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

1. In accordance with its terms of reference the Committee conducted the consultations with Austria under paragraph 4(b) of Article XII. The Committee had before it: (a) the "basic document" prepared by the secretariat and (b) documents provided by the International Monetary Fund. In conducting the consultations the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The discussions with the Committee were completed on 1 June 1960. The present report summarizes the main points discussed during the consultations.

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 Executive Board decision taken at the conclusion of the 1959 consultation with Austria under Article XIV of the Fund Agreement and the background material prepared in connexion with that consultation. 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. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision taken at the conclusion of the 1959 consultation with Austria under Article XIV of the Fund Agreement, and the background material prepared in connexion with that consultation. The consultation was concluded on May 25, 1960.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the Executive Board decision taken at the conclusion of the 1959 consultation with Austria under Article XIV of the Fund Agreement, and particularly to paragraphs 4 and 5 which read as follows:

14. Since the establishment in January 1959 of non-resident convertibility of the schilling, the Government has taken further steps to simplify its restrictive system and to reduce restrictions and discrimination. The Fund considers that Austria could take further steps to reduce reliance on restrictions and discrimination including that arising from bilateralism, and urges Austria to take such steps.

15. The use of multiple currency practices has been substantially reduced. The Fund does not object to the temporary maintenance of the remaining such practice arising from free market dealings, but urges Austria to progress towards its elimination."

1 See Annex I.
"It is also relevant that the Austrian authorities have informed the Fund that the remaining restrictions on current transactions (except those with state-trading countries) are not maintained for balance of payments reasons.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its recent consultation with Austria. The Fund has no additional alternative measures to suggest at this time."

**Balance-of-Payments Position and Prospects**

3. The representative of Austria opened the consultation with a detailed statement on recent developments in the country's balance of payments and future prospects. He stated that the marked increase in monetary reserves in 1958 continued in the first three-quarters of 1959, although the increase fell short of that in the same period of 1958 by almost $9 million. In the last quarter of 1959, however, the situation was completely reversed; while the last quarter of 1958 had shown an increase of $44 million, the last quarter of 1959 saw a decrease of $81 million. Consequently, the increase in the reserves in 1959 as a whole amounted to $28.8 million only, that is only 17.7 per cent of the increase in 1958. This trend continued into the first quarter of 1960, during which there was a decrease of approximately $37 million, compared with an increase of $16 million in the first quarter of 1959. The main reasons for this development were the considerable increase in the deficit on trade account since autumn 1959, and deterioration on capital account since the middle of 1959.

4. In 1959 the deficit in the balance of trade\(^1\) increased from $155.7 million in 1958 to $176.8 million. Taking account of service items, the balance on current account showed a surplus of $12.1 million in 1959 compared with a surplus of $10.8 million in 1958. The capital account which had shown a surplus of $151 million in 1958, closed with a surplus of only $16.6 million.

5. Although the full effects of the establishment of the European Economic Community had yet to be felt, Austria's trade deficit had increased by some 14 per cent over the 1958 balance. While exports increased by 5.4 per cent, imports increased by 6.6 per cent. The trade deficit, of $176.84 million, was the second largest since the end of the last war, surpassed only by the record deficit of 1955.

6. The regional structure of Austria's foreign trade showed some minor changes in comparison with 1958; the share of the Organization for European Economic Co-operation countries in Austria's total imports showed an increase

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\(^1\) Throughout this statement, trade figures exclude unrequited deliveries to the Soviet Union under the State Treaty and related return deliveries.
from 66.8 per cent to 70.1 per cent, while their share in Austria's exports increased from 62.5 to 63.8 per cent. Trade with the Eastern European countries also increased, with imports up from 10.8 to 11.3 per cent and exports from 12.4 to 13.3 per cent. The relative importance of trade with the Eastern European countries was comparable with that of the European Free Trade Association countries which supplied 11.7 per cent of Austria's imports and took 11.6 per cent of her exports. The Member States of the EEC accounted for 57.1 per cent of Austria's imports and 49.3 per cent of her exports. The share of EEC in Austria's total imports had been growing steadily since 1957, when it had amounted to 51.9 per cent only.

7. In the first quarter of 1960 imports reached the level of $331.5 million which was 31.6 per cent more than in the corresponding quarter of 1959, while total exports amounted to $257.4 million, only 19.3 per cent more than in the first quarter of 1959. Thus, the deficit of the balance of trade amounted to $74.1 million as compared with only $36.2 million for the first quarter of 1959.

8. In 1959 the surplus on services account was levelling off. This surplus increased by $22.5 million only as compared with increases of $53.4 million in 1957 and $28.3 million in 1958. The surplus on services account was due primarily to the income derived from tourism which had increased by 22 per cent in 1959. However, expenditure by Austrian tourists abroad had also increased and was expected to continue to increase.

9. In 1958 net capital inflow had accounted for 93.3 per cent of the total increase in monetary reserves. This reflected an increase in loans, contracted on foreign markets for the purpose of financing public investments and investments in the energy sector when the Government was pursuing an active budgetary and economic policy with the object of averting the negative effects of the international recession. In 1959, under the anti-cyclical budget policy, public investments were curtailed severely. The Austrian capital market also proved to be very effective during 1959 which made it possible to finance public projects without borrowing abroad. Capital influx in 1959 was more or less limited therefore to loans contracted by the Austrian producers of electric power and to the purchase of Austrian bonds and shares by foreigners, made possible by a liberal exchange policy. In the second half of the year, substantial repayments of short-term foreign loans were effected and non-recurring capital transfers to international institutions like that arising in connexion with the Austrian quota in the International Monetary Fund were carried out. To an important extent the inflow of foreign private capital into Austria was impaired by the uncertainties arising from the possibilities of European economic integration.

10. Whereas in 1958 capital inflow amounted to $232.3 million in 1959 it amounted to $145.45 million only showing a decrease of 37 per cent. On the other hand the outflow of capital increased from $81 million to $128.8 million, an increase of nearly 60 per cent. Accordingly, the surplus on capital account amounted to $16.6 million only, that is 11 per cent of the 1958 surplus.
11. In 1959 liberalization measures were taken in the field of invisible and capital transactions. The convertibility measures taken at the beginning of 1959 had covered current payments, and on 31 October 1959 convertibility for non-residents was extended to almost all capital payments.

12. For the future development of the Austrian economy as a whole, and more particularly for Austria's foreign trade, a satisfactory solution of the problem of European integration was of decisive importance. At present, Austria was faced with the danger of discrimination against exports to her principal markets which lay within the EEC. The latest development of the Austrian balance of trade confirmed the apprehension raised by the Austrian delegation at last year's consultations concerning the discriminatory effects of the coming into being of the EEC. During 1959 the trade deficit with EEC countries rose from $128 million to $177 million. In view of the tendency to accelerate the coming into effect of the common market a further deterioration of the Austrian trade balance vis-à-vis these countries must be expected. Consequently one could not expect that the surplus on services account would continue to offset the constantly rising deficit in the balance of trade.

13. The reconstruction of the Austrian economy, while extensive, had not been complete. There was a large number of factories in the Eastern part of Austria, formerly under Soviet control, whose production and marketing had traditionally been directed to the demand from Eastern Europe. It was uncertain whether these traditional outlets for their products could be kept open after the fulfilment of Austria's obligations under the State Treaty. An adaptation of those factories, most of which were situated in areas of local unemployment, and a readjustment of their production to conditions of international competition required extremely high investments, which could not be effected without a thorough market analysis and until all possibilities for future outlets in the East had been explored.

14. Owing to her geographical position and her traditional economic ties, Austria carried on a very intensive trade with Eastern Europe. A notable part of Austria's total foreign exchange income derived from payments with the Eastern countries. As these States persisted in requiring the settlement of trade and payments on a strictly bilateral basis, Austria was obliged to keep channels open for imports, mainly of agricultural products, from the Eastern countries.

15. In spite of various economic difficulties Austria endeavoured to live up to her international obligations, especially those stemming from the Decision of the International Monetary Fund of 23 October 1959, with regard to the elimination of discrimination practised for balance-of-payments reasons. In recent years, Austria had exempted a number of important agricultural commodities and industrial raw materials from the licensing regulations, and had thereby taken into account the export interest of countries in the course of development. Vis-à-vis the United States and Canada all products which had been liberalized for the OEEC area, with the exception of a number of items (mainly textiles) had been free from quantitative restrictions as of 15 October 1959. A very high proportion of all imports from the OEEC area and the United States and Canada were now liberalized. Late in May 1960, tho
Federal Government decided to liberalize these last remaining items (see Annex II). An official decree, giving effect to the decision of the Council of Ministers was in the process of preparation. With its coming into force, the last remnants of discrimination vis-à-vis the United States and Canada would be abolished.

16. The Austrian Government was actively exploring ways and means of extending the OEEC liberalization to all contracting parties. The free list actually in force, which was equivalent to world-wide liberalization and already met the most important export interests of the developing countries would thus be supplemented by additional measures in the near future. These, as well as all future measures of liberalization, called for a careful and thorough analysis of all items not yet liberalized, taking into account both the export interests of foreign countries and the requirements of the Austrian economy. The further liberalization of imports for all GATT countries only depended upon the completion of the studies, now in progress, which would show what items could be so liberalized without jeopardizing the Austrian national economy. Any remaining items would have to be regarded as "hard-core" cases, apart from those restrictions which are justified under other relevant provisions of the General Agreement. Such a "hard-core" negative list clearly could not be available until the studies were completed.

17. In concluding his opening statement the Austrian representative noted that he had attempted to give a comprehensive and up-to-date description of Austria's balance-of-payments situation. The rapid deterioration of the Austrian balance of payments which had taken place in the course of the last six months clearly justified the maintenance of quantitative restrictions under Article XII of the General Agreement. At the same time Austria was contemplating concrete measures to alleviate the discriminatory effects of these restrictions.

18. In response to requests for clarification of the penultimate paragraph of the statement of the Fund representative quoted in paragraph 2 above, the Austrian representative stated that what the Austrian authorities had meant was that the discriminatory application of restrictions, except those applied to State-trading countries, was not for balance-of-payments reasons.

19. Members of the Committee thanked the representative of Austria for his comprehensive statement. Several members of the Committee observed that the Austrian representative seemed to have a much more conservative view of the present capabilities of the Austrian economy and its future prospects than were reflected, for example, in the material supplied by the International Monetary Fund. The Fund document indicated that the Austrian economy had developed in an exceptionally healthy manner in the past few years. The favourable conditions in the Austrian economy contrasted strikingly with those of certain other countries. As relevant for the criteria governing the use of restrictions for balance-of-payment reasons, it should be noted that the gold and foreign exchange reserves of Austria at present stood at a comfortably high level, equivalent to the value of about six months' imports. Although there was a deterioration in the balance of payments in the last quarter of 1959, it was understood that the deficit was caused by seasonal or temporary factors such as the sharp decline in tourism in the off-season. During the first quarter of 1960 the reserves declined by $37 million compared with a decline of $81 million in the last quarter of 1959, an indication that the payments position had improved again. Members of the Committee observed that although lengthy arguments pro and con could be made as to the strength of the various items in the Austrian balance of payments, in the
end it was necessary to revert to the Fund's Decision of 25 May 1960 taken at the conclusion of its consultation with Austria (see Annex I) which stated that "the Fund considers that Austria could take further steps to reduce reliance on restrictions and discrimination including that arising from bilateralism, and urges Austria to take such steps". They enquired what steps were being taken by the Austrian Government to comply with that Decision.

20. The representative of Austria stated that his Government fully accepted this Decision of the Fund, and that, accordingly, the Austrian authorities were at present engaged in studies upon the conclusion of which the Government would introduce extensive measures to reduce reliance on restrictions and discrimination. The Austrian delegation was only unable to state the precise date and scope of this pending action. It was expected that in the very near future the Austrian Government would communicate to the CONTRACTING PARTIES a detailed programme of progressive reduction of restrictions and discrimination.

21. Concerning the apprehension expressed by the Austrian representative that the establishment of the common market in the EEC might severely affect Austria's position, a member of the Committee thought that the Austrian representative's view on these possible effects were perhaps exaggerated. Although Austria's trade deficit with EEC countries increased by $49 million in 1959, the overall trade deficit of Austria increased by only $28 million; the deterioration in Austria's trade balance with EEC was therefore partly compensated by improvements elsewhere. As regards capital movements it appeared from the Fund paper that a lower surplus on capital account in 1959 as compared with 1958 was caused by various temporary and non-recurring factors. There was scanty evidence that foreign investors became reluctant to invest in Austria on account of any uncertainties caused by developments in the EEC. Both with regard to trade and capital movements, the setting up of EFTA would certainly contribute to restoring the balance and counteract any adverse effects that might be caused by EEC developments. In reply the representative of Austria stressed the predominant importance of EEC markets to Austria's exports; at present about 50 per cent of Austria's exports went to EEC countries. In contrast to this, Austria's trade with the other EFTA countries was strictly limited; it had increased slightly from 10.9 per cent of Austria's total trade in 1958 to 13.2 per cent in 1959. The distribution of Austria's trade among the countries being so unequal, Austria could hardly count on the EFTA arrangements to mitigate all the effects of the EEC. In 1959 a considerable part of the increase in monetary reserves was due to private capital inflow. Present indications were that such capital inflow would decline and at any rate movements of capital, being independent of economic forces, were highly unpredictable. On the other hand, Austria still had no genuine capital market, although some progress had been made. The increasing need of capital by industry for modernization and re-equipment purposes indicated a continual shortage of funds which would have to be obtained from abroad.

22. In answer to a question regarding the prospects of earnings from tourism, in the light of the increase in net receipts on foreign travel account both in 1958 and 1959, the Austrian representative noted that the increase of $29 million in foreign travel receipts in 1959 was not due to any significant increase in the number of tourists visiting the country, but reflected a rise in prices. While income from this item was expected to increase in future, expenditure of foreign currency by Austrians travelling abroad was also expected to rise; in fact such expenditure had increased by 23 per cent in a single year.
23. In reply to a question the representative of Austria supplied information on the nature and the size of the unrequited deliveries to the Soviet Union under the State Treaty. Under the Treaty Austria was to make deliveries to the value of $150 million in five years as well as 1 million tons of crude oil each year for ten years. Between 1955 and 1959 deliveries (including the crude oil deliveries) actually made amounted to a total value of $200 million. In the last year, however, a return delivery of one half million tons of crude oil of a different kind had been made by the Soviet Union to Austria. The deliveries of goods other than oil would be completed by the middle of 1961. Because of the particular location of the industries which produced the goods for this purpose and the local unemployment in that area, the termination of the deliveries was unlikely to have the effect of alleviating the burden on the economy, or releasing resources that might be switched to other productive pursuits.

Internal Fiscal and Monetary Measures

24. A member of the Committee thought that in view of the expansionary fiscal and monetary policy pursued by Austria in the last two years it was not surprising that there should be an increase in the deficit in trade. It was gratifying to see that appropriate budgetary and monetary measures had been taken in 1960. Like the IMF the CONTRACTING PARTIES should welcome the declaration of Austria's intentions to take such further fiscal and credit measures as might be necessary to maintain internal and external balances. The representative of Austria agreed that the internal measures taken would eventually have effects on Austria's external position, but that immediate relief should not be expected from such measures as the adjustment of the rediscount rate or changes in the minimum reserves requirement for bank deposits, which were slow in exerting their influence on imports and exports. This was particularly true in Austria in view of the inadequately developed capital market, the low elasticity of the demand for certain imports and the ease with which finance for import payment could be obtained from foreign sources. As for fiscal measures, possibilities were limited by the fact that a high proportion of budgetary expenditure was dictated by social conditions and mandatorily required by legislation. Commenting on the view that a lowering of capital imports might to some extent be accompanied by a consequential reduction in capital goods imports, the Austrian representative thought it most unlikely that imports of capital equipment into Austria would fall significantly when capital inflow was reduced. In the view of the Austrian representative the recent increase in trade deficit should at least partly be attributed to the reduction of restrictions, which made it possible for imports to expand out of proportion to the slowly advancing exports.

25. Members of the Committee considered that the fiscal and credit measures recently taken by Austria should contribute to the maintenance of equilibrium and thus facilitate the implementation of its avowed policy of further liberalization, and suggested that further measures in these fields should be taken in case those already in force should prove to be inadequate for the purpose.

System and Methods of the Restrictions

26. In clarification of Austria's position regarding the remaining restrictions, the representative of Austria explained that there were still discriminatory restrictions arising from Austria's obligations towards State-trading countries
and that these discriminatory restrictions must for the present be regarded as being maintained for balance-of-payments reasons. Apart from these, Austria's import controls also involve discriminatory treatment of imports from non-dollar, non-OEEC countries; these latter discriminatory restrictions were not maintained for balance-of-payments reasons. Some members of the Committee pointed out that in addition there was discrimination against dollar countries as compared, for example, with OEEC countries. Other members of the Committee also questioned the justification for the maintenance of discriminatory restrictions for other than balance-of-payments reasons.

27. The representative of Austria informed the Committee that the Federal Government had decided to remove restrictions on the importation from Canada and the United States of twenty items which had been liberalized for the OEEC countries (See Annex II), and that the decree bringing this into force was being prepared and would be issued shortly. He confirmed that as a consequence of this liberalization all discrimination between imports from the OEEC countries and those from Canada and the United States had been eliminated. The representatives of the two last mentioned countries expressed gratification at the progress made by Austria in reducing discrimination against the two dollar area countries.

28. These representatives drew attention to the licensing requirement which had been retained for liberalized imports from the two dollar countries although no such formality was required for liberalized imports of OEEC origin; this difference in procedure, in their view, constituted an impediment to imports from the dollar countries. Furthermore, since it was claimed that no restriction in the sense of Article XI was applied on the products in question, the provisions of paragraph 1 of Article I of the General Agreement must be regarded as relevant, which required that most-favoured-nation treatment should be accorded to all contracting parties, inter alia, with respect to formalities. The representative of Austria maintained that the automatic licensing procedures were a pure formality, and had been retained in order to enable a close watch to be kept on movements of imports, that the formality had absolutely no restrictive effects on trade, and that furthermore the procedures used in issuing such licences were extremely simple and involved no delays or added burden to traders.

29. Members of the Committee pointed out that the CONTRACTING PARTIES had never accepted the view that imports requiring the sanction of licences, even if these were issued freely, could be regarded as free from restriction in the sense of Article XI of the General Agreement and that the usage adopted by the OEEC was hardly relevant for the present consultation based on the provisions of the General Agreement. Although the intent of the licensing requirements might be only to keep track of the flow of imports, in effect it could not but give rise to additional degree of uncertainty to traders and might be open to abuse, causing delays or hardships. In previous consultations, such as the one recently held with the Union of South Africa, the contracting parties maintaining such a requirement had always been urged to discontinue the practice. The point was that automatic licensing, although desirable as compared with discretionary licensing, was no substitute for truly unrestricted importation free of licensing requirements. In response to a comment by the Austrian representative, some members of the Committee stated that it would not be desirable to achieve nondiscrimination by the imposition of automatic licensing requirements on imports from OEEC countries. The Austrian representative maintained that in his view the automatic licensing requirement did not contain any restrictive element.
30. The Committee discussed with the Austrian representative the purpose of the discrimination maintained between imports from Canada, the United States and OEEC countries on the one hand and the rest of the world, including the outer sterling area countries, on the other hand. The representative of India, for example, recalled the favourable expansion of Austria's trade in recent years and the successive liberalization of imports from OEEC and dollar countries. It was to be deeply regretted that countries like India had not been allowed to share the benefits of this expansion of the Austrian market and the liberalization measures, although India applied no discrimination against Austrian exports. It should be noted that the further liberalization of dollar imports, referred to as a measure which reduced discrimination, was in fact an accentuation of discrimination against non-OEEC, non-dollar countries. Countries like India wished to emphasize the new measures promised to be taken by Austria should not be limited to the alleviating of discriminatory effects of restrictions. It was sincerely hoped that Austria would take steps to liberalize imports from countries like India and to give goods from such countries equal opportunity in the Austrian market with those of OEEC or dollar origin. It would also be difficult for the developing countries to accept any perpetuation of the restrictions against their exports through utilization of the "hard-core" procedure. Another member observed that, if recent discussions in GATT relating to the exports of less-developed countries were taken as a guidance, those countries should be given priority in Austria's programme of further liberalization which it had promised to put into effect as soon as possible according to the views of the International Monetary Fund as expressed in its Decision of 25 May. The representative of Israel made the same plea for fairer treatment of exports of his country.

31. Some members of the Committee noted that with the exception of State-trading countries Austria no longer claimed balance-of-payments justification for discrimination and expressed the hope that the measures shortly to be announced by Austria would completely eliminate all discrimination it was no longer entitled to maintain under the General Agreement.

32. Concerning the administration of the sector of imports still subject to restrictions from all sources, the Austrian representative reaffirmed that although imports from certain sources were controlled more strictly for reasons other than the balance of payments no imports from any source were excluded. In accordance with the spirit of the External Trade Law, imports from all sources were admitted as freely as possible and on a non-discriminatory basis; choice of sources of supply was entirely left to the traders. Imports subject to the discretionary licensing procedure were at present of very limited scope and as noted above, steps would be taken, as soon as possible, further to reduce these restrictions. Members of the Committee pointed out that unfortunately it was not enough to say that no source of supply was excluded; it was essential that imports be permitted consistently with the provisions of Article XIII of the General Agreement. The Austrian representative maintained that the restrictions were operated fully in accordance with Article XIII.

33. The Austrian representative referred to the concluding remarks in his opening statement and confirmed that in conformity with the Fund Decision of 25 May steps would soon be taken to reduce the restrictions and discrimination to the full extent permitted by the conditions of the Austrian economy.
34. The Committee discussed extensively with the Austrian representative the discriminatory effect of restrictions arising from Austria's obligations under bilateral agreements, especially those concluded with State-trading countries. The representative of Austria gave an account of the bilateral trade and payments agreements at present in force and of the quota obligations embodied in some of the agreements. He stressed the limited scope of these agreements and the negligible effects of the bilateral quotas on Austria's trade with third countries. In the view of the Austrian Government bilateral agreements had served as an efficient means of securing additional imports and of expanding and diversifying Austrian export markets. Members of the Committee pointed out that insofar as a bilateral agreement provided for individual country quotas it inevitably involved discrimination against third countries since the quota obligation would necessarily reduce the share of the market available to them, which was contradictory to the rule of non-discrimination embodied in Article XIII of the General Agreement. The representative of Austria maintained that bilateral negotiations, which normally preceded the conclusion of a bilateral agreement, provided a useful opportunity for an exchange of information on import and export opportunities, and that they were therefore beneficial to the expansion of trade. The provision of quotas to individual countries so as to allow them to have a fair share of the Austrian market might in given circumstances be in full accord with the principles and provisions of Article XIII. Insofar as Austria was prepared to discuss bilaterally trade opportunities with any country there would seem to be no danger of any country being discriminated against. In certain cases a bilateral agreement may contain an undertaking on the part of Austria to admit importation of certain products from the partner country without limitation, but such undertaking was normally given only with respect to products which had been liberalized for OEEC countries, the United States and Canada; this would seem to involve no more than an extension of OEEC liberalization to the bilateral partner country. Furthermore, the Austrian Government recognized that bilateral agreements were useful only in certain circumstances and were relied upon as a transitional means and not as a permanent instrument of commercial policy. The Austrian representative stated, however, that as long as import commodities remained under restriction the need for concluding bilateral agreements would persist.

35. Members of the Committee pointed out that according to the rules of non-discrimination contained in Article XIII, import restrictions insofar as possible should be administered through global quotas available to all the contracting parties and, failing this, through quotas shared among interested exporting countries in accordance with defined criteria and subject to certain consultation procedures. While the granting of single country quotas was not necessarily inconsistent with those rules the likelihood of the rules of Article XIII being fully complied with was rather small unless the utmost care was taken to safeguard the interests of third countries in accordance with those provisions. Members of the Committee urged the Austrian Government to reduce to the minimum any future reliance on bilateral quotas and should refrain from entering into new agreements, especially the type containing quota commitments.
36. The representative of Austria was invited to comment on the recent measure transferring the import of grain into State-trading which had the incidental effect of bringing up the level of dollar liberalization which, according to the OEEC practice, was expressed as a percentage of total private imports in a base year. It was pointed out that, as recognized in Annex I, import restrictions carried out through State-trading operations were restrictions in the sense of Article XI and therefore the placing of imports of grain from Europe on sources under State trading could constitute a retrogressive step of deliberalization, which, in the present context of general moves towards liberalization, would not be welcome even to the dollar-area countries. The representative of Austria confirmed that State trading in Austria was administered in full conformity with the provisions of Article XVII of the General Agreement, particularly those of paragraph 1 of the Article. No discrimination was therefore involved and imports were effected from all sources purely on the basis of commercial considerations.

Effects of the restrictions

37. In discussions under Part IV of the Plan, members of the Committee recalled various references which they had earlier made to the undesirable effects on trade and possible damage to the interests of other contracting parties that might arise from the various measures of restriction, including the automatic licensing system maintained for imports which required no restriction, the discriminatory restrictions applied in various forms and the State-trading practices. The Austrian representative reaffirmed the intention of his Government to reduce to the minimum any possible damage that might be caused by its import controls to the interest of contracting parties, as required by paragraph 10 of Article XI.

38. One member of the Committee noted that a high proportion of agricultural trade was apparently subject to import controls. He asked to what extent the controls were motivated by agricultural policy considerations, especially those arising from the particular situation in 1959 when the relative share of agriculture in gross national product had declined. He noted that the Austrian representative had stated that the maintenance of traditional trade flow required that part of the trade be carried out under bilateral arrangements. He enquired in this context about the share of such bilateral trade in total trade in agricultural products. The Austrian representative replied that his Government was fully aware of the particular conditions prevailing in the agricultural sector. The Austrian authorities recognized the need for increasing activity in agriculture and considerable progress had already been achieved in this connexion. Quantitative import restrictions on agricultural products had so far been applied for balance-of-payments reasons. Imports of agricultural products were carried out to a considerable extent under bilateral agreements.

39. A representative of the Committee recalled the discussion relating to the industries which were at present engaged in the production of goods for the required deliveries to the Soviet Union and which, upon completion of the deliveries in 1961, might need readjustment. He pointed out that in the process of this readjustment it would be in the interest of Austria to pay due attention to the potential competitiveness of the industries concerned; for continued protection of inefficient industries might place a permanent burden on the Austrian economy. The Austrian representative stated that his Government was fully aware of the need to avoid giving protection to industries which would not eventually be competitive and economic. On the other hand, account had
to be taken of the social problems and the depressed conditions of the eastern part of the country. Even if the vast amount of capital required were available, reorientation of the industries in question was at the moment made extremely difficult by the lack of precise knowledge of future developments of Austria's export markets. He assured the Committee that his Government would not unnecessarily and wittingly protect uneconomic industries which would be contrary to Austria's own interests.

General

40. Members of the Committee expressed gratitude for the co-operative and open manner in which the Austrian delegation had participated in the consultation. They were gratified to hear that the Austrian Government was in full agreement with the Decision of the International Monetary Fund of 25 May 1960 which stated that the Fund considered that Austria could take further steps to reduce reliance on restrictions and discrimination including that arising from bilateralism, and urged Austria to take such steps. It was also gratifying that the Austrian delegation had indicated that the Government would take early steps to comply with that Decision, and that, with regard to discriminatory restrictions, new measures in line with the expressions of the Fund were already in preparation. It is understood that the Austrian Government would in the very near future place before the CONTRACTING PARTIES a detailed programme for the progressive reduction of discriminatory restrictions. It was understood that the programme would be directed towards the reduction of restrictions against those contracting parties the bulk of whose trade was on the basis of fully or externally convertible currencies and which had so far not fully benefited from Austrian liberalization measures.

41. Members of the Committee trusted that, as regards the objectives of Austria in progressing toward non-discrimination, the Government would give attention to non-discrimination in all of its various aspects such as uniformity in the application and expansion of liberalization lists, uniformity in freedom from licensing procedures and formalities, careful consideration of the interests of all contracting parties in the establishment of quotas for private imports and in Government purchases pursuant to the standards of Article XIII, and an expansion of the area of trade subject to multilateral as distinct from bilateral arrangements.

42. The Committee also hoped that Austria would make rapid progress with the reduction of all restrictions, whether or not discriminatory, in accordance with the Fund Decision.

43. The representative of Austria expressed satisfaction at the proceed of this consultation and undertook to convey all the views expressed by members of the Committee to his Government for careful consideration.

[Annexes to be circulated separately]