REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS
ON THE CONSULTATION WITH AUSTRIA

1. In accordance with its terms of reference, the Committee has conducted the consultation with Austria under Article XII:4(b). The Committee had before it: (a) a basic document prepared by the secretariat on the basis of data supplied by the Austrian Government; and (b) documents provided by the International Monetary Fund. In conducting the consultation the Committee followed "the plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 8 July 1959. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Austria. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Austria which was concluded on 21 November 1958 and a supplementary paper dated 22 June 1959. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Austria. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Austria under Article XIV of the Fund Agreement, which consultation was concluded on November 21, 1958. The Fund has also provided a supplementary paper, dated June 22, 1959, to supply background information on recent developments.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its 1958 consultation with Austria under Article XIV of the Fund Agreement and particularly to paragraph 4, which reads as follows:

1 See Annex II
4. The Fund notes the steps taken by Austria to multilateralize payments with certain bilateral agreement countries. However, the Fund urges Austria, in view of the continued improvement in its balance-of-payments position, to make further substantial reductions in restrictions and discrimination, including as far as possible those arising from bilateralism.

"Since that consultation was completed, non-resident convertibility has been introduced by Austria, and there has been further strengthening of the reserve position. Accordingly, the Fund sees no reason to alter the position taken in the passage quoted above.

"With respect to Part II of the Plan, relating to alternative measures to restore equilibrium, the Fund draws attention to the results of the last Fund consultation with Austria. The Fund has no additional alternative measures to suggest at this time."

Opening Statement of the Austrian Representative

3. At the opening of the consultation, the representative of Austria made a statement. The text of that statement is given in Annex I.

4. In his statement, the representative of Austria recognized the continuing increase of the surplus of the balance of payments and of the monetary reserves of his country. The latter were, on 30 April 1959, equivalent to the average import requirements of about eight months. Nevertheless the Austrian authorities had come to the conclusion that this favourable position did not yet justify "further substantial reductions in restrictions and discrimination" as urged upon Austria by the Fund. The reasons given can be summed up as follows.

(a) The rise of monetary reserves during 1958 was accounted for to the extent of no less than 93.3 per cent by a surplus on capital account and income from discrepancies between the balance of trade and the foreign exchange balance, which have the same effect as short-term commodity credits. The surplus on capital account was exclusively the result of medium and long-term borrowing, resulting from the economic policy of the Austrian Federal Government. The aim of this policy was to meet the requirements of a large backlog in investment and to counteract the recession by increased investments. Moreover, amortization and interest would be a burden on the balance of payments in coming years. It was hardly possible to estimate the future development of the Austrian capital account as that development depended too much on the future budgetary and investment policy.

(b) The current account had in 1958 contributed only 6.7 per cent to the improvement in Austria's monetary reserves. This was only due to the fact that the large deficit on account of visible trade (14.5 per cent of the value of total annual imports) was compensated by a
slightly larger surplus on invisible account. This surplus was mainly due to the income from tourist traffic. The Austrian delegation felt that no other item on current account was as sensitive to economic and other fluctuations than receipts from tourist traffic. At a later stage it was stated that the current account for the years 1956–58 was passive by $41 million.

(c) A good part of Austria's foreign payments had to take place in the framework of bilateral payments agreements. It was later explained that part of Austria's industries were, for geographical and historical reasons, dependent on trade with neighbouring countries, which preferred bilateral arrangements.

(d) The experts included in the Austrian balance of payments comprise the unrequited deliveries to the USSR to an amount of $45 million. At a later stage of the consultation the Austrian representative informed the Committee that, under a new arrangement, the burden might be reduced from 1959 onwards by an estimated sum of $9 million.

(e) In view of its dependence on trade with the countries of the EEC, exports to which accounted for more than 50 per cent of Austrian total exports, Austria had to consider the further development of European economic integration. Austria is of the opinion that the problems involved were of such magnitude that they had a decisive influence on the future balance of payments of Austria.

Balance-of-Payments Position and Prospects

5. The Committee was unanimous in congratulating the Austrian representative on the remarkable and sustained improvement in his country's balance-of-payments position. From remarks made by members of the Committee it appeared that there was a general feeling that the Austrian attitude to further liberalization of trade and in particular to the elimination of present discrimination in treatment between imports from OEEC countries, from the United States and Canada and from other contracting parties of GATT, was too cautious. It was suggested that tourism was not such a volatile item in the country's balance of payments, that the inflow of capital was bound to lead to a greater export capacity or reduced import requirements and that in general the Austrian delegation tended to look too much at possible unfortunate future developments in each part of its country's balance of payments as separate problems rather than the balance of payments as a whole. Several members commented that monetary reserves equal to eight months' imports were larger than those of most countries.

6. The attention of the Austrian delegation was also directed to the fact that the introduction of external convertibility had created a situation in which there was no longer any payments advantage in buying from one source rather than another and in which further steps should be taken which would progressively eliminate restrictions and discrimination.
7. Members of the Committee pointed out that certain outer sterling area countries had been and were being discriminated against although there had never been payments reasons for such discrimination. Liberalization of many products was applied to the GEEC countries and to a lesser extent to the United States and Canada, but imports from other GATT countries remained under discretionary licensing. The representative of India further drew attention to the marked imbalance in his country's trade with Austria and to the fact that India treated imports from Austria on the same basis as imports from all "soft currency" including sterling area, countries. In view of the critical balance-of-payments position of India, the Indian Government might be compelled to reconsider its present policy vis-à-vis Austria unless Indian exports were assured non-discriminatory access to the Austrian market.

8. In discussing the question of discrimination, the Austrian representative maintained that there was practically no discrimination since goods on the liberalization list for GEEC countries were in general licensed liberally from the other former EPU countries. Several members of the Committee pointed out that liberal licensing was no substitute for liberalization and suggested that the Austrian authorities place all GATT countries on a basis similar to GEEC countries. The Austrian representative referred to his opening statement and mentioned he could hold out no hope of changing the present situation in the foreseeable future because of the Austrian Government's concern over the balance-of-payments prospects.

9. Certain members stressed the dangers of discriminatory bilateral arrangements. One member of the Committee suggested that Austria's eastern neighbours would now feel more inclined towards multilateral payments arrangements. The Austrian representative felt that multilateral payments arrangements were a new development which should be approached only with great care. Concerning bilateral trade agreements he stated that essential trade with Eastern European countries was conducted on that basis and gave various reasons why they should be considered justified on balance-of-payments grounds. Several members of the Committee said that they appreciated the difficulties imposed by the special circumstances of Austria's geographic position, but they considered it desirable that Austria should endeavour to reduce its reliance upon bilateral arrangements.

10. The Austrian representative stressed again the uncertainties in the future position of his country's balance of payments in reply to these observations. He pointed out that the capital inflow was to a large extent due to the borrowing policy of his Government, which again was part of his Government's financial policy aimed at stabilizing the economy.

11. As for the prospects of Austria's balance of payments for 1959 the Austrian representative told the Committee that exports are expected to decline further while imports would remain at about the same level as in 1958; the deficit on visible trade account might be 15 per cent higher than in 1958. On the
other hand the surplus on the invisibles account might be 10 per cent higher than in 1958, due to more income from tourism. The outcome of the current account might therefore be about the same as or somewhat less favourable than in 1958. The influx of foreign capital would however be smaller. The rate of increase of the reserves was expected to be about 60 per cent lower than in 1958.

12. As for the fears expressed by the Austrian representative about the effect that the development of the EEC might have on his country's balance of payments, it was pointed out by some members that these fears were shared by other countries outside EEC. Other members, however, stressed that it was unlikely that the dangers referred to by the Austrian representative would materialize. In their opinion the development of the EEC should have a favourable effect also on the economies of third countries. In view of these statements it was decided that in the context of the present consultation the Committee should proceed with the discussions without going further into this matter. The Austrian representative agreed, but maintained that this did not in any way constitute a withdrawal of his original statement.

13. Some discussion took place of a remark contained in the Austrian statement "Effects on Trade", that Austria's balance of payments had profited from the improvement in its terms of trade in 1958, due to the decline in raw material prices. It was pointed out that it would greatly help under-developed countries and would also increase their capacity to buy from industrial countries if raw material prices rose. The Austrian representative replied that the statement of his Government was by no means intended to express an opinion on such a rise in prices, but had only indicated that price increases would affect the country's terms of trade and thereby its balance of payments. He pointed in particular to the prices of coal.

14. The representative of Japan stressed that although Austria had no obligation to extend liberalization to Japanese imports he very much hoped that Austria might see her way clear to accepting the GATT relationship with Japan, and enquired about the prospects of expanding imports from Japan. The Austrian representative replied that although Article XXXV did not come within the terms of reference of this Committee he would take note of the Japanese statement and that in his view the present trade between the two countries was by no means insignificant.

**Alternative Measures to restore Equilibrium**

15. The general feeling of the Committee was that Austria had been so successful in restoring equilibrium that no alternative measures had to be suggested at present. The Austrian representative did not entirely share the Committee's optimism.

16. The Austrian representative, in reply to a question, informed the Committee on the export credit facilities in Austria. In particular he pointed out that the ceiling for export credit guarantees amounted to Sch.1.5 billion. Moreover there exist facilities for export risk guarantees up to a ceiling of Sch.1 billion.
17. As for the mobilization of internal sources of capital it was found that after the experience of two inflations after two wars, the Austrian public had become reluctant to invest in bonds. The Government had therefore, in addition to internal borrowing, to rely heavily on external borrowing but had at the same time taken steps to stimulate the raising of capital within the country. In 1959 a loan of Sch.1.8 billion was successfully floated in Austria.

**System and Methods of Restrictions**

18. The Austrian representative regretted that he could not make available the Austrian lists of liberalizations, in particular of the additional liberalizations for the United States and Canada, as the new version of these lists, drawn up in accordance with the new tariff nomenclature, was not yet available. He could however give the assurance that these increased liberalizations were already applied through automatic licensing. Some members of the Committee complained that it was difficult for the trade to know what those lists contained.

19. The Committee was informed that the difficulty in bringing out a new dollar free-list was due to complications arising from the change-over to the Brussels Nomenclature. Considerable discrepancies had been found in the new CEEC list drawn up in the new nomenclature and adjustment had not been completed. The new dollar list was being drawn up with great care and would be published as soon as doubt's regarding certain items which had arisen since the approval of the list drawn up on the basis of the old tariff had been cleared away. The Austrian authorities considered the issue and extension of free-lists to be the method of liberalization best suited to the country's conditions. The difficulties in publishing the new liberalization list being as mentioned above, no time-saving could be expected from the substitution of the negative list method for the present positive lists.

20. It was noted that goods imported from and originating in countries which settled their payments with Austria in fully convertible or externally convertible European currencies no longer required a separate exchange licence. The Austrian import control system, in the view of some members of the Committee, however, was still unnecessarily complicated and cumbersome. In supplement to the documents available to the Committee the Austrian representative described the general system in broad outline. It was stated that:

1. All goods not specified in the three lists annexed to the External Trade Law, but covered by the customs tariff, were free from any licensing control and quantitative restriction regardless of their origin.

2. All goods appearing in the CEEC free-list could be imported without licence from the CEEC area countries and dependent territories.
(3) All goods appearing in the free-list for the United States and Canada could be imported freely from these two countries subject to licences issued automatically upon application.

(4) Other imports were admitted (a) under global quotas, (b) through bilateral licensing or (c) through individual discretionary licensing.

(5) The import of certain products was prohibited for reasons consistent with Article XX of GATT.

21. The Austrian representative further explained that it was for administrative convenience and in the light of the constitutional system that the authority to issue import licences was divided among three competent ministries, and that the authority had been delegated to governors of the Länder merely in order to enable them to cope with emergency import requirements. This authority was of limited scope and had no historical origin.

22. Liberalized imports from the dollar area countries continued to require licences which were issued automatically upon application. In the view of the dollar area countries, this was an unnecessary formality which could not but affect to some extent the free flow of imports; they reaffirmed the view that automatic licensing was no substitute for completely control-free importation and involved discrimination if the same goods could be imported without licences from other countries.

23. Regarding the relative levels of dollar and OEEC liberalization, the Austrian representative stated that almost all raw materials and finished products that were liberalized for the OEEC had been liberalized also for the dollar countries, and that only in the agricultural sector did the liberalization of dollar imports fall short of the level attained for imports from OEEC countries, although substantial purchases were in fact made from North American sources. The fact that important agricultural products were not subject to State-trading and that, in calculating the dollar liberalization percentage such products are excluded, explains why the dollar liberalization percentage of Austria is apparently low.

24. In response to questions concerning the operation of the Marketing Law, the representative of Austria noted that among the three boards established under this Law the Grain Compensation Board and the Board for Livestock and Meat had similar functions; they prepared annual import programmes and invited tenders which, when accepted, formed the pre-requisite for the delivery of an import licence. These tenders were now being invited on a global and in all respects non-discriminatory basis instead of on the previous regional basis. The Dairy Products Board acted as an equalization instrument only. Cheese was the only dairy product which could be imported freely. Austria was traditionally a...
exporter of butter and there was still a surplus of all types of dairy products. No relaxation of import restrictions for these commodities was likely in the foreseeable future. Austria applied these controls and stabilization measures under Article XII and incidentally also for social considerations, as the farming population, which constituted 22 per cent of the total population, accounted for only 12 per cent of the G.N.P.

Effects of the Restrictions

25. The Committee discussed with the Austrian representative the question of avoiding incidental protective effects of the restrictions maintained for balance-of-payments reasons. Asked to comment on the possibility of Austria being faced with any "hard-core" problem the Austrian representative considered that it was as yet premature to discuss this matter. It was suggested that it would be in Austria's own interest to expose more of her industry to somewhat greater competition in order to ensure economic use of her resources and to facilitate the transition to full liberalization. The Committee was assured that the inclusion of representatives of the Federal Chambers of Commerce and Agriculture in the Foreign Trade Council did not mean that local producers had any determinant voice in the country's commercial policy. The Council being a purely advisory body, all decisions regarding import control policy rested with the competent ministers. The Chamber of Labour in Austria which was also represented on the Council was not a trade union organization but represented predominantly the interests of consumers.

General

26. Summing up the discussions the Chairman stated that it had been the general feeling of the Committee that in the light of the continued increase in and the high level of the net gold and foreign exchange holdings, Austria's attitude toward removing restrictions were over-cautious. It was also hoped that steps would be taken by the Austrian authorities to ensure that adequate and precise information were available. The representative of Austria reassured the Committee that note had been taken of all the views and suggestions that had been put forward by members of the Committee and that all these would be conveyed to his Government for consideration. He again called attention to the remarks made in his opening statement and particularly those on the balance-of-payments structure and the uncertainties facing the economy and its trade policy.

ANNEXES

I. Opening statement by the Austrian representative

II. Results of the last consultation between Austria and the IMF
The surplus of the balance of payments has continued to increase since the last GATT-consultations in 1957. On 30 April 1959, the Austrian monetary reserves amounted to $688 million which means an increase by $180 million during the period from 1 January 1958 to 30 April 1959. These assets were equivalent to the average import requirement of about eight months.

Prima facie, this development would justify "further substantial reductions in restrictions and discrimination" as stated by the IMF in its recommendations contained in its document on the consultations with Austria in 1958. Since then, the Austrian authorities have devoted thorough studies to the problems we are going to discuss today. The results they arrived at may be summarized as follows:

Any decision in this field - which is preponderantly a matter of trade policy - will affect the future development of monetary reserves and the balance of payment to a considerable extent. Therefore, such a decision could only be based on an interpretation of the development of the aforementioned reserves and of the balance of payments. An inquiry into this problem reveals that the rise of monetary reserves of $162.16 million in 1958 was accounted for by 93.3% (i.e. $151.33 million) by a surplus on capital account and income out of discrepancies between the balance of trade and the foreign exchange balance which have the same effect as short term commodity credits. The surplus on capital account, moreover, is not due to a return of Austrian capital from abroad but exclusively the result of medium and long term borrowing in the amount of $118.53 million and to the income out of the above-mentioned discrepancies running up to $32.80 million. The relatively extensive volume of foreign credits and loans results from the economic policy of the Austrian Federal Government which aimed at the fulfilment of the large backlog investment requirements and at fighting the recession by increased investments. The considerable amounts of capital from abroad will, however, encumber the balance of payments with substantial transfers for amortization and interest in the coming years. An estimate of the future development of the Austrian capital account can hardly be established at this time; it depends too much on the future budgetary and investment policy.

The exports included in the Austrian balance of payments comprise the unrequited deliveries to the Soviet Union under the State Treaty. In order to get a real picture of the Austrian balance of payments these exports must be subtracted from the total export figure. Therefore, the balance on current account can be summarized as follows:
As mentioned above, some 93% of the increase in monetary reserves during 1958 were due to the development on capital account and to the income from the said discrepancies, the share of the current transactions being only 6.7% (i.e. $10.83 million). These figures prove without any further analysis that the development of the monetary reserves and of the balance of payments does by no means present such a favourable picture as the overall figures to which I referred at the beginning of my statement might suggest.

The breakdown of the current account shows that the amount of $10.83 million is made up of a deficit on trade account of $155.70 million and a surplus in the balance of services amounting to $166.53 million. The share of tourism in the latter total runs up to a net amount of $132.81 million or more than 12 times the surplus of the balance on current account. No other item on the current account is as sensitive as receipts from tourist traffic to economic fluctuations and to non-economic influences such as weather conditions, modifications in the predilections of foreign tourists, changes in the general atmosphere, etc. We are convinced that the volatile character of the tourist traffic must not be neglected when the Austrian balance of payments is being considered as a whole.

Furthermore, we would like to draw your attention to the fact that the deficit on trade account of $155.70 million corresponds to 14.5% of the total value of our annual imports (1958: $1.074 million).

When we now consider the quantitative restrictions still in force as well as the problem of potential discrimination it must be remembered that a good part of the Austrian foreign payments is carried within the framework of bilateral payments agreements and not in freely convertible currencies. The introduction of external convertibility by a number of European countries including Austria has not produced any changes in this respect. The countries with whom Austria has concluded bilateral payments agreements are either not willing or not in a position to settle their payments with Austria by transfers of convertible currencies. Austria has for a long time maintained commercial relations with these countries and we must do all in our power to prevent further deterioration of this trade. This is one of the essential reasons for Austria's maintaining the present restrictions and bilateral agreements.

As a member of the OEEC Austria has reduced the restrictions vis-à-vis its member countries to a very large extent. Furthermore, a considerable proportion of the restrictions vis-à-vis the dollar area has been removed. We sincerely believe, however, that the present status of our monetary reserves and the balance of payments cannot justify further reductions and think that in planning such measures due consideration must be given in the first place to the further progress of European economic integration which cannot be foreseen at present. More than 50% of Austria's foreign trade is carried on with the countries of the Common Market. Any future reductions of tariffs and further gradual abolitions of quotas within the EEC will put a
severe strain on Austria’s foreign trade. I should like to stress that these considerations are based on the rather disappointing experience we had so far in dealing with the European Coal and Steel Community.

The complexity of these problems has also an important bearing upon the Austrian investment policies. If the existing restrictions are to be abolished in many cases changes of present production programmes will have to be made. As, however, the development of the European integration is as yet quite uncertain and as it is unknown which countries and to what extent will eliminate import restrictions and what their tariff policy will be, our industry cannot at this time make proper estimates of the future markets and formulate a proper investment policy. Therefore, a further reduction of restrictions at this time could not be realized without provoking serious economic difficulties in Austria.
Annex II: Results of the 1958 consultation between the IMF and Austria, concluded on 21 November 1958

1. The Government of Austria has consulted the Fund under Article XIV, Section 4, of the Fund Agreement, concerning the further retention of its transitional arrangements.

2. In 1957 economic conditions in Austria remained favourable. There was a further substantial increase in production stimulated by high foreign demand, a significant increase in investment and a rise in consumption. Prices and wages rose moderately. Both imports and exports increased but the rate of increase in exports declined in the second half of the year and the trade deficit, compared to 1956, increased somewhat. However, as a result of a further rise in receipts from tourism and other services, the surplus on goods and services account rose. In addition, an increase in the inflow of private capital contributed to a substantial improvement in the holdings of gold and foreign exchange.

3. During the first half of 1958 foreign demand declined further. This was, however, offset by considerable expansion in domestic demand and the rise in total output continued. Prices and wages were stable. In view of the decline in foreign demand, the Austrian authorities have provided in the 1958 budget for an increase in expenditure, particularly for public investment. Moreover, as tax revenues have fallen below estimated levels, the 1958 budget is expected to show a substantial over-all deficit which is covered by internal and external borrowing. The continued rise in international reserves and the reduction in stocks in industry have increased the general liquidity of the banking system. Exports have decreased in 1958, but the value of imports has also fallen and, as a result of increased tourist receipts and larger capital inflow, gold and dollar holdings have continued to rise at a substantial rate. The Fund notes that it is the intention of the Austrian authorities to reduce sharply government expenditures and to strengthen credit restrictions should renewed external demand threaten internal balance.

4. The Fund notes the steps taken by Austria to multilateralize payments with certain bilateral agreement countries. However, the Fund urges Austria, in view of the continued improvement in its balance-of-payments position, to make further substantial reductions in restrictions and discrimination, including as far as possible those arising from bilateralism.

5. The Fund does not object to the temporary maintenance of the multiple currency practices arising from free market dealings, but urges Austria to take steps towards their elimination.

6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Austria.