

RESTRICTED

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

W.14/1/Rev.1  
28 May 1959

Limited Distribution

CONTRACTING PARTIES  
Fourteenth Session

REVIEW OF IMPORT RESTRICTIONS  
UNDER ARTICLES XIII:4(b) AND XVIII:12(b)

Draft Report prepared by the Draft Group of the  
Committee on Balance-of-Payments Restrictions

Contents

PART I.

	Page
I. Introduction	2
II. Changes in the International Payments Situation	4
III. Changes in the Use of Import Restrictions	7
IV. The present Level of Restrictions and Discrimination	13

PART II.

(Circulated separately in W.14/2)

Notes on the restrictions in force in the twenty-five  
contracting parties acting under Articles XIII or XVIII:B

THE USE OF IMPORT RESTRICTIONS FOR BALANCE-OF-PAYMENTS PURPOSES

Review of Restrictions under Articles XIII:4(b) and XVIII:12(b)  
Incorporating the Ninth Annual Report on Discrimination under Article XIV:1(g)

PART I

I. INTRODUCTION

1. One of the basic rules of the General Agreement on Tariffs and Trade is that imports from the territories of contracting parties shall not be subjected to any governmental control or restriction apart from duties, taxes and other charges. This rule, embodied in Article XI of the Agreement, relates to all restrictions whether made effective through quotas, import licences or other measures. As exceptions to this general rule, however, the agreement provides for the use of restrictions in certain circumstances and under defined conditions. The most important of these exceptions is provided for in Article XIII and Article XVIII:B, which allow a contracting party to restrict imports by quantity or by value in order to safeguard its external financial position and balance of payments. Imports may be restricted to the extent necessary to meet a threat to the country's monetary reserves or to secure an increase in reserves which are considered to be at a very low or inadequate level.

2. A number of contracting parties have been resorting to these provisions and applying import restrictions for balance-of-payments reasons. Pursuant to the provisions of the Agreement then in force the CONTRACTING PARTIES undertook in 1951 a "review" of the restrictions.<sup>1</sup> It was found that a beginning had been made in the dismantling of such restrictions.

3. In 1954-55 the CONTRACTING PARTIES re-examined the General Agreement in the light of the operation of its provisions in the preceding six years. As a result they amended the text of Article XII and added certain special provisions - in Article XVIII:B - to meet the need of developing countries. These amendments were made in the light of the general belief that consequent upon the return of currency convertibility, which was considered to be imminent, there would be fewer countries applying restrictions on balance-of-payments grounds, but that the restrictions that remained should be subject to closer scrutiny by the CONTRACTING PARTIES as a whole. While the rules and criteria governing the use of import restrictions for balance-of-payments reasons were not substantially changed it was considered appropriate to provide for periodic consultations to be held with the countries applying restrictions. It was also decided that before such consultations were started, there should be an opportunity for the CONTRACTING PARTIES to take stock of all the restrictions maintained for balance-of-payments reasons. For this purpose paragraph 4(b)

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<sup>1</sup> See the report entitled The Use of Quantitative Import Restrictions to Safeguard Balances-of-Payments, November 1951.

of Article XII and paragraph 12(b) of Article XVIII provide that, at a date to be determined by the CONTRACTING PARTIES, there should be a "review" of all balance-of-payments import restrictions applied under those two Articles. When the revised provisions of these Articles came into force in October 1957, the CONTRACTING PARTIES decided that this review should be effected in 1958. The results of this review are embodied in the present report.

4. There are at present thirty-seven contracting parties to the General Agreement. Among them, twenty-five have stated that they are resorting to the provisions of Article XII or Article XVIII:B, and are employing quantitative import restrictions for the purposes referred to above. The countries resorting to Article XII are: Australia, Austria, Denmark, Finland, France, Italy, Japan, New Zealand, Norway, the Federation of Rhodesia and Nyasaland, Sweden, the Union of South Africa and the United Kingdom. The countries which resort to Article XVIII:B - which contains a set of new provisions applicable to contracting parties whose economies can support only low standards of living and are in the early stages of development - are: Burma, Ceylon, Chile, Ghana, Greece, India, Indonesia, the Federation of Malaya, Pakistan, Turkey. In the case of Brazil and Uruguay the restrictions are covered by Article XII, but will be under Article XVIII:B when these new provisions become effective for them.

5. This report also reviews the discriminatory application of these restrictions. Article XIII of the Agreement requires contracting parties to administer restrictions in a non-discriminatory manner, that is to aim at a distribution of their import trade which approaches as closely as possible the pattern which could be expected to obtain if imports were not restricted. This rule of non-discrimination is, however, subject to an exception - set out in Article XIV - permitting a contracting party to retain discrimination in the application of its import restrictions under specified conditions and within defined limits. Article XIV provides that a report should be drawn up each year by the CONTRACTING PARTIES on the state of such discrimination. Eight such reports have been published since 1950, and it was agreed at the thirteenth session that the present report on the review of restrictions should be regarded as also constituting their Ninth Annual Report on the Discriminatory Application of Restrictions.<sup>1</sup>

6. The present review is intended to be a factual survey of the use of balance-of-payments import restrictions and discrimination by the CONTRACTING PARTIES. Part I discusses the financial background of the restrictions and discrimination, changes in the use of restrictions in recent years and the present level of restrictions and discrimination, in general terms. The opportunity is also taken to review the changes in the methods of restrictions in the past few years. Part II contains separate notes briefly describing the

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<sup>1</sup> This annual reporting is required only under the old text of Article XIV which is still in force, and will be discontinued once the revised provisions of the Article become effective. (These provisions will come into force when a sufficient number of contracting parties have accepted the obligations under Article VIII of the IMF Agreement concerning the use of exchange restrictions).

restrictions in force, as at the end of 1958 or early in 1959, in the twenty-five contracting parties resorting to Article XII or Article XVIII:B. These notes, prepared by the secretariat on the basis of information supplied by the governments concerned or obtained from other sources, have been verified by the delegations of the contracting parties concerned.

7. In concluding this introduction it may be useful to note that this report is intended to deal only with balance-of-payments restrictions and therefore does not cover restrictions applied for other than balance-of-payments reasons.

### II. CHANGES IN THE INTERNATIONAL PAYMENTS SITUATION

8. Before the past changes and the present state in the use of import restrictions are discussed, it may be useful briefly to survey the salient developments in the field of international payments since the GATT came into being at the beginning of 1948.<sup>1</sup>

9. At that time the world was still recovering from the dislocation caused by the war. In Europe available resources fell short of those needed to maintain minimum levels of imports, investment and consumption. There was thus in Europe, and elsewhere, a high demand for imports of all kinds from the dollar area which could not be fully met because of reduced overseas earnings and reserves, particularly of dollars.

10. Since the early post-war years it is clear that there has been a significant improvement in the overall international payments situation. The official gold and foreign exchange holdings of countries other than the United States increased from \$22 billion to about \$34 billion over the ten years 1949-1958. Most of this increase took the form of enlarged gold holdings which grew by about \$6 billion. There has also been some growth in private holdings of gold and foreign exchange. A not unimportant factor in the maintenance of an increasing supply of dollars has been the steadily expanding volume of United States imports and payments for overseas services, foreign investments, loans and grants.

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<sup>1</sup> For a full account of developments in this field, reference may be made to the Annual Reports and other publications of the International Monetary Fund.

11. This improvement in international liquidity has not been a continuous one. There have been periods of fairly rapid advance but there have also been times of acute stringency. In this review it will only suffice to recall such events as those leading to the devaluation of currencies in September 1949, the effects of the Korean War, the closure of the Suez Canal, and certain marked fluctuations in economic activity in some industrial countries.

12. Various developments and arrangements which reduce direct reliance on gold or dollars for the settlement of international transactions have supplemented the increase in international liquidity noted above. As time passed, for example, the private credit system that had been almost completely disrupted during the war has played an increasingly important part in financing international trade. In the last few years the International Monetary Fund has made substantial amounts of its resources available to its members, thereby contributing significantly to the stabilization of national economies and helping to avert serious crises such as when sterling and the French franc were put under severe strains in 1956 and 1957.

13. The increase in total gold and dollar reserves, however, was not shared by all countries outside the United States. In general it is the international payments position of the industrialized countries that has improved. The reserves of the EPU countries as a group rose substantially from the very low levels of the early post-war years and some of the EPU countries, notably the Federal Republic of Germany, secured a considerably larger share of the total increase than others. A number of primary producing and under-developed countries, such as India and a number of Latin American countries, which had accumulated large holdings of dollars or sterling during the war spent heavily thereafter on capital equipment and materials needed for development purposes, and other supplies which had previously been unobtainable. On the whole their balance-of-payments and reserves position has not developed as favourably as that of industrial countries. The majority of these primary producing and under-developed countries do not hold large reserves and an unfavourable change in their position has often led to the intensified use of import restrictions. By 1958, while the major disturbances to international payments of the preceding years had largely spent their force, the prominent question has become one of restoring and maintaining equilibrium between the primary producing and under-developed countries and the industrial countries.

14. If an analysis is made of the causes of the individual improvements and deteriorations, it may be seen that throughout the post-war years changes in reserves have frequently reflected the trend of internal demand. In as much as export capacity and import demand are linked with the general movements of internal income and demand, the differences in the fortunes of various countries often reflect the internal fiscal and monetary policies they have adopted. In many cases inflationary pressures associated with excessive credit expansion were responsible for a country's balance-of-payments difficulties and loss of reserves. The general tendency during

the period under review has been one of more effective and widespread use of internal policies to curb inflation and to maintain stability. On the other hand the extent to which such policies can be pursued is related to problems such as those of unemployment in industrial countries and of raising standards of living above acceptable minimum levels in under-developed countries. It may be noted that disinflationary policies are relevant only where disequilibrium is due to inflationary pressures and high levels of demand and spending in excess of available resources. In the last analysis, the success of internal policies in dealing with balance-of-payments problems is also contingent upon the maintenance and growth of international liquidity and international lending.

15. The prospects for the maintenance of international financial equilibrium on a lasting basis depend, among other things, on the availability of adequate reserves for financing international transactions. According to a recent study by the staff of the International Monetary Fund<sup>1</sup> the ratio of aggregate reserves to annual imports for all countries other than the United States was 36 per cent in 1951, 34 per cent at the end of 1957, and was expected to be somewhat higher than the latter at the end of 1958. This stability has been maintained during a period when total imports had increased by nearly 33 per cent; in other words liquidity has remained fairly constant, reserves having grown as rapidly as trade. Whether this level of reserves could be considered adequate was a question which, the study suggested, could not be answered without reference to certain other factors. On the one hand it may be noted that recent developments in credit and money volume in most countries have largely been healthy; an important factor in this process has been the more general application of monetary measures, including the return to a flexible credit policy. Secondly, in the absence of an excessive amount of short-term credit subject to sudden recall and problems of reparations and war debts such as existed in the inter-war period, the international credit system is comparatively firmly based; at the same time international trade is increasingly being financed through normal commercial channels. Thirdly, probably reflecting the strengthened economic and financial structure in the more important countries and a better understanding of the problems involved together with a greater readiness to take corrective measures, the recessions that have occurred in recent years have been mild. On the other hand the foreign reserves are increasingly being held in the form of foreign currencies rather than of gold. This means that greater attention has to be paid to the control of speculative capital movements. Secondly, ambitious development plans and in general the increase in the public sector often make economies less flexible. Low or fluctuating prices of primary commodities are liable to create extremely difficult situations for many countries. Thirdly, with the faster growth of foreign trade as compared to domestic gross national product, if monetary or other fears arise, changes in payments positions resulting from shifts in leads and lags may become very important. Finally, in a period of international tension, disruption of the payments situation can arise from events of a non-monetary nature.

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<sup>1</sup> International Reserves and Liquidity, August 1958.

16. These considerations have led to the view that while there is no need for pessimism one should be cautioned against drawing over-optimistic conclusions. It has also been suggested that whatever balance is struck, individual countries cannot be expected to rely entirely on themselves to meet all adverse circumstances. In this connexion, it may be noted that the IMF has proposed that its resources be enlarged through a general increase of 50 per cent in its members' quotas, with additional increases for certain members. The proposals are now before its member countries for appropriate action.

17. Recently, the economic and financial resurgence of Western Europe, coupled with increased confidence, has made possible a significant further progress in the exchange field. At the end of 1958, most countries of that area restored their currencies to a status of external convertibility. In general holdings of these currencies by non-residents may henceforth be converted at official rates of exchange into dollars or any other currency. Convertible and transferable accounts were either unified or were made inter-transferable among non-resident account holders. Similar steps were taken by certain other countries, mainly members of the sterling and franc areas and Finland. Subsequently, the Federal Republic of Germany made its currency convertible for residents as well as for non-residents. In the last few years some of the European currencies had already been freely convertible for non-residents in exchange markets on a de facto basis, usually at a slight discount, and a number of countries had taken steps to increase the transferability, and in some cases the effective convertibility, for their currencies. Nevertheless, the recent moves in introducing legal and formal external convertibility represent a substantial advance towards the restoration of a sound international monetary system, although currency convertibility by itself does not eliminate the need for countries to maintain restrictions where these are necessary to safeguard their monetary reserves.

18. At the same time the European Monetary Agreement replaced the European Payments Union which, over a period of years, provided credit facilities on an automatic basis to its members. The payments arrangements of the Brazil and Argentine multilateral systems (usually referred to as the Hague and Paris Clubs) have been largely overtaken by the restoration of the external convertibility of the currencies of the European countries and in the case of the Paris Club, by the introduction of a single free exchange rate for the Argentine peso. The individual payments agreements between the European Countries and Brazil and Argentine are being reviewed in the light of the new situation.

### III. CHANGES IN THE USE OF IMPORT RESTRICTIONS

19. Broadly speaking there has been since 1952-53 a general tendency in the industrial countries to relax restrictions, but on the whole much less progress has been made by the primary producing countries. For convenience these two groups of countries are reviewed separately.

The Industrial Regions

20. The industrial countries in North America apply no import restrictions for balance-of-payments reasons. In Western Europe the adoption by the Member Countries of the OEEC in 1949 and 1950 of a set of rules concerning the removal of quantitative restrictions and the establishment in 1950 of the European Payments Union opened the way for rapid progress in the freeing of intra-European trade. In the second half of 1951, however, a critical situation occurred and was associated with the readjustment and corrective phase which followed the immediate, partly speculative, reactions to the Korean crisis. In 1951 the Federal Republic of Germany, the United Kingdom and France imposed additional restrictions. On the other hand, several countries, including Denmark, the Netherlands, Norway and Sweden, raised their levels of liberalization and early in 1952 the Federal Republic of Germany restored liberalization of imports. By the end of 1952, the limitations placed by several of the countries experiencing difficulties upon external expenditure, combined with internal measures to redress the disequilibrium in their economies, had served to bring about a substantial improvement so that the restrictions previously re-introduced were gradually relaxed. A notable exception was France, which reduced imports even further in the first months of 1953.

21. A persistently favourable situation throughout 1953-54 enabled many industrial countries to make further progress in the dismantling of their restrictions. Nearly all Western European countries made some progress. Advantage was taken by a number of the European countries of their strong financial position in 1953-54 also to relax restrictions on imports from non-European countries. While the process of removing import restrictions on intra-European trade continued, several countries extended the application of their free lists, in whole or in part, to countries other than OEEC members which settled their accounts through the EPU. As for imports from the dollar area, a beginning was also made in 1953 and 1954 in formal liberalization. Previously European governments intending to permit increased imports from the dollar area had been prepared only to issue licences for dollar imports in a more liberal manner, particularly in cases where like products from other sources were not available at comparable prices. In 1954, a number of Western European countries, introduced lists of liberalization for dollar goods.

22. In 1955 most Western European countries were able to raise the levels of liberalization of intra-European trade. The progress in the dollar liberalization programme of these countries, although less pronounced than in the previous year, was also substantial. Some countries put into force their first dollar liberalization lists and new measures were taken by certain other countries. In addition to formal liberalization, arrangements were made to admit a proportion of dollar imports in the non-liberalized sector on a more liberal basis.

23. In 1956 and 1957 the industrial countries continued to relax import controls and to reduce the discriminatory elements in the application of their restrictions, but progress was more gradual than in 1954 and 1955. Germany ceased to apply import restrictions for balance-of-payments reasons. Some countries indicated that their ability to make further contributions to the

liberalization of intra-European trade would depend on a further reduction of tariffs and other devices affecting trade. Inflationary pressures and, in 1957, speculative capital movements and fears about the possible effects of recessional tendencies in North America provided circumstances which were not propitious for rapid progress in the removal of the remaining restrictions. The scope of the restrictions in some industrial countries had been reduced to an extent where further liberalization involved other than balance-of-payments considerations. It is noteworthy that in spite of the uncertainties and adverse developments European countries; with the only exception of France, did not intensify their restrictions.

24. In fact, France has been the only country in western Europe which has not been able to participate consistently in this general move towards freer trade, mainly as a result of the expansionist policies in the private sector and increases in Government expenditures which for a number of years placed a burden on the balance of payments. By successive steps the levels of its restrictions on dollar and non-dollar imports were reduced in 1954 and 1955, but remained considerably higher than those of other European countries. Early in 1957 the Government took a number of measures affecting imports. In June, with a further deterioration in the balance of payments all trade liberalization was suspended; almost all permitted imports were to be admitted under quota. Extensive internal measures were taken with a view to promoting rehabilitation of the economy. In October 1957 and June 1958 changes were made in the exchange tax and exchange rate structures, thus consolidating an effective devaluation of the franc. At the end of 1958, with a reduction in the official rate of exchange import restrictions were withdrawn for most imports from Europe and a large proportion of dollar imports

25. In July 1958 the United Kingdom removed the control on dollar chemicals and allied products used in industry, and merged the dollar and non-dollar quotas for apples. In August 1958 a quota for fruit from the dollar area was instituted. At a meeting held among the Commonwealth countries in Montreal in September 1958, the United Kingdom announced measures of liberalization for a substantial proportion of dollar imports and the participating countries generally reaffirmed the objective of achieving freer and multilateral trade by freeing imports from restrictions and particularly discrimination. A clean sweep was made of United Kingdom controls on dollar imports of industrial, agricultural and office machinery and newsprint. Canned salmon was freed from the import control with the exception of that coming from the Eastern Area. Relaxation by United Kingdom dependent overseas territories on a wide range of dollar goods came into effect on 1 January 1959. As a result of all these successive moves almost all raw materials, basic foodstuffs and "tools of trade" were freed from the import control.

26. During 1958 Norway extended its dollar liberalization. Early in 1959 Denmark and Norway eliminated most of their discriminatory restrictions against dollar imports, and the Netherlands formally announced that it no longer applied import restrictions for balance-of-payments reasons.

27. Among industrial nations, Japan has also made repeated attempts at relaxing its import restrictions. Its efforts, however, have been hindered on several occasions by untoward developments in its balance of payments.

Restrictions were first relaxed in 1952, but re-intensified in the second half of 1953. The new restrictions were introduced in the face of falling exports and declining reserves and were accompanied by measures to restrict credit facilities and to reduce excess inventories of important primary commodities. In 1955 the drain on reserves was arrested by a remarkable increase in exports and as a consequence of the restoration of stability in the internal economy, restrictions were again relaxed. In the early months of 1957, however, increases in internal demands, soaring imports of raw materials and durable equipment and a slight decline in exports caused the balance of payments of Japan again to deteriorate. Restrictive internal monetary and fiscal policies were again intensified and foreign exchange allocations for imports were reduced. Since then, as its economy responded to the internal measures there has been a marked improvement in the balance of trade and payments and monetary reserves. Import restrictions have again been relaxed.

#### The Primary Producing Countries

28. The reversal of world price trends in 1951 had particularly serious financial repercussions for primary producing and under-developed countries. The raw materials boom in 1950-51 had benefited greatly their external payments situation, and when the boom conditions ceased many of these countries met with considerable difficulties with the contraction of their export earnings. Hardship was particularly severe for the countries which found it difficult to make rapid adjustments in their imports because of the more or less rigid requirements of their important development programmes. During 1952, in response to the rapid depletion of their foreign exchange reserves, many of these countries introduced or intensified restrictions. Measures taken by the Union of South Africa in January 1952 to reduce imports were followed in March by similar action in Australia and New Zealand. The tightening of the restrictions generally aimed at keeping imports within limits comparable to expenditure in 1950 and 1951. In the second half of 1952, Ceylon and India intensified their import controls. Latin America, Brazil, Chile and Uruguay attempted to limit or reduce import expenditure through various measures including the manipulation of exchange rates applied to different categories of products.

29. The improvement in the international payments situation in 1953 was shared by a large number of primary producing countries. Australia, New Zealand and Southern Rhodesia found it possible substantially to reduce their restrictions. In most other primary producing countries, and in the under-developed countries generally, where, owing to internal factors or a further downward movement in the price of their exports, balance-of-payments difficulties persisted, restrictions were intensified or additional complexities introduced in their exchange systems. During the year, Brazil, Chile, Indonesia and Pakistan, for example, continued to tighten their controls and restrictions.

30. In 1954, increased capital inflows, added to the reserves accumulated in the previous year, enabled most sterling area countries to reduce their reliance on quantitative restrictions. Ceylon, India, New Zealand, the Federation of Rhodesia and Nyasaland and the Union of South Africa relaxed their restrictions, including those applied on certain essential commodities from the dollar area. In contrast, Australia had to reverse the process of

freeing imports and towards the end of the year began to intensify its restrictions. Gold and dollar holdings of the non-storling area primary producing countries generally showed no increase and the reserves of some of them showed a decline. Brazil, Chile, Indonesia and Uruguay curtailed their imports drastically. The deterioration in the payments situation of these countries was generally not attributable to any reduction in their export earnings, but was rather caused by inflationary pressures and by an expansion of imports which was mainly a reaction to the abnormally low level to which they had been restricted in the previous year.

31. In the following two years, 1955 and 1956, no signs could be discerned of any durable improvement in the balance of payments of most primary producing and under-developed countries, although there seems to have been a tendency among these countries to rely more on measures other than quantitative restrictions. A number of these countries, particularly those which were not faced with inflationary strains, found it possible to reduce or, in some cases, to dispense with the use of import controls. For example, Chile and Uruguay readjusted their exchange rates, introduced advance deposit requirements and freed a large range of essential products from licensing restriction. In Brazil, though inflation continued unabated, there was some improvement in the balance of payments. Apart from the introduction of multilateral trade and payments arrangements with a number of countries in Western Europe, an important change was made in the exchange system through reducing the number of categories of imports for which exchange was auctioned.

32. On the other hand there were instances of intensification of restrictions. Australia, for example, on several occasions in 1955 and in July 1956, tightened its import restrictions in the face of falling wool prices and rapidly declining monetary reserves. Changes made in the import control system over this period, however, provided for a reduction in the element of discrimination against dollar imports. Indonesia, after a temporary recovery in 1955, was confronted in 1956 again with heavy pressures on its monetary reserves and imposed more stringent restrictions and revised its import exchange system.

33. In the last two years, 1957-58, many primary producing and under-developed countries continued to experience pressures on their external reserves. The lack of progress was due to a number of factors, including excess internal demand over supply of some commodities, fears about the effect of a slackening of expansion in industrial countries. The terms of trade of primary producing countries worsened significantly. In general, countries with insufficient foreign exchange resources to enable them to cope with the temporary pressures until internal monetary and fiscal measures had had time to take effect, tightened their restrictions or in certain cases, allowed free exchange rates to depreciate.

34. Higher import prices and an increase in the volume of imports in New Zealand resulted in 1957 in a considerable fall in the foreign exchange reserves. In January 1958, in the face of declining export prices, the Government placed all imports under licence, with a view to bringing imports down to a level comparable with that of 1956. India's export earnings and the foreign loans secured by her did not keep pace with her considerable developmental needs, and restrictions were intensified on several occasions in 1957. In Latin America the more flexible regimes of import and exchange

controls that had been evolved in the preceding years were maintained through most of 1957. Since then, however, in view of the continued fall in export earnings and domestic inflation, measures have been taken by Brazil, Chile, Peru and Uruguay, in some cases in a discriminatory manner, to curtail imports and reduce foreign expenditure.

35. Some of the overseas sterling area countries, notably Australia, the Federation of Rhodesia and Nyasaland and the Union of South Africa, have been able to relax import restrictions in the past two years. In the case of Australia improved export receipts enabled restrictions to be relaxed during 1957 and the higher level of imports has been maintained despite a significant fall in export prices and loss of reserves in 1958. In spite of falling export prices and declining reserves, Burma and Ceylon have maintained their liberal import control policies.

#### New Tendencies in the Methods and Procedures of Restriction

36. Compared with the earlier post-war years there has been, on the whole, a substantial relaxation of restrictions and a significant reduction in the use of discrimination. Parallel to the reduction in the level of restrictions there has also been seen a tendency towards the simplification of procedures and methods of control. During the war and in the early post-war years, the need for strict, direct and detailed controls which placed broad powers of discretion in the hands of the controlling authorities was generally understood and accepted. But with the general improvement in the world balance-of-payments situation and with the gradual revival of the normal pattern and channels of trade, it is natural that simpler methods of control which are less burdensome to the economy and less inimical to the ordinary course of trade should have become more widely adopted.

37. Thus, a number of countries, which for long years applied the most complicated and strict type of import restrictions, have recently turned to measures of a less direct nature; in some cases steps taken in the exchange and trade control field have been conceived as part of, and made possible by, overall programmes aimed at stabilizing their economies. In some Latin American countries, for example, adjustments in their exchange arrangements have enabled them to liberalize a wide sector of imports. Some countries have resorted to new or less direct methods of restriction such as advance deposits, or reduced the number of categories into which goods are classified for exchange rate or levy purposes. There has also been a tendency to place greater reliance on free exchange markets and fluctuating rates.

38. In the early post-war years the general practice was to place all imports under licence and to issue licences purely on the basis of discretionary and administrative decision, and the relaxation of restrictions would take the form of placing certain imports on Open General Licence or on free lists; imports were therefore either free of control or subject to individual licensing. In so far as quotas were provided for certain goods, these were often granted for imports from specified individual countries as a consequence of bilateral negotiations. In recent years "global" quotas, which are often valid for imports from a group of countries or particular areas, have gradually come into general use. The extension of such quotas to imports from other countries has been regarded as one of the methods which may be more widely used for the purpose of reducing discrimination.

39. State trading, conducted either through governmental agencies, or through private entities endowed with exclusive privileges, may be maintained for various purposes, e.g. public health, alleviation of shortages and price stabilization, but it may also be used for commercial reasons, and may be operated so as to restrict imports. During the period under review progress has been made in the reduction of the use of State trading. Several important trading countries have greatly reduced, or totally eliminated, their State-trading activities. In the United Kingdom, for instance, all imports formerly subject to quantitative control through State-trading agencies, with the exception of certain jute manufactures, have been reverted to the private sector. On the other hand, there are some instances in which the list of goods subject to State trading has been extended, and taking the contracting parties as a whole, the amount of trade that remains under State trading is still substantial. The products at present under State trading, apart from those traditional subjects of governmental monopoly such as tobacco, alcoholic beverages, salt and matches, include a wide range of agricultural commodities, such as grain, sugar and certain dairy products.

40. It has been the practice in some countries to require the payment of an advance deposit, either to the central bank or to a designated bank, calculated as a proportion of the import value in the local currency, as a prerequisite for the issue of an import licence. With the general tendency towards reduced use of quantitative restrictions, this practice has recently gained popularity with governments which meet with renewed pressures on the balance of payments, especially if excess internal liquidity was considered to be responsible for speculative imports. The proportion of deposits to the value of imports often varies according to the essentiality of the goods to be imported and in certain cases is exceedingly high. The contracting parties which at present maintain advance deposit requirements include Chile, Greece, Indonesia, Japan, Nicaragua and Turkey. In 1957 and 1958 several of these countries introduced extensive changes in the percentages of deposits in order to curtail import demand. On the other hand Finland abolished its advance deposit regulations in May 1957; those introduced by France in March 1957 were discontinued a few months later.

#### IV. THE PRESENT LEVEL OF RESTRICTIONS AND DISCRIMINATION

41. In the nature of things it is not a simple matter to compare the relative incidences of import restrictions applied by different countries or to assess the general level of restrictions applied by a group of countries. A variety of methods are used in restricting imports, and a substantial proportion of imports under restriction is subject to discretionary administrative action. The diversity of circumstances and the very nature of the discretionary licensing procedure would defy any attempt at such comparison or assessment. It is therefore more appropriate to discuss the level of import restrictions in general terms.

42. Compared with the unfortunate experiences of the interwar years, the degree of international co-operation that has been achieved in the western world in the post war years - though it may fall short of earlier expectations - must be regarded as remarkable, and undoubtedly international trade could not have reached its present high level and access to national

markets by foreign exporters could not have attained the present degree of freedom, had it not been for the obligations freely undertaken by governments under such instruments for co-operation as the Articles of Agreement of the International Monetary Fund and the GATT. The regular consultation procedures of these two institutions provide opportunities to discuss with a country whether there is a continued need for the restrictions applied, as well as the measures that could be taken by the country to create conditions in which restrictions could be reduced or eliminated. They have been effectively used for creating impetus and maintaining momentum in promoting freer multilateral trade and payments. The effects of these efforts are generally reflected in the measures of relaxation, liberalization and reduction of discrimination mentioned in the previous Section of this report.

43. The battle, however, is far from won. In spite of the progress that has been made, import restrictions are still being applied on a large proportion of international trade. In the case of industrial countries restricted imports consist largely of agricultural products, but in some cases restrictions are also applied to manufactured consumer goods. Some countries have found it increasingly difficult, where the balance-of-payments situation has substantially improved, to make further progress towards the freeing of trade in commodities, notably in the agricultural sector, which have enjoyed the incidental protection of balance-of-payments restrictions over a period of years. The maintenance of such restrictions, whatever their economic, social or political justification, cannot but affect the foreign exchange earnings of the exporting countries many of which possess limited external resources and reserves. The curtailment of their purchasing power naturally exerts a limiting effect on international trade, and not the least on the industrial countries' own exports.

44. Countries which depend on the export of primary commodities and experience frequent fluctuation in their external earnings have usually felt it desirable or expedient to maintain a formal control if not effective restrictions on a large proportion of their imports. Under-developed countries often consider it necessary to keep close watch on the composition of their imports and to give priority to their development and industrial requirements. Their difficulties have also in many cases been aggravated by the tendency to chronic inflation. A number of countries in Latin America and elsewhere with balance-of-payments difficulties have adopted courageous monetary and financial measures to redress the situation, but many primary producing and under-developed countries are still relying on trade or exchange restrictions to ration their external resources. In these countries, capital goods and raw materials are generally given priority in their import lists while consumer goods are often drastically restricted, sometimes to the point of a complete prohibition of imports of goods considered as "luxuries". In many cases, the controls are substantially more severe on imports which compete with domestic production, especially where the domestic industry in question is newly established or has been enjoying the incidental protection of balance-of-payments restrictions for some years.

45. As a result of the successive measures taken by governments in the last few years there has been a considerable reduction in the discriminatory application of restrictions. Generally speaking, the discrimination that remains has reached a level lower than at any time since the war. Among the

twenty-five contracting parties applying balance-of-payments restrictions, which are mentioned on page 3 above, Ceylon, Indonesia, Pakistan and the Union of South Africa have ceased to apply the provisions of Article XIV. Among the Latin American countries which are parties to GATT the use of quantitative restriction itself has been brought to a minimum and such impediments to trade as remain are generally applied with little regard as to the sources of supply. Other contracting parties which apply import restrictions substantially in a non-discriminatory manner are Denmark, Greece and Norway.

46. Apart from Ceylon, Pakistan and the Union of South Africa, whose restrictions do not involve any discrimination, regarding the sources of supply, most outer sterling area countries such as Australia, India and New Zealand have adopted the practice of giving similar treatment to imports from all former EPU countries irrespective of whether or not they are in the sterling area. The OEEC countries, for their part, have mostly extended OEEC treatment to the outer sterling area countries. On the other hand, some European countries, for example, France, Germany and Austria have not completely extended OEEC liberalization and global quota treatment to imports from outer sterling area countries, although in some cases imports from these sources are being licenced liberally.

47. Measures of liberalization of dollar imports and the increasing use of liberal licensing régimes by European countries have been mentioned elsewhere and, outside Europe, a number of countries have also, over the last few years, been reducing the discriminatory element in their import systems. Following the move to external convertibility at the end of 1958 various countries in Europe and elsewhere have taken action in the field of trade to reduce, and in some cases to eliminate the discriminatory elements in their import restrictions; Denmark and Norway, for example, eliminated all distinction between their dollar and EPU liberalization lists and Brazil combined the ACL (i.e. Hague Club) currencies and dollars in its auction systems.

48. By establishing external convertibility, the countries concerned have provided formally for the right of non-residents to convert their currencies into dollars. These countries thus ended the distinction that had existed for many years between their currencies and the currencies of the dollar countries - a distinction that had been at the root of discriminatory restrictions maintained by many contracting parties.

49. Before the recent measures European currencies were not formally convertible into dollars or freely available for payment to dollar countries and many countries applied less favourable treatment to imports from dollar countries than to imports from non-dollar countries. The significance of the convertibility measures for trade policy may be clarified by noting that, in the new circumstances, a country that earns one of the newly convertible currencies is free to use it, just as it has been able to use a dollar currency, to buy imports from suppliers around the world without distinction. Convertibility thus is significant not only for the countries that made their currencies externally convertible but also for the countries whose trade is carried on in convertible currencies of other countries.

50. With the bulk of world trade now being conducted on a convertible currency basis there is a unique opportunity for the achievement of the world-wide system of non-discriminatory trade on a multilateral basis which the CONTRACTING PARTIES sought when they created the General Agreement.