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Working Party 4 on Balance-of-Payments
Import Restrictions

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

The following draft report has been prepared by the secretariat for the convenience of the Working Party on Balance-of-Payments Import Restrictions.

The form that has been followed differs from that in previous years. Previous reports have included an annex containing notes prepared by the secretariat in consultation with delegations on the control techniques used by each of the countries resorting to the provisions of Article XIV. Because of the relatively few changes in those techniques in the past year, such an annex would be largely repetitive, and it is proposed that this be omitted. Furthermore, because of their importance to the Review of the Agreement, some of the outstanding problems that threaten to persist in the future are covered in a concluding section of the report.

Introduction

1. Under paragraph 1(g) of Article XIV the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of the Agreement allowing the discriminatory application of import restrictions to be maintained for balance-of-payments reasons. The present report is drawn up by the CONTRACTING PARTIES pursuant to these provisions at their Ninth Session which began in October 1954, and is based on statements supplied by governments applying restrictions and on data gathered from other sources including information supplied or published by the International Monetary Fund. In order to avoid repetition, the report is devoted principally to an examination of the changes that have taken place in the discriminatory practices of governments since the writing of the fourth annual report in October 1953.

2. In statements submitted in 1954 at the request of the CONTRACTING PARTIES or in other communications, [twenty-two] [1] of the thirty-four contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balance of payments and are exercising some degree of discrimination as between sources of supply as permitted under paragraphs 1(b) and/or 1(c) of Article XIV, or under Annex J; these are:

Australia	France	Norway
Austria	Germany	Pakistan
Brazil [1]	Greece	Rhodesia and Nyasaland
Burma	India	Sweden
Ceylon	Italy	Turkey
Chile [1]	Netherlands	United Kingdom
Denmark	New Zealand	Uruguay [1]
Finland		

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

3. It is the view of the Governments of Czechoslovakia and Indonesia that the import restrictions that they apply for balance-of-payments reasons under Article XII are non-discriminatory and that therefore they are not acting under any of the provisions of Article XIV. The Government of the Union of South Africa which was listed among the countries applying discriminatory restrictions in last year's report has since eliminated discrimination in the application of its import restrictions. Nine contracting parties, namely Belgium, Canada, Cuba, Dominican Republic, Haiti, Luxembourg, Nicaragua, Peru and the United States of America have reported that they do not restrict imports for balance-of-payments reasons.

4. At the Eighth Session in October 1953, when the last report was drawn up, the CONTRACTING PARTIES noted that there had been a marked improvement in the world dollar situation in the preceding year and that serious endeavours had been made by certain contracting parties

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[1] Brazil, Chile and Uruguay have not responded to the request for information made in L/196. The inclusion of these countries on this list is subject to confirmation by their delegations at the Ninth Session.

whose payments position had improved, to reduce restrictions and discrimination. In the period now under review the improvement in the international payments situation has generally continued; there have been further increases in gold and dollar reserves outside the United States, although for a few countries the difficulties of preceding years have persisted or, in some cases, have been aggravated. The CONTRACTING PARTIES' report on consultations in 1953[1] mentioned certain fortuitous and temporary, as well as certain more fundamental factors, to which the general improvement in 1953 might be attributed, and suggested that some of the more fundamental factors seemed likely to be enduring and to that extent should provide an opportunity for making an advance towards a system of trade free from restrictions and discrimination. Now it appears that the disinflationary internal policies applied by many governments in recent years have definitely had the effect of eliminating, or reducing, excess demand and abating the tendency for prices to rise. Furthermore, the efforts of the postwar years in reconstruction and development had by 1953 laid a firm foundation for production in Europe and elsewhere on an economic basis capable of competing on the world market. The continuation of the generally satisfactory situation in 1954 therefore reflects the strength of the underlying trends toward better equilibrium which began in 1953. Against this background, a number of the more important trading countries have continued to introduce greater freedom in their international transactions and to reduce the degree of restrictions previously imposed on imports. In contrast to the liberalization measures taken by governments prior to 1953, many of the measures recently taken have been more directly related to imports from the dollar area.

5. The general improvement in the world-payments situation has, however, not been shared by all countries. Especially in Latin America and Asia the deterioration in the external financial position of certain primary producing countries owing to the decline in the price of their basic exports has persisted in the period under review, or has improved only to a limited extent. The unfavourable effects of the United States recession have been only partly corrected by the subsequent recovery in that country and by increased demand in

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[1] BISD, Second Supplement, page 36.

Europe caused by increased industrial production. As mentioned in last year's report, the difficulties are often more acute in countries engaged in large development programmes, which have a tendency to maintain demand for imports in the face of reduced external earnings. Some of these countries have, however, become aware of the need to pursue internal fiscal and economic policies consistent with their external financial position.

Sterling Area

6. To begin with the developments in the Commonwealth sterling countries, in the period under review the United Kingdom has continued to pursue its policy of reducing discrimination and of relaxing import restrictions generally. Most of the measures are understood to have been taken consciously in the interests of reducing internal costs and prices generally, including those of export goods, and to have been based on the Government's intention to allow the purchase of primary products to revert to private trade. Thus a large number of items may now be imported from all sources, including the dollar countries, without an an individual licence through open general licences or through the issue of open licences to individual importers. For other items, restrictions have been relaxed from all non-dollar sources. In May 1954, the liberalization list introduced in March 1953 covering goods freed from licensing restrictions when imported from Western Europe and certain other countries was enlarged, and the United Kingdom's percentage of liberalized imports from OEEC countries was raised from 33 to 82. Furthermore, the quotas for many of the goods which remain subject to restriction have been increased. Some goods have been made admissible under OGL if they come from Sterling-area countries, and as a result very few items now remain under licence when imported from that area. The Government has also continued to pursue its policy of reducing the scope of state trading. A large number of items previously purchased on government account, mainly foodstuffs and industrial materials, have been returned to private trade. The re-opening of certain commodity markets in the United Kingdom was mentioned in last year's report. In 1953-1954, such facilities have been extended to important dollar commodities such as grain, cotton and new fur skins.

7. In Australia the restrictions continue to be maintained separately on imports from the Dollar area, from Japan and from the other countries. During 1953-1954, licences for imports from the dollar area have remained in general restricted to essential goods which are not available from other countries in adequate quantities or on reasonably comparable terms, but a certain relaxation is understood to have been made in the severity of the restrictions, particularly where it can be shown that a commodity is available from the Dollar area at lower cost or on better terms than from non-dollar sources. Substantial increases have been made in the amount of licences which can be issued for imports from Japan, and the range of licensable commodities has been considerably widened. The various steps taken by Australia up to October 1953 to relax its restrictions on non-dollar imports were noted in last year's report. Further important relaxations were introduced in April 1954; licensing control on essential imports was abolished, and the quotas for non-essentials were raised. Early in September further relaxation on imports from all countries outside the Dollar area was announced for later application. However, the Government has since announced that after reviewing the whole foreign trade situation it has decided that it cannot for the time being undertake further relaxation in respect of Category B (non-essential) imports. A quota limitation has also been placed on the importation of goods in the essential category. On the new basis, imports in 1954-1955 of goods previously not subject to quota restrictions are, however, expected to be approximately 20 per cent higher than in 1953-1954. The Government states that in view of the finely balanced trade position of the country, the measure has been taken in order to avoid risking the need of taking more drastic action at a later stage.

8. In New Zealand some imports from the Dollar area have been liberalized. The list of items permitted to be imported from the Dollar area has been enlarged, the licensable value has been increased for a larger number of products, and a considerable number of items have been added to the World Exemption List covering goods for which no licences are required when imported from any country. In the view of the Government, the measures have provided more scope for primary producers and manufacturers to obtain their essential requirements from North America.

It has been announced by the Government that in implementing the 1955 licensing schedule a more liberal policy will be adopted towards applications for licences to import essential equipment and industrial raw materials from Canada and the United States. As regards imports from soft-currency countries, apart from extending the World Exemption List, the basic exchange allocations to importers have been raised and a more liberal policy is understood to have been adopted towards applications for additional allocations.

9. Towards the end of 1953, the internal measures taken by Ceylon to reduce inflation began to show effects in strengthening the balance of payments. Import restrictions were relaxed to some extent through withdrawing licensing control from important groups of imports from the Sterling area and EPU countries, and, in the case of some groups, also from the Dollar area. Although the discrimination in import control is mainly against dollar imports, the various open general licences covering imports from divergent groups of countries remain in force.

10. In the Indian import control policy covering the second half of 1954, there has been some limited liberalization both in the administration of restrictions and in the granting of supplementary licences ver the quotas provided. Higher quotas have been provided for imports from soft-currency countries of a large number of essential materials, machinery and consumer goods, and for imports from the hard-currency area of certain items including iron and steel products, generators, hand tools, etc. Licensing restrictions have been totally removed for certain goods.

11. In Pakistan imports have remained subject to quota restrictions, and licences are issued separately for the hard and soft-currency areas. Licences valid for imports from a single country are issued in cases where these are called for by obligations under bilateral trade agreements. The open general licences, withdrawn in 1952-1953, have not been revived.

12. The import policy adopted by the Government of Southern Rhodesia for the first half of 1954 provided for further relaxation of restrictions; more goods were added to the Unrestricted List thus becoming freely importable from all

sources, and new or increased currency allocations were provided for some consumer goods. The Federal Government of Rhodesia and Nyasaland assumed control of imports into Southern and Northern Rhodesia and Nyasaland in April 1954, and beginning with the second half of the year, extended to the whole area the pattern of foreign currency releases previously followed by the Southern Rhodesian Government. Restrictions were relaxed by way of increased quotas, an enlarged list of licensable goods and an extended Unrestricted List. The Government has also promised to give favourable consideration to requests from basic industries for additional currency needed for securing raw materials from the cheapest source, in order to enhance their competitive power. In addition, there has been adopted an additional Unrestricted List for goods originating in OEEC countries. As a result, imports in the aggregate from non-dollar countries outside the Sterling area in 1954 are expected by the Government to resume approximately the level that existed in 1951, before the Southern Rhodesian control on imports from those countries was instituted.

13. The Union of South Africa eliminated all discrimination in the application of its import restrictions as from 1 January 1954. Consequently, the relaxations introduced in 1954 have covered dollar imports as well as those from other countries. Special import permits have been instituted and liberally granted for industrial machinery, additional allocations have been provided for imports of motor-cars, tractors and spare parts, and the ordinary quotas for consumer goods imports have been raised by 5 per cent of base year imports.

Continental OEEC Countries

14. In Western Europe important steps have been taken by several countries in the past year in relaxing on imports from the Dollar and other hard-currency areas. The German Federal Republic announced in November 1953 its intention of removing the restrictions on certain imports from the dollar area, and by mid-February 1954, 40 per cent of its dollar imports had been freed from control. The list published at that date contained some two thousand items, mostly industrial materials, but it included also a large number of final products. In August 1954 Italy published a new list of commodities which could be imported

from the Dollar area without licence; the goods newly added to this list were certain raw materials such as coal and oil, and some semi-finished products. The Netherlands began to ease its restrictions on dollar imports in October 1953 with the publication of a free list covering a wide range of raw materials and semi-finished products. By the end of May 1954, quota restrictions had been eliminated for more than 1,200 items from the Dollar area. Greece has continued the import policy adopted in 1953 under which quantitative licensing control is imposed on only a limited list of non-essential goods.

15. Among the Scandinavian countries, Denmark has in the past year introduced relaxations in the issuing of licences for imports from the Dollar area, and is currently considering how far regional liberalization can be extended to dollar imports. The Norwegian Government has indicated that because the payments position has improved and the dollar problem has become less severe, prices and other commercial considerations have been allowed to play an increasingly important part in determining the source of imports, and that the degree of discrimination has been reduced accordingly. In considering the level of dollar imports to be allowed for the second half of 1954, the Swedish Government, whilst believing that the decreased sales of paper and iron-ore will reduce total earnings from exports to the Dollar area to a level below last year's earnings, has nevertheless decided to maintain dollar imports for 1954 as a whole at about the same level as in 1953. Since the beginning of October an extensive list of products accounting for 45 per cent of all Swedish imports in 1953, have been freed from restrictions from all sources and a more liberal policy has also been announced for considering import licence applications for goods which remain under restrictions.

16. In recent years the trade liberalization policy originally adopted by Western European countries for freeing trade between themselves has been extended to cover imports from a wider area, mainly owing to the participation of the United Kingdom as a member of the Sterling area in the EPU. The percentages reached by the various countries in the liberalization of their imports from other EPU countries vary from country to country, but most of them have reached

a higher level than at any time in previous years. By April 1954 the weighted average percentage for all OEEC countries stood at about 77 per cent. Although the percentages of liberalized imports attained by certain individual countries are much higher than this average level, the liberalization in agricultural products remains at lower levels than in the other sectors of imports for many countries. Furthermore, there still exist a large number of bilateral trade agreements.

17. During the period under review, the Austrian OEEC liberalization percentage was raised to 50 in December 1953 by the removal of restrictions from certain raw materials and manufactured goods. This was further raised to 60 percent in March, 1954 and to 75 in May. A figure of 83 percent has been announced for application from December 1954. In October 1953 France reintroduced liberalization benefiting some 8 per cent of French imports from OEEC countries and this was shortly raised to 20 per cent. It was further raised to 53 per cent in April 1954, and to 57 per cent in September, and it now stands at 65 per cent. By February 1954 the percentage of liberalized imports into the Federal Republic of Germany had been progressively increased to 82 per cent. Some additions were made to the OEEC liberalization list in July. In March 1954 Germany also increased the liberalization of imports from non-OEEC countries which settled their accounts through EPU by introducing a free list which is only slightly more limited in scope than its list of liberalized imports from OEEC countries.

18. Turkey continues to apply the strict restrictions on imports introduced in September 1952. Changes in the administrative system as well as in the listing of goods for various licensing purposes were made in September 1953, but the liberalization list remains unapplied. Further changes were made in September 1954 with a view to reducing imports and to enforcing stricter control.

Latin America and Other Areas

19. Among the countries of Latin America and Asia, certain contracting parties have continued to experience balance-of-payments difficulties in the period under review. Because these balance-of-payments difficulties are of a general nature the related intensification of restrictions has in most cases been generally

applied to imports from all sources. In Brazil, the import control system introduced in October 1953 has been continued without major modification; except for a few specified items, all private imports require licences. Licences are granted to holders of exchange certificates, purchased at auction. For the purpose of allocating exchange for auction, imports are classified into five categories according to their essentiality and other criteria. The categories for this classification have remained substantially the same as last year.

20. Similarly the import restrictions of Chile have undergone but minor changes in the past year. All imports remain subject to licence and certain luxury goods and goods of a type produced locally are not permitted to be imported. The list of prohibited imports has been extended and it now includes a large number of items. Quotas are granted to individual importers on the basis of an exchange budget, and essential and non-essential goods are treated differently. Some goods are permitted to be imported only from certain countries with which Chile has bilateral trade agreements.

21. In Uruguay, as in many other Latin American countries, the restriction of imports is mainly achieved through exchange measures, but it also involves the establishment of quotas for various categories of imports. In 1953-1954, owing to the decline in dollar earnings, import quotas have for the most part been granted only for imports payable in inconvertible currencies, dollar imports being drastically curtailed.

22. The Union of Burma has maintained its import control system involving the issuance of licences separately for imports from the hard and the soft-currency areas. The Government has stated that in order to meet the heavy requirement for capital equipment, and to provide adequate consumer goods so as to combat inflationary tendencies, a liberal import policy is being pursued with respect to goods originating in non-dollar countries, and consequently, 1954 imports from the soft-currency area are expected to reach the 1953 level which was the highest in the postwar period. Imports from the dollar area are, however, controlled in accordance with exchange availability and are therefore more restricted.

23. Finland has continued to face difficulties in its balance of payments, and its efforts to diversify its exports and to divert exports to Western markets have been continued. The Government has stated that it has introduced no change in its import control policy, which remains as described in last year's report.

24. Japan exercises a unified control over imports through the allocation of foreign exchange and through the issue of individual import licences. The Government has stated that sources of imports are determined with a prime consideration for maintaining balance in trade with the respective settlement areas: in trade with the Open Account settlement countries the policy of equating bilateral trade at the highest possible level is pursued; in trade with countries in the Sterling area, efforts are being made to achieve an overall equilibrium within the framework of the Anglo-Japanese Payment Agreement; and in trade with the Dollar area, the principle of non-discrimination between countries within the area is maintained. In addition, imports from a country or an area with which Japan has a payment and/or trade agreement are made in conformity with requirements set out in the agreement. Owing to the unfavourable balance-of-payments position, there has been a tightening of import restrictions; in the foreign exchange budget announced for the six-month period ending 31 March 1955, provisions for imports have been reduced by almost 30 per cent from the level in the corresponding period of the previous year.

25. Thus, with the exceptions noted above, it appears that import restrictions have been greatly reduced in the past year. As a result, the general level of the restrictions still maintained by most countries is probably lower than at any time since 1951-1952 when more strict restrictions were introduced by many countries to redress their balance-of-payments difficulties. Furthermore, the more liberal policy now adopted by the more important trading nations on dollar imports indicates a substantial reduction in the general degree of discrimination in the application of import restrictions. Although in most of these countries a stricter control is still exercised over dollar imports than over those from other currency areas, there has been a significant reduction in the range of products to which such discriminatory restrictions apply, and most of the

Governments state that they have relaxed the standards by which applications for import licences from the Dollar area are considered. However, the efforts made by these countries in recent years in stabilizing their economies and in increasing production have laid a foundation which should permit further substantial relaxation and eventual total elimination of the restrictive measures brought into being by the earlier payments disequilibrium.

Persisting Problems

26. In the period during which the general level of restrictions based on balance-of-payments difficulties is receding, certain problems seem likely to persist which, if not new, have hitherto been obscured by the high tide of inconvertibility. Under the stress of balance-of-payments difficulties, most countries, including many of the contracting parties, have come to depend upon techniques and to establish trade patterns that may be difficult to eradicate even after the disappearance of those difficulties and may lead to a perpetuation of discrimination unless the countries concerned take vigorous action for their elimination.

(a) Bilateral Agreements

27. In the postwar period, the widespread inconvertibility of currencies has encouraged the use of many bilateral trade agreements designed to effect a more or less perfect balance of the merchandise trade between the participants. The original motivation for these agreements has in most cases been financial and directly related to the balance-of-payments position of the participating countries. But even from the beginning of the postwar period there have been cases in which a country which had no balance-of-payments difficulties has resorted to bilateral trade agreements with soft-currency countries in order to preserve export markets which it might otherwise have lost as a result of the convertibility of its own currency or in order to obtain payment in goods rather than inconvertible currencies.

28. As world trade has been progressively freed of restrictions, the scope of many bilateral trade agreements has diminished, but at the same time the existence of a hard core of discrimination for commercial, rather than financial

reasons, has become increasingly evident. A substantial part of world trade, in particular that between certain European countries on the one hand and the the countries of Asia and Latin America on the other hand, is still governed by trade agreements involving import quotas even in cases where it is difficult to find any balance-of-payments reason for such agreements.

29. The commercial motivation for much of the bilateralism that remains in the world is revealed most clearly by the changing character of trade agreements. The emphasis on agreements aimed at a balancing of trade between partners has shifted to agreements which give each participant special advantages for particular commodities in the market of the partner country.

30. A type of commodity bilateralism that was particularly common during the period of widespread shortages involved the practice of guaranteeing export licences for scarce goods in exchange for a commitment by the partner country to purchase, or to issue import licences for, less essential goods. At the present time, the most common form of commodity bilateralism involves a guarantee by each partner of assured access to its markets of the less essential goods exported by the other partner. When one of the partners conducts its trade exclusively on the basis of a state-monopoly it is often able to obtain concessions from the partner country that clearly discriminate against third countries. This circumstance can even result in discrimination by a contracting party in favour of a non-contracting party. For example, a contracting party may agree to import luxury motor-cars from a non-contracting party having a complete monopoly of its import trade even though no licences for such cars are granted for imports from other contracting parties. A possible obstacle to the elimination of some bilateral agreements is the belief that only through such agreements can trade be conducted successfully with state-trading countries, though the experience of such countries at the United States, and more recently the United Kingdom, creates considerable doubt that this assumption is correct.

31. In some bilateral agreements between non-state trading countries one partner simply grants an import quota for unessential goods from the partner country in exchange for a similar import quota covering one of its own export products which

is hard to sell in world markets. Agreements of this kind, which involve only conditional access to a market - that is, if a buyer can be found - may not appear at first glance to result in discrimination. Indeed, if a contracting party participating in such an agreement has ceased to impose any quantitative restrictions against imports from other contracting parties, no direct discrimination can be involved. But until trade with other contracting parties has been totally liberalized, the existence of such commitments will have a tendency to limit the willingness of the importing country to grant licences freely to others. Thus, the existence of such agreements can itself delay the general removal of quantitative restrictions. Even after the balance-of-payments status of the importing country no longer requires restrictions, the bargaining advantage that such restrictions afford may provide an incentive for their perpetuation and retard the restoration of multilateral trade.

(b) Multiple Exchange Practices for Commercial Advantage

32. Another problem that threatens to give trouble, even after balance-of-payments difficulties have been removed, is that of differential exchange rates. Here again, there is evidence that not all such practices have been financial in intent, and the multiple rates that have been maintained for reasons of commercial advantage may prove the most difficult to remove.

33. The clearest case of trade distortion resulting from such practices occurs when differential rates result in cross rates between various foreign currencies which bear no relation to the relative official values of the respective currencies. The olive oil sold by certain European countries suffers from a price disadvantage in one Latin American market in terms of the local currency of that market, as compared with the olive oil exported by a third country, even though the latter is higher-priced in world markets. This disadvantage results entirely from the more favourable rate at which importers are able to purchase the exchange of the third country. In other cases, competitive trade patterns are distorted by the granting of especially favourable rates to exporters of certain products. In some cases certain exporters of the same material are favoured over others, and this practice often results in different export prices

for a single product, depending upon the destination. As a counterpart, the country buying the product at the more favourable price may receive preferred treatment for its own exports because of its resultant ability to sell at a discount, the profit from the transaction being used by the importing country to reimburse itself for the exchange loss suffered in its original grant of a subsidy rate to its own favoured exporters.

34. Some of these discriminatory effects would, of course, result from differential exchange rates that are adopted for purely financial reasons. But the practice has grown up of using multiple rates as an auxiliary to bilateral agreements and for the clear purpose of granting a commercial advantages. The determination of rates which would favour the products of another country is sometimes arbitrary, sometimes partially automatic. An example of the latter case is the system under which foreign currencies are sold at auction to importers. The auction system inevitably results in discrimination so long as each currency is auctioned separately regardless of the degree of transferability between them. The effect of these separate auctions is to divide various currencies into water-tight compartments and to determine the exchange value of each in the importing country without relation to its value in world markets. The value of each currency is then determined only by the demand for that currency in the country concerned and the supply arbitrarily made available by the licensing authorities.

35. Whatever the method used, practices which result in differential exchange rates, and especially in broken cross rates between currencies, are a convenient method for the maintenance of trade discrimination for commercial purposes. The danger, therefore, is that they may tend to persist after the original balance-of-payments reasons for their adoption have disappeared.

(c) Regional Arrangements

36. As the CONTRACTING PARTIES have frequently recognized, the development of convertibility on a regional basis has made a very valuable contribution to the reduction of the general level of restrictions on trade. Thus the EPU and the expansion of the area of sterling transferability have greatly enlarged the areas

within which trade can be conducted in a normal way. But it would be unrealistic not to recognize that these benefits have brought with them a danger for the future. In so far as the reduction in restrictions on a regional basis has outstripped the liberalization of trade between regions, there has been a tendency to develop abnormal trade patterns that may be difficult to eradicate. Relatively inefficient producers have found it possible to enlarge their production to take advantage of a wider market which remains insulated from outside competition. Thus, it becomes especially important that, during the period of transition towards complete convertibility, barriers between regions be removed progressively and that producers be encouraged to transfer their efforts into lines that will not require permanent inter-regional protection.