In his preface to this Report, which is published today by the Contracting Parties to GATT, Eric Wyndham White, Executive Secretary, states: "Governments which became contracting parties to the GATT assume a general obligation not to use quantitative restrictions on imports and exports. The principal exception to this general rule permits a contracting party to maintain or impose quantitative import restrictions under specified conditions to safeguard its external financial position and balance of payments. Restrictions were widely used for these purposes when the Agreement was drafted in 1947, but it was expected that most of those would be removed within a few years; accordingly provision was made in the Agreement for a review in 1951 of these restrictions which might still be in force. This review was undertaken by the Contracting Parties at their Sixth Session in October 1951 and the present Report is the result of that review".

Contracting Parties employing quantitative Import Restrictions

Twenty-four of the contracting parties are employing quantitative import restrictions (under the provisions of Article XII of GATT) to redress their balance of payments. These are: Australia, Austria, Brazil, Ceylon, Chile, Czechoslovakia, Denmark, Finland, France, Germany, Greece, India, Indonesia, Italy, Netherlands, New Zealand, Norway, Pakistan, Philippines, Southern Rhodesia, Sweden, South Africa, Turkey and the United Kingdom. Nine contracting parties, namely Belgium, Canada, Cuba, Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States are not taking action under the Article XII provisions. (para.8)

Part Two of the Report contains notes on the systems of import restrictions applied by the countries listed above, with the exception of Austria and Indonesia.

Methods of Restricting Imports

The Report examines the methods used by governments to restrict imports, in particular the methods used in issuing import licences and the allocation of import quotas. The Report also examines the practice of discrimination in the application of import restrictions and the way in which the importing country can "discriminate" by drawing a distinction between countries in accordance with availability of currencies required for payments. (paras.10-25)
Trends of Policy

The Report reviews recent developments in the world economic situation. In particular the Report draws attention to the U.S. balance of payments showing the progress which has been made during recent years in its payments relationships with the rest of the world. Turning to the Sterling Area the Report states that since the middle of 1950 there has been a substantial relaxation of import restrictions by a number of the sterling group; the tendency to be more lenient in the application of restrictions on purchases from the dollar area continued in the early part of 1951, although as the year progressed the balance of payment situation grew less favourable. In Western Europe, the Report states that the most important development in trade policy is the liberalization programme of the O.E.E.C., and extension of liberalization, through the operation of the European Payments Union to G.E.C.O. members regarded as hard-currency countries and to certain non-member countries, territories and currency areas (listed in the Report in para. 41).

Incidental Trade Effects of Restrictions

Another important matter discussed in the Report is the incidental protective effect which import restrictions (imposed to safeguard balance of payments) have had for domestic producers competing with imported products. Restriction of imports, whatever its purpose, tends to limit competition and to that extent to protect the domestic production of competing products and to raise prices, the Report states. In so far as foreign competition is absent an important incentive to domestic producers of like products to lower their prices is impaired and the expansion of domestic production of the restricted goods through the participation of extra-marginal producers tends to be encouraged. The longer the restrictions are in force the greater is the likelihood that the changes they cause in the structure of production and prices, both in the exporting and the importing country, will harden and crystallize (para. 48). Several governments, states the Report, have taken steps to impress upon their producers that the protection which they have enjoyed incidentally as a result of the quantitative restrictions imposed for financial reasons is of a temporary nature. This is a problem which requires constant vigilance by all the countries concerned, (para. 51)

Consultations on the Continuance of Discrimination

The Report draws attention to the relevant provisions of both the Articles of Agreement of the International Monetary Fund (Article XIV) and of the GATT which call for consultations on the continuance of discriminatory import restrictions maintained by any contracting party to GATT will, commencing in March 1952, either come under annual consultation with the Contracting Parties or, alternatively, will be affected by annual consultations between the Fund and its members in the related field of exchange restrictions, (paras. 53 and 54)

Conclusions

Summarizing its review of quantitative restrictions to safeguard balance of payments the Report states:

"An important part of the trade of most countries remains subject to governmental restrictions based on balance-of-payments grounds ....... By the middle of 1950 many countries which were in acute difficulties in 1947 had
advanced to the point where there seemed a fair prospect that they would be able before long to pay their way, to rebuild their monetary reserves and to progress towards the ending of discrimination and the removal of restrictions. After the middle of 1950 there was — as the result of an improved balance-of-payment and reserve position, as well as the desire to acquire supplies — a tendency in many countries to increase the amount of their imports. In some cases this development emerged from announced changes in regulations; in others the increased imports resulted from administrative action without change in regulations. This trend towards an increase in imports continued into 1951, (para, 59)

"Concurrently, there have been new factors arising from the international situation. Principal among these have been the increased demand and higher prices for certain raw materials and other essential supplies due partly to speculative buying, private inventory accumulation and governmental stockpiling, the increasing programmes of rearmament and the threat of new inflationary pressures. Since many of these factors affect different countries in varying degree and even in diverse directions, it is difficult to make a generalization applicable to all, or nearly all, of the contracting parties. Generally speaking, however, the widespread improvement in balances of payments and reserve positions has continued in 1951, although some important countries are currently experiencing difficulties. (para, 60)

"It is clearly the responsibility of each contracting party, both those in balance-of-payment difficulties and the surplus countries, to continue in the light of their individual circumstances to seek to remove the underlying cases of disequilibrium. In framing both internal and external economic policies governments should take account of the possible repercussions of such policies on the economic interests of other countries and the needs of the international situation, (para, 61)"

"In concluding this review the Contracting Parties note that the governments which are applying import restrictions under Article XII are conscious that the obligation which each has assumed under the Agreement involves the continuous review by governments of their restrictive and discriminatory practices and the removal of any measure which is not strictly justifiable on balance-of-payment grounds. It is evident that countries cannot all move at the same pace, but a number, particularly those whose trade and payments position is improving as a result of recent developments, should be able to take definite steps towards the further relaxation of restrictions and reduction of discrimination". (para, 62)

The Use of Quantitative Import Restrictions to Safeguard Balances of Payments (incorporating the Second Report on the Discriminatory Application of Import Restrictions) is obtainable from U.N. Sales Agents, 87 pages, Price: U.S. $0.70 or Sw. Fr. 3.00.