit in 1957. In addition to the unfavourable world market conditions, the economy was affected by adverse weather conditions, labour disputes in industry, etc. The effects of some of these, however, would not be fully reflected in the balance of payments until 1958.

5. As a consequence, Ceylon had to make heavy drawings on the foreign assets which it had previously accumulated, and these assets were expected to be further reduced. In spite of these developments and the pressures caused by economic development projects, the Government of Ceylon had continued to maintain a liberal policy in the administration of its import controls. The discrimination against dollar imports, as had been explained on previous occasions, affected only four relatively unimportant items and was therefore of nominal importance.

6. A member of the Working Party recalled that at last year's consultation the Ceylon delegation had indicated that imports of consumer goods would continue to rise relatively sharply. On the basis of information supplied by the Fund and by the representative of Ceylon, it would appear that the increase in the volume of consumer goods had been small and that the volume of textile imports actually fell. The representative of Ceylon, acknowledging that there had been a relative increase in the import of capital goods, explained that commercial banks on a directive from the Central Bank had exercised caution in giving credit facilities for the importation of non-essential consumer goods. It should also be noted that imports of food, drink and tobacco had increased in 1957.

7. Reference was made to the fact that the net outflow of private capital increased substantially - from Rs. 20 million in 1956 to Rs. 38 million in 1957 - and that the gross outflow in 1957 amounted to Rs. 59 million. Invited to comment on this development, the representative of Ceylon thought that there was ground to support the view that present conditions in the country had not been such as to encourage the inflow of foreign capital. The repatriation of foreign capital had increased from Rs. 19.8 million to Rs. 43.6 million in 1957, and the inflow of capital had declined from Rs. 5.4 million to Rs. 3.3 million in the same period. In addition, companies holding assets in London had run down their sterling balances by some Rs. 6.3 million in 1957.

Policy of Import Restriction

8. It was noted that in a policy statement issued in May 1958, the Government of Ceylon had indicated its readiness to approve foreign investment in projects under certain circumstances, e.g. "where there will be a progressive domestic manufacture eliminating ultimately all imports to the maximum practicable extent"; in order to encourage foreign investment the Government would provide incentives and concessions applicable to the establishment of new industries and the expansion of existing industries in approved fields. Requested to clarify the statement, the representative of Ceylon explained that there was no intention to prohibit the import of any goods with a view to reserving the internal market for domestic production. The statement referred to above was based on the consideration that as long as the country was faced with balance-of-payments difficulties, it would be entitled to restrict certain imports, and that it would be natural for the Government to restrict imports of those goods which could be supplied from domestic sources and whose production could be economically developed.

9. A member of the Working Party recalled that at the close of the consultation last year the Ceylon delegation had indicated that the Government was engaged in simplifying the licensing procedure, and enquired about the

progress that might have been made. The representative of Ceylon confirmed that a new, simplified import control system had recently been submitted for approval by the Government. Some time might, however, elapse before the new system could come into force as its adoption involved governmental procedures which could hardly be hastened.

10. Members of the Working Party, referring to observations made in last year's consultation, re-emphasized the value of simplicity in an import control system and the importance of adequate publicity being given to any system in force; simplification and publicity would appear to be not only in the interest of the exporters in foreign countries but also of the local trading community.

Policy of "Ceylonization"

11. The representative of the United States, referring to the statement by the representative of Ceylon that discrimination affected only four products of dollar origin, drew attention to the different import procedures which were applicable to imports from different sources and which, in his view, constituted an element of discrimination worthy of note. Although in the view of the Ceylon Government these differences were only differences in formality and procedure, they nevertheless created an added impediment to exports from certain countries. It was difficult to affirm that these distinctions in formalities had no effect on the pattern and flow of trade.

12. The United States representative also expressed concern over the effects of the "Ceylonization" programme and referred to the views expressed on this point by his delegation in the 1957 consultations with Ceylon.

13. The representative of Ceylon thereupon assured the Working Party that the "Ceylonization" measures were purely a matter of formality and that, furthermore, the policy was administered, in so far as humanly possible, in a non-discriminatory manner. That the additional formalities did not affect the flow of trade might be seen from the substantial expansion of Germany's exports to Ceylon; Germany, though one of the countries whose trade with Ceylon was subject to the "Ceylonization" procedures, was nevertheless capable of increasing its share in the Ceylon market on the strength of its competitive prices.

14. In reply to a question by the United States representative, the Ceylon representative confirmed the understanding that any product, once specified in a General Import Licence, which was applicable only to some of the "Ceylonization" countries, would give the licence holder the right to import that product from those countries without the need for obtaining an individual licence for each shipment. On the other hand, an importer had to apply for a licence each time he wished to buy similar goods in the United States.

General Remarks

15. The United States representative said that there were few items of interest to the United States traders that his delegation wished to discuss bilaterally.

16. Members of the Working Party expressed gratification for the general absence of discrimination and for the maintenance of the substantial relaxations made two years ago. The hope was expressed that Ceylon's future policy would continue to be in the direction of reducing restrictions and particularly in reducing the remaining elements of discrimination. The representative of Ceylon stated that his delegation would convey the views expressed at this consultation to his Government, which would undoubtedly give its careful consideration to these matters.

Additional Note

17. After this report was drawn up, the representative of Ceylon informed the Working Party, on 13 November 1958, that the discriminatory restrictions applied on imports of four items from the dollar area, namely (i) confectionery, (ii) toys and parlour games, (iii) beer, ale, porter and all other malt liquors, and (iv) spirits: whisky, have been eliminated. Consequently, the Ceylon Government considered that in applying restrictions under Article XVIII:B it no longer deviated from the provisions of Article XIII. Members of the Working Party welcomed this move which in their view represented a significant step forward in the direction of freer trade.

ANNEX I

Statement by the representative of Ceylon

In the Eighth Annual Report of the CONTRACTING PARTIES under Article XIV:1(g), which was adopted at the Twelfth Session, the following comment appears in respect of Ceylon: "In the case of Ceylon and Pakistan, which continue to resort to the provisions of Article XIV, the discriminatory element in their restrictions has been progressively reduced to a very low level in recent years. At present, Ceylon applies discriminatory restrictions only on four items when imported from the dollar area." The place of these four items in our trade with the dollar area is insignificant, and hence we are inclined to the view that Ceylon's obligation to consult on the discriminatory application of import restrictions under the provisions of Article XIV is only a formal requirement.

However, I might take this opportunity to give the Working Party a brief account of the salient features of the economic situation in Ceylon, with particular reference to our trade and payments position.

The International Monetary Fund has already provided up-to-date documentation on the economic situation in Ceylon. In 1957 the economy of the island suffered further reverses. The decline in the value of exports and the terms of trade which started in 1956, continued throughout 1957. The value of exports declined by about 4 per cent. With a fall of 3.4 per cent in the average export price, and a rise of 5.7 per cent in the average import price, the terms of trade declined by over 9 per cent. There was some contraction in the output of certain domestic products. The small payments surplus of 1956 disappeared in 1957 when there emerged a large deficit, and external assets fell by as much as Rs. 236 million. The fall in external assets would have been even more pronounced but for the payment of the sum of Rs.59.7 million by the People's Republic of China in the third quarter of 1957, as part payment of the outstanding debt which China owes us.

The volume of exports showed a decrease of 1.7 per cent in spite of a rise of 5.1 per cent in the quantity of tea exports, and 7.4 per cent in the rubber exports. The most important reason was the steep fall of about 32 per cent in the volume of exports of the three major coconut products, namely, copra, coconut oil, and desiccated coconut. The prices of tea and rubber fell so that, despite some improvement in the price of coconut products and of certain other minor products, the average price of all exports declined. Hence, in 1957, the value of total exports was Rs.1,682 million, which was Rs.53 million below the figure for 1956.

The particularly adverse weather conditions experienced in Ceylon in 1957 affected the output of a number of commodities. For the greater part of 1957 drought conditions prevailed and were followed by devastating floods in the last month of the year. In fact, the damage done by the floods to productive capacity will be seen only in the trade figures for 1958.

The total value of imports increased from Rs.1,630 million in 1956 to Rs.1,804 million in 1957 - an increase of Rs.174 million, while the value of imports of all capital goods taken together increased by over 28 per cent.

The value of imports of consumer goods as a group rose by only 6 per cent. Roughly, half of the increase in the value of imports reflected a rise of about 5.7 per cent in the average import price. The other half represented an expansion of 5.6 per cent in import volume, reflecting mainly an increase in imports of capital goods. It is significant that while the volume of imports of consumer goods rose by less than 1 per cent in comparison with 1956, the volume of imports of capital goods increased by over 22 per cent.

Since the value of imports rose in spite of a decrease in income from exports it seems clear that the increase in expenditure on imports was financed by dis-saving, which was made possible largely through Government deficit financing. In the fiscal year 1956-57 the net cash operating deficit of the Government was Rs.196.4 million. The latest estimate of the deficit in 1957-58 is Rs.220.4. The budget for 1958-59 envisages a deficit of Rs.204 million, but this might well be substantially higher if the anticipated revenue from new taxes and funds from domestic borrowing are not realized. The Budget is likely to continue to be in substantial deficit for some time longer, especially in view of the necessity to repair damage caused by the December 1957 floods.

The balance-of-payments position on current account at the end of 1957 was as follows: with the dollar area we continued to maintain our credit position on about the same level as at the end of 1956; with the Sterling Area and OEEC we had unprecedented deficits of Rs.336.5 million and Rs.77.6 million respectively; with the rest of the world we had a small surplus of Rs.34 million. This situation resulted in an overall deficit of Rs.195.3 million.

Ceylon was able to withstand the strain imposed on her economy in 1957 only by drawing on previously accumulated foreign assets which at the end of 1957 stood at a level of Rs.943 million. This figure may be considered not too low, since it represents about 60 per cent of the value of a year's imports, but it is certainly low in relation to the position of foreign assets at the end of the two preceding years. In view of the circumstances which I have explained earlier, if the effects of the adverse tendencies are to be absorbed without some reduction of imports of both capital and consumer goods, external assets will run down further.

The difficulties of the economy have been accentuated by the interruption of exports due to labour problems in the large exporting firms and in the Port of Colombo, and the disturbances that occurred all over the island in May-June of this year.

It will be seen that the general economic situation in Ceylon presents a pretty grim picture.

Despite these difficulties and the stresses and strains caused by economic development projects, members of the Working Party will appreciate that Ceylon has been endeavouring to be extremely liberal in the administration of her import policy, and the apparent discrimination against the dollar area in a very small sector consisting of four unimportant items is of no significance.

ANNEX II

Results of the IMF consultation with
CEYLON, concluded on 14 April 1958

1. The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. With the decline in export earnings and the fall in the output of rice, Ceylon's national product declined in 1956 as compared with 1955. There was no perceptible improvement in 1957.
3. Ceylon has been following sound fiscal and monetary policies and the record has been one of stability. After two years of surpluses, cash operating deficits emerged in fiscal operations in 1956-57 and have continued in 1957-58. Although there was some rise in prices in 1957 internal financial stability was generally maintained.
4. In 1956, Ceylon had a much smaller balance-of-payments surplus than in 1954 and 1955. In 1957, there was a deficit and foreign exchange reserves declined. This was mainly due to higher imports and a fall in export prices of tea and rubber, together with a slight decline in the volume of exports.
5. Since the middle of 1956, Ceylon has followed a policy of relaxing restrictions and reducing discrimination and has made considerable progress in this respect. In 1957, when there was a balance-of-payments deficit, this policy was substantially adhered to. The Fund welcomes this progress and hopes that Ceylon will relax restrictions further, including those on invisibles imposed in 1957, as the payments position improves.
6. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon.

III. THE FEDERATION OF RHODESIA AND NYASALAND

Introduction

1. The Working Party has conducted the consultation for 1958 under paragraph 1(g) of Article XIV with the Federation of Rhodesia and Nyasaland which, as a country invoking the provisions of Annex J, is required to consult annually with the CONTRACTING PARTIES on the retention of discrimination. The consultation was initiated by the Government of the Federation in March 1958. In opening the consultation the representative of the Federation made a statement reviewing the Federation's current balance-of-payments and monetary reserve position, describing the policies followed in the internal financial field and in controlling imports. This statement is reproduced as Annex I to the present report. In the discussion which ensued, the Working Party broadly followed the plan which had been adopted by the CONTRACTING PARTIES for consultations under Article XIV:1(g). The present report summarizes the main points in the statement made by the representative of the Federation and in the discussions.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the consultation with the Federation and had accepted that invitation. The representative of the Fund stated that the Fund had transmitted to the CONTRACTING PARTIES a background paper on economic developments and changes in the restrictive system of the Federation, dated 15 September 1958. In preparing this paper the Fund had received the co-operation of officials of the Federation in ensuring the accuracy of the data used and in supplying the latest available information, and the Fund representative wished to take this opportunity to express the Fund's appreciation for this assistance. He also drew attention to the results of the Fund's latest consultation with the United Kingdom (see Annex II), which were pertinent to the consultation with the Federation, since the Federation of Rhodesia and Nyasaland did not have separate membership in the International Monetary Fund, but was one of the areas covered by the quota of the United Kingdom.

Balance-of-payments and monetary reserve situation

3. In opening the consultation, the representative of the Federation described the recent deterioration in the balance-of-payments situation of the Federation, both in current account transactions and in capital movements. The Federation's trade surplus had declined in 1956 and had been replaced by deficits in 1957 and in the first half of 1958, resulting in a continued rise in the deficits on current account. In 1955-57 net capital inflow had remained steady, and the deficits on current account had to be financed by drawings on the country's sterling reserves. The difficulties faced by the Federation had therefore become more severe in the past year, and the principal cause was a reduction in export earnings, coupled with an increase in the value of imports.

4. In dealing with the situation the Federation had concentrated its attention on the maintenance of development and on the reduction of expenditure by the public generally. After describing the various measures taken by the Federal Government in limiting development expenditure and in controlling credit facilities, the representative of the Federation stated that in spite of the considerable pressure which had been brought to bear on the Government, it had refused to substitute for the credit measures a general extension of import controls.

5. The representative of the Federation recalled that ever since the Federation came into being in 1953 the scope and extent of import controls had been reduced steadily and substantially each year. In the present circumstances any further relaxation measures might well aggravate the Federation's difficulties and create a situation in which more extensive import controls might become unavoidable at a later stage. The recent halt in liberalization should not be regarded as reflecting a decision to stabilize controls at their present level or a change in the policy of moving towards free trade. The level of controls will continue to be reviewed every six months in consultation with the Chamber of Commerce and trade representatives of other governments.

6. In any case, the controls were already at a very low level; all imports from sterling area countries, and all goods from OPEC and nine other countries, are free from balance-of-payments import control. Most of the goods from dollar sources are under Open General Licence, and substantial quotas are provided for a range of other goods. Other imports are licensed on an ad hoc basis. The measure of relaxation accorded to the dollar area had been reflected in a doubling of imports from that area in the last four years. As for the prospects for further relaxation in the near future, the representative of the Federation noted that the controls would be reviewed at the end of the year. The first half of 1958 showed a trading deficit of £13.1 million and a current account deficit of £32.1 million. A strike was causing a loss of production

of copper, and export earnings from chrome had also been reduced substantially. While not in a position to forecast the Federation's 1959 import control programme, the representative of the Federation concluded his statement by reaffirming the intention of his Government to remove the residue of its restrictions as soon as permitted by its balance-of-payments position.

7. Members of the Working Party expressed appreciation of the clear and informative statement by the representative of the Federation. They were gratified that the Federation, in spite of the deterioration in the balance-of-payments situation, had maintained its policy of liberalization. It was hoped that future developments would enable the Federation to resume its progress towards still freer and multilateral trade. The reliance which had been put on internal monetary measures rather than import control indicated a clear understanding on the part of the Federal Government of the advantages of employing sound financial policies which the CONTRACTING PARTIES had been emphasizing in recent years.

8. In response to questions put forward by members of the Working Party, the representative of the Federation supplied information in the field of balance of payments, internal policy, etc., including the following data:

A. Payments in the first half of 1958
(in £ Rhodesian million)

	Credit	Debit	Net
Trade	71.3	84.0	- 12.7
Invisibles	<u>18.9</u>	<u>38.3</u>	- <u>19.4</u>
Current Account	90.2	122.3	- 32.1
Private capital
Official capital	17.9	1.1	16.8

B. The sterling resources of the Federation
(in £ million)

End of 1953	128.3
" " 1955	150.1
" " 1957	100.2
30 April 1958	100.3

9. It was noted in the IMF background paper that following the serious fall in the Federation's sterling reserves, the Central Bank had requested the trading banks to reduce the total of their bills and advances "significantly" by 30 April 1958, and rules governing hire purchase transactions had been tightened. In May 1958, these measures were found insufficient to make a sufficient impact on the country's balance-of-payments difficulties, and the banks were exhorted to make a bigger effort. In this connexion, the representatives of the Federation stated that the present situation was being carefully studied by the authorities. The Working Party also discussed on the basis of the information contained in the IMF background paper the various factors affecting the inflow of private capital.

10. The representative of a country in the dollar area referred to the relatively favourable balance of payments of the Federation with the dollar area and invited the representative of the Federation to comment on the basis for the continued application of discrimination against imports from the dollar area. In reply, the representative of the Federation referred to the requirements of economic development which generated a high demand for imports of industrial goods, plant and machinery and raw materials; in the light of this, care had to be exercised in the control of imports. Representatives of dollar area countries noted in this connexion that, while it could be said that a heavy demand for imports connected with economic development might justify the restriction of certain types of goods, discrimination as between sources of supply was not an aid to economic development; indeed, it could be expected to place an added burden on the balance of payments. The experience of Australia, for example, had convinced that country that to reduce discrimination might be in the interest of a more economic use of available external resources.

11. In discussing the basis for the discriminatory restrictions maintained by the Federation, the Working Party noted the provisions of Annex J. It also noted the relevance of the provisions of paragraph 3 of Article XIV.

Methods of import restriction

12. The representative of the United States noted that the description of the import control system of the Federation available to the Working Party seemed to give the impression that only a few items are treated on a discriminatory basis. He observed, however, that despite the progress made by the Federation there were over 100 tariff items or sub-items which were not ordinarily licensed for the dollar area but were readily importable from non-dollar sources. The representative of the Federation explained that although imports from the dollar area of these items were not normally permitted, there was no statutory prohibition against their importation. Authority to license them existed, and the decision whether or not to issue a licence was taken on grounds of essentiality in each case.

Prospects for further action

13. In concluding the consultation, members of the Working Party reiterated their expressions of gratification over the determination on the part of the Federation not to take any steps of retreat from the present state of liberalization, and to place primary reliance on internal financial measures. They look forward to further progress in reducing discrimination against dollar area goods. The representative of the United States stated that his delegation wished to have an opportunity to discuss with the delegation of the Federation certain special trade problems with which exporters of his country were faced; such discussions could take place outside the Working Party.

14. The representative of Rhodesia and Nyasaland stated that his delegation had taken careful note of the views expressed by other contracting parties in the consultation. These would be reported to his Government for its consideration in the formulation of its import policy in future. He also took note of the request made by the United States representative and thanked the International Monetary Fund for its assistance and co-operation.

ANNEX I

Statement by the Delegate for the Federation of
Rhodesia and Nyasaland

Before making particular comments on the 1957 balance-of-payments position, I should like to remind the Working Party that the Federation shares in the United Kingdom's quota in the International Monetary Fund, and accordingly the absence of import restrictions exercised by the Federation against the United Kingdom is based on paragraph 3 of Article XIV. The Federation is also governed by Annex J of the General Agreement.

In the past we have come to regard as normal a balance of payments made up of a surplus on trade account, together with inflows of capital on both public and private account covering a net deficit in invisibles resulting largely from payments abroad of income derived from investment in the Federation.

In 1956 that picture changed; there was a reduction of our trading surplus from £41.3 million in 1955 to £26.1 million in 1956 and an increase in the total current account deficit from £11 million to nearly £34 million. That adverse trend continued in 1957. The former surplus in trading transactions changed to a deficit of £13.8 million and there was a much greater total deficit in current account transactions. The total current account deficit increased from the £11 million of 1955 and the £34 million of 1956 to £70 million in 1957. For the first half of 1958 the trading deficit is recorded as £13 million and the total current account deficit was £32 million for the six months.

Throughout these three years net capital inflow has been steady, in fact showing a slight increase from £26.6 million in 1955 to £27.9 million in 1956 and £28 million in 1957. The deficit in current account was financed by a reduction in sterling reserves by £4 million in 1956 and £46 million in 1957.

Thus, as compared with the position a year ago when the last consultation on balance-of-payments import controls took place, we have to record that our difficulties have become more severe. The causes of this deterioration lie largely in the reduction in earnings from exports. The earnings from copper fell off in 1957 by £31 million, while the income from lead, zinc and asbestos was also slightly lower. The reduction in export earnings was coupled with an increase of about 11 per cent in the value of imports.

In dealing with this situation the Federation has taken a long-term view. It has endeavoured to maintain development, to reduce expenditure by the public generally, and to avoid any extension of import controls. As far as the Government development programme is concerned, a very close trimming has taken place to ensure that funds available are allocated to those forms of development expenditure that carry a high priority rating.

The effect is to slow down the programme and a reduction was made from £137 million to £121 million in the planned Federal Government expenditure over the current four year period to 1961. A brake was put on public expenditure generally by requesting banks to limit credit facilities and by imposing stricter terms of hire purchase contracts to require larger deposits and shorter periods of payment.

Considerable pressure was brought to bear on the Government to substitute for the credit squeeze a general extension of import controls on the grounds that such an extension of controls on importations would impede the development of industry less than credit restrictions. However, it was decided that the appropriate measure to deal with the situation was a general restriction of credit and that was the course which the Federation adopted. The nature and extent in individual cases of the limitation imposed on credit was left to the banks themselves to determine, so that commercial principles would apply and no particular form of activity would be favoured over another.

Accordingly, no extension of import controls has taken place. The Working Party may be aware that since the Federation came into being in 1953 the scope and extent of import controls has been reduced steadily and substantially each year and the present year is the first in which it has not been possible to carry this progressive relaxation still further. To have introduced further relaxation in the circumstances might well have aggravated the Federation's difficulties and created a situation in which a backward step towards more extensive import control might have become unavoidable later.

Thus, despite the worsening of the balance-of-payments, our import controls are no less and no greater than they were when they were reviewed by the CONTRACTING PARTIES a year ago. This reflects a decision to halt relaxations in import controls; it does not represent a decision to stabilize the controls at their present level. It is not looked upon as a change in the trend towards greater relaxation which the Federation has followed consistently since its inception. The existing level of controls continues to be reviewed every six months and in that review both Chamber of Commerce and trade representatives of other governments, stationed in the Federation, are consulted.

Nor is the halt at the present level of relaxation a halt at a high level of import control. Broadly speaking, we have now a situation in which all imports from sterling area countries, and all commodities from Organisation for European Economic Co-operation sources, as well as from nine other countries not members of the OEEC, are free from balance-of-payment import control.

The removal of import control on imports from dollar sources on all machinery, capital goods, newsprint and canned salmon took place some years ago. In fact, most goods from dollar sources are under Open General Licence. Substantial quotas are provided for a range of other goods, while consideration is given to the licensing ad hoc of the remainder on essentiality grounds. The measure of relaxation accorded to the dollar area is reflected in the fact that the value of imports from dollar sources has almost doubled over the last four years.

Present controls will be reviewed again at the end of the present calendar year. For the first half of 1958 we have a trading deficit of £13.3 million and a current account deficit of £32.1 million. The position by the end of the year will have been influenced by the loss of production of copper as a result of a total strike in the copper belt which has lasted several weeks and still continues. Also our export earnings from chrome have been reduced from £5.9 million in 1957 to an annual rate of £3.6 million on the basis of the figures for the first half of 1958 which can be compared pro rata, as seasonal factors do not exist.

In view of these uncertainties the Working Party would not expect me to attempt a forecast of the Federation's 1959 programme of controls. I should, however, like to close these introductory remarks by repeating that my Government has constantly affirmed its intention of removing the residue of its balance-of-payment restrictions as soon as the situation allows it to do so.

ANNEX II

Results of the last IMF consultation with
the United Kingdom, concluded on 7 March 1958

1. The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. A moderate but persistent rise in wage costs and prices in the first half of 1957 indicated the continued existence of inflationary forces in the United Kingdom economy, and there were some signs of falling confidence in the value of money at home. In September the authorities intensified their efforts to control the money supply and to eliminate inflation through the use of further fiscal and monetary restraints: the Bank Rate was raised by 2 per cent to 7 per cent, steps were taken to limit current government expenditure, the money value of total public investment was to be limited in each of the years 1958/59 and 1959/60 to approximately the amount spent in 1957/58, and tighter control was imposed on bank credit to the private sector.
3. In spite of a reduction in the surplus from invisible transactions following the Suez crisis, the current account of the balance of payments produced a surplus of about £200 million in the year ended 30 June 1957. The net outflow of long-term capital amounted to about £300 million in the same period, partly as a result of increased purchases of non-sterling securities through sterling area free markets. These security transactions have now been brought under stricter control. Sterling liabilities rose by roughly £130 million in this period, while the gold and dollar reserves were at about the same level in June 1957 as they were a year earlier. The Fund drawing in December 1956 had the effect of increasing both sterling liabilities and reserves by just over £200 million.
4. During the following months the reserves declined under severe speculative pressure, this decline being accompanied by some fall in sterling holdings; this pressure was halted after the announcement of the new measures referred to above and the assurance given at the Fund's Annual Meeting that the rate for sterling would be maintained. Since October 1957 the reserves have been rising and sterling has shown considerable strength in the exchange markets. The current trading position remains good, though the rate of growth of exports has slowed down.
5. The Government of the United Kingdom has, in its economic policy, increased the emphasis placed on the attainment of price stability, and aims at creating with its present policies an economic climate in which excessive increases in money incomes can be avoided. The Fund welcomes these policies as a means of strengthening the payments position and as reflecting the United Kingdom's determination to preserve the value of sterling. It is desirable that in the pursuit of monetary stability close attention should continue to be given to the effects of the Government's own financial operations.

6. The Fund welcomes the continued adherence of the United Kingdom to a policy of freer trade and payments. In 1957 the United Kingdom, in spite of the renewed pressure on its reserves, maintained and in some cases slightly extended the progress previously made with the relaxation of restrictions and discrimination. Further substantial progress in the field of liberalization largely depends on a strengthening of the balance-of-payments position, which is also necessary because of the great importance of rebuilding the gold and dollar reserves and because of heavy demands on capital account. The Fund has confidence that the United Kingdom is pursuing policies appropriate to these objectives.

7. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom.

