GENERAL AGREEMENT ON TARIFFS AND TRADE
Fourth Session of the Contracting Parties

REPORT ON THE DISCRIMINATORY APPLICATIONS OF IMPORT RESTRICTIONS

The Contracting Parties have approved their First Report on the Discriminatory Application of Import Restrictions. Article XIV:1(g) of the General Agreement requires the Contracting Parties acting jointly to report not later than March 1950 on discriminatory administration of import restrictions which are now being maintained to safeguard their balance of payments. The report is based on information received from 20 contracting parties which acknowledged that they were applying import restrictions under Article XII in order to safeguard their external financial position and were taking advantage of the transitional period arrangements of Article XIV for not fully observing the rule of non-discrimination.

These countries were: Australia, Brazil, Canada, Ceylon, Chile, Czechoslovakia, Denmark, Finland, France, Greece, India, Italy, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Sweden, Union of South Africa and the United Kingdom. Burma and China did not reply to the enquiry, and the status of Indonesia as a contracting party in its own right was not established until February 1950. Belgium (including Belgian overseas territories), Cuba, Haiti, Lebanon, Luxemburg, Syria and the United States are not taking action under Article XII.

Many countries, the Report states, in the post-war period, when many of the world's currencies are inconvertible, have been unable to acquire, either directly or indirectly, the amounts of the various currencies which their importers would desire to spend under regimes of non-discriminatory importation. The provisions of Article XIV and Annex J are designed to enable countries to obtain additional imports with their available means of payment by departing from the rule of non-discrimination. This rule, if strictly enforced, would necessitate uniform import restrictions and thus might require certain countries to contract their imports from some sources while they still possessed unutilized means of financing some imports. It may therefore be claimed that by departure from the rule of non-discrimination it has been possible to bring about an increase in the total trade of countries in balance-of-payments difficulties.

The Report then goes on to examine the various techniques and procedures used by various contracting parties for restricting imports - licensing systems, quota arrangements, and other types of control. In regard to state trading the Report says: "Discrimination enters also into the operation of state-trading agencies, for decisions to purchase are governed by the availability of currencies as well as by the usual commercial considerations. In Czechoslovakia, where foreign trade is in the hands of monopoly companies, and in several other countries,
e.g., the United Kingdom (where about half of total imports are purchased by State agencies), State-trading plays an important part. As in the case of trade on private account, discrimination among sources of supply for balance of payments reasons is frequently an important feature of import policy.

Turning to Bilateral and Group Arrangements, the Report says: "Most of the twenty contracting parties taking action under Articles XII and XIV belong to one or other of two groups which have cooperative arrangements either for the inter-convertability of their currencies or in respect of payments for their mutual trade. The financial arrangements have in each case been accompanied by exemptions or reductions in import restrictions for the members of the group while generally maintaining the restrictions against outside countries. The first group is the sterling area and the second comprises the members of the Organization for European Economic Cooperation."

In regard to the sterling area, the Report says: "Restrictions are imposed by each member of the sterling area against those countries with which the sterling area as a whole is in balance of payments difficulties or, in other words, against countries whose currencies are "hard" relative to sterling. Thus, even though a sterling area country may have a favourable balance with a country outside the area, it may, nevertheless, limit imports from such a country below its earnings of the country's currency if the sterling area as a whole does not earn sufficient of the country's currency to permit non-discriminatory admission of its products."

In regard to the contracting parties in Western Europe, the Report says: "Through the OEEC, they have now endeavoured to reverse, within the group, the general tendency towards controlled trade by extending the sector of commercial transactions that is free of quantitative restrictions. While maintaining the long term aim of restoring a universal multilateral trade system, these countries have embarked upon a programme of trade liberalization among themselves which, as a rule, has not been extended in the same degree to non-members. The quantitative restrictions upon imports of a large number of products originating in O.E.E.C. and certain other countries have been removed. The removal of restrictions on this scale has been made possible through the alleviation of payments difficulties, both by the progress of economic recovery in Western Europe, and by means of the intra-European payments scheme."

Finally, the Report deals with the Effects of Discrimination: "International Trade since the war has been subject to such varied and powerful influences that it is not possible to attribute any particular development or trend solely to restrictions applied under Article XII or to action taken under Article XIV. Consequently, it is difficult clearly to assess the significance of the discriminatory action in which most of the contracting parties are now engaged. It is evident, however, that the action taken under the provisions of Article XIV and Annex J has had the effect, as far as trade among the contracting parties is concerned, that the twenty countries applying restrictions have encouraged the expansion of trade among themselves while reducing purchases in convertible currencies notably in United States dollars and Swiss francs and in other relatively "hard currencies" such as Canadian dollars and Belgian francs, and avoiding unfavourable trade balances that would require settlement in these currencies or in gold."