REPORTS OF THE ARTICLE XII:4(b) CONSULTATIONS COMMITTEE

The present document contains the reports of the Consultations Committee appointed at the Eleventh Session, on the consultations under Article XII:4(b) with eight contracting parties held from 11 to 29 June 1957, as follows:

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In the reports references are made to QRC/4 and addenda 1 and 2, which contain the results of the International Monetary Fund's latest consultations with the eight countries. They are reproduced in the Appendix to the present document. (See page 95)
I. REPORT ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH DENMARK

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Denmark under paragraph 4(b) of Article XII.

2. The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the Danish authorities describing the system and methods of the balance-of-payments import restrictions in operation in Denmark. The document also contains a statement under Part II - "Effects on Trade", submitted by the Danish authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 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 Denmark. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultation with Denmark concluded on 13 March 1957. The results of the Fund's consultation with Denmark are reproduced in document QRC/4. 

5. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Denmark. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its recent consultation with Denmark which was concluded on March 13, 1957. This documentation has been distributed to the members of this Committee.

See Appendix to this document
"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of restrictions of Denmark which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Denmark. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Denmark

6. The full text of the opening statement of the representative of Denmark is attached to this report as Annex I, and is summarized in the following paragraphs.

7. For Denmark foreign trade is of greater importance than for most other countries. Almost one-third of what is produced in Denmark is exported, and one-third of the commodities used for consumption and for investment originate in other countries and must be imported. (For the United States of America the corresponding figure is only 4 to 5 per cent). Denmark lacks many natural resources and has no coal, oil, iron or steel, and her dependence on foreign trade is also a result of specialization of production, the main emphasis being on agriculture.

8. The fact that the average ratio of imports to gross national product is about 30 per cent is an important factor in the Danish economy and is accentuated by the fact that the marginal ratio of imports is much higher, perhaps about 60 per cent. Therefore, if the gross national product should rise by say $100 million, imports would at the same time increase by about $60 million.

9. Notwithstanding her exceptional reliance on foreign trade, Denmark possesses no adequate reserves of foreign exchange to overcome short-term adverse movement in the terms of trade or reduction in marketing opportunities abroad. During the first part of 1957 the holdings of foreign currencies decreased rapidly because of higher prices for oil and coal combined with lower prices for agricultural exports. The gold and dollar reserves currently amount to about £12.5 million while the total liquid reserve of foreign assets including, inter alia, the remaining credit facilities in the EPU, total £17.5 million, enough only to cover about two week’s imports.

10. In such conditions it is therefore evidence of Denmark’s free trade policy that import restrictions have not been tightened and the Government has only had recourse to internal monetary and fiscal measures to overcome its balance-of-payments difficulties. That this policy has been consistently followed by the Danish Government is demonstrated by the fact that the Danish tariff, among the lowest in the world, has not been increased since the first world war, except on certain textile products. As some 80 per cent of the total revenue from

1See page 12.
import duties is derived from specific duties, their incidence has in fact decreased. In the field of quantitative restrictions, continuous progress has been achieved since 1949 and it is the intention of the Danish Government to pursue this policy of liberalization as far as foreign exchange reserves permit.

11. As stated, Denmark was relying mainly on restrictive credit and fiscal policies to correct its balance-of-payments situation. In the field of credit, the rate of interest on long-term loans has been raised and banks have undertaken to ration credit. Fiscal measures have been focused on indirect taxation on consumption; steps have been taken to reduce the amount of government expenditure to achieve budgetary surpluses. The new government intends to increase the purchase tax on luxury goods, to introduce compulsory saving for higher incomes and to curtail public expenditure to an even greater degree. These measures, by reducing domestic consumption, are expected to stimulate exports. Likewise, the expansion of industries is being encouraged by exempting corporation savings from income tax and by increasing the effect of depreciation allowances. The development of industries and of industrial exports is considered essential in view of the protectionism prevailing in the export markets for Danish agricultural products. Owing to an appreciable increase in the birth rate between 1941 and 1951 a large increase of manpower is foreseen. This additional influx, together with a rapid decline in the labour force employed in agriculture, makes industrialization all the more necessary. Such increased investments in industry are, however, exerting pressure on foreign exchange holdings.

12. Internal measures however, cannot be expected to bring about an overall expansion of the Danish economy, unless conditions in foreign markets made possible increased exports. Owing to widely prevailing protectionism agriculture, which represents about 60 per cent of total Danish exports, has not benefited from the recent large-scale expansion of trade and payments. The lack of expansion in the trade in agricultural products is caused by quantitative restrictions, state trading, customs duties, preferential tariff systems, minimum prices and by production and export subsidies, which for example have led to substantial surplus disposals by the United States. Concerning industrial products, while foreign competition is allowed on the Danish market on equal terms with domestic producers, high tariffs abroad do not afford Danish producers similar opportunities to expand their sales abroad. Exports are furthermore hampered by dual pricing practices applied by other countries, for instance in the case of steel products, and by the weak bargaining position of Denmark in bilateral negotiations. Since 1953, industrial exports have nevertheless increased by 75 per cent in volume while exports of agricultural products have tended to stagnate. Industrialization in the Danish economy has already caused the proportion of industrial exports to increase, from 25 per cent in the pre-war period to about 40 per cent at present.

13. In conclusion, the Danish representative said that by and large the balance-of-payments difficulties in Denmark were the result of the protectionist policies followed by other countries. If Danish exports were given a better opportunity to enter more freely and to compete in foreign markets then it would be possible for Denmark to abolish the remaining quantitative restrictions. It was therefore the Danish view that all barriers must be dealt with simultaneously. It was for the countries possessing large foreign exchange reserves
to take the lead by eliminating, not only quantitative restrictions, but also
other barriers to trade, including certain state trading practices. Improvements
in Denmark's balance-of-payments position would be followed by relaxation of
import controls in the form of a more liberal issue of licences in the controlled
sector and by the widening of the scope of the liberalized sector. It was hoped
that the consultations would bring out clearly that the ultimate abolition of the
restrictions depended on the readiness of other countries to admit Danish goods
liberally.

Balance-of-Payments Situation and Prospects

14. In the course of the discussions on the various topics listed in the Plan
for the consultations, the Danish delegate indicated that in 1956 the current
balance of payments (excluding official capital expenditure) had shown a surplus
of some Kr. 100 million. This surplus resulted mainly from a favourable balance
in dollars which had however, decreased from Kr. 400 million in 1953 to less
than Kr. 200 million in 1956. On the other hand, in 1956 the current balance
in EPU currency showed a deficit of Kr. 100 million. The tendency had however
been improving and the deficit of Kr. 600 million in 1954 had been reduced to
Kr. 100 million in 1956. Payments with the rest of the world tended to balance and
sometimes had small surpluses. Forecasts for 1957 indicated another decline in
the surplus with the dollar zone combined with an increase in the deficit with
the EPU area. Payments with the rest of the world were expected to be almost
balanced.

15. In response to a question, the Danish representative pointed out that in
the first months of 1957 the balance-of-payments situation had deteriorated.
Landed prices of oil and coal, which represented some 20 per cent of total
imports, increased as a result of the Suez crisis and this had caused a severe
drain on the gold and dollar reserves. Concurrently export prices for some
agricultural commodities had declined; prices of eggs suffered from the competition
of subsidized production and prices of butter and bacon in the United Kingdom,
the most important Danish export market, had declined. As a result, the terms
of trade, which had already been very unfavourable to Denmark before these
developments, significantly worsened. Concerning the future, prices for coal and
oil had already become stabilized and would perhaps decline later in the year,
while in the agricultural field prices had, in the previous month, shown a tendency
to increase. It was hoped that this trend would continue and that the ensuing
improvement in the terms of trade, together with the planned curtailment of
internal consumption, would stop further drains of the foreign exchange reserves,
which, even under these desirable circumstances, would still be insufficient.

Expected Effects on the Balance-of-Payments of any Relaxation of Import Restrictions

16. The Danish representative said that it was difficult to predict the effects
of further relaxation of import controls, but that with reserves equal to only
two weeks of imports the Danish Government could not afford to take great risks.
Liberalization measures introduced in recent years had modified the pattern of
imports in favour of the dollar area as against the EPU area. From 1953 to
1956 imports from the EPU area had risen from Kr. 5,800 million to Kr. 7,000
million, dollar imports had, in the same period, increased from Kr. 350 million
to approximately Kr. 1,000 million. This appreciable increase was in part due to the liberalization of certain items, but could also be partly explained by the increase in internal demand which had led to a more liberal issue of licences for restricted imports, preparing the way to formal liberalization. The liberal licensing policy applied had resulted in a greater percentage increase in non-liberalized imports from the dollar area during the period than in liberalized imports.

Prospects of Relaxation or Elimination of the Restrictions

17. In response to a question, the Danish representative clarified the point in his introductory statement to the effect that the elimination of quantitative restrictions would depend on measures taken by other governments; this he explained, did not mean that further liberalization of imports would be made conditional upon reciprocity. It was the intention of his Government to continue with the liberalization programme within the possibilities of the balance-of-payments situation. The fact that, notwithstanding a serious decline in the already very low reserves at the beginning of 1957, no new measures of import restriction had been resorted to, was sufficient proof of the intentions of his Government. It should be realized however, that the only way for Denmark to attain a satisfactory level of reserves was to expand exports. This was in turn to a great extent dependent on the action taken by other governments; present practices in a number of countries had a dampening effect on Danish exports. A member of the Committee observed that the internal economic situation which directly affected the demand for imports, would also be significant for Denmark's capacity to build up its reserves.

18. A member of the Committee pointed out that the figures cited by the Danish representative showed that, in spite of the maintenance of formal restrictions, imports could nevertheless expand considerably if licences were issued freely. The rapid rise in Danish imports from the dollar area in the past few years showed that liberal import policies had been applied, within the limitations imposed by the balance-of-payments position. Other members noted that liberal licensing was a useful means for testing the strength of demand in preparation for further progress, but was not a satisfactory substitute for formal liberalization when this was possible. Licensing controls involved uncertainty for traders.

19. Representatives of countries in the dollar area pointed out that the current trend towards an equal degree of "hardness" of major currencies, sometimes referred to as "de facto convertibility" was rapidly diminishing the need to draw distinctions between settlements in different currencies. The 25 per cent credit element in EPU payments was of somewhat limited significance, particularly as credit would eventually fall due and be settled in gold. In fact, countries were increasingly aware that it was their overall balance of payments rather than their regional balances which was significant. Accordingly, it no longer seemed appropriate to be unduly concerned about the source of imports or an increase in imports from one area at the expense of another. Such shifts, as had been seen in recent years, were frequently induced by factors other than liberalization. Freedom of choice in selecting the source of imports would improve the Danish competitive position on world markets. This was, for example, true for imports
of asbestos, iron and steel scrap, which were primary materials used in the manufacture of certain export commodities and which were still restricted from the dollar area. Would it therefore not be appropriate to extend the application of the Regional Lists to cover the whole world and to transform bilateral quotas into global quotas. The Danish representative agreed that the distinction between the various regional balances of payments was no longer of such importance as it had been. However, as the Danish reserves were still extremely low the addition to the foreign exchange liquidities of an admittedly small credit margin of 25 per cent in the EPU settlements could not be neglected. In addition, it was only for major imports, such as those of oil (which accounted for roughly 10 per cent of total imports) that considerations of diversion of trade from one monetary area to another were taken into account. The 40 per cent increase in imports from the dollar area in 1955-56, as compared with only 10 per cent in the case of imports from EPU areas clearly showed that the Danish Government had been aware of the benefits to be gained from cheaper imports.

20. One representative then pointed out that, in a world from which the gold standard with its adjustment mechanism had disappeared, it was not realistic to consider only the overall balance of payments. The regional payments system established by the EPU had considerably contributed to the expansion and stability of the Western European markets. This regional stability was the product of the maintenance of equilibrium in the regional balances of payments of the member countries. Every measure that might endanger this regional stability must be viewed in the light of the consequences it might have on the liberalization levels of the EPU countries.

Alternative Measures to Restore Equilibrium

21. A member of the Committee referred to the Fund's views contained in the results of its consultations with Denmark concerning government expenditure and the desirability of checking consumption and encouraging productive investment. He understood that it was the intention of the Danish Government to take steps along those lines, and expressed the hope that Denmark would be successful in restoring equilibrium in its balance of payments by such alternative measures.

System and Methods of the Restrictions

22. The Danish representative pointed out that Annex VII to the basic document contained not only the commodities on the Regional Licensing List as stated in page 5 of that document, but all commodities subject to licensing requirements when imported from EPU countries. For the convenience of the Committee, he would furnish the secretariat with a list of the "regionalized commodities" to which the products listed in Annex X should be added. In reply to a question by the Australian delegate, he indicated that wheat and flour were on the Regional Licensing List and were not imported under bilateral trade agreements.

23. Replying to questions, he explained that the licensing authorities had, in the past during a certain period, used the terms "external" and "internal" quotas when referring to the two control methods used for imports of goods contained in the Regional Licensing List. The word "external" meant that the quotas were made known to importers and were in the nature of a firm licensing programme, generally based on one or more representative years. The term "internal quotas" referred to the licensing estimates for goods for which applications for licences were dealt with on their merits. These figures were known to administrative officials and trade organizations but could easily be modified. He could not indicate what proportion of imports under the Regional Licensing List was subject to each of the two systems of restrictions, i.e. to the licensing system based on previous imports and to the system of individual application. Indeed the procedure was being modified from time to time.
24. The Danish representative then supplied information on the licensing policy applied for goods contained in the Regional Licensing List. Under the case by case method of issuing licences for goods in this category, even though licences may have been already granted up to the total amount of the estimates, applications might still be accepted after due investigation of the nature of the request. On the other hand, even though the amount of the estimates may not have been reached, applications might be refused if it was found that the commodity to be imported did not justify the outlay of foreign exchange. Various members of the Committee maintained that the fixing of firm quotas gave traders more certainty and facilitated the conclusion of commercial contracts, whereas licensing according to merits of the application caused considerable difficulties.

25. In response to a question on the criteria used for selecting commodities to transfer to the General Free List, the Danish representative said that the licensing authorities have especially to take into account whether there was a latent demand for a particular commodity. If this was the case, the item would not be freed unless warranted by the dollar reserve position. This was, for example, the case with oil. When considering the type of commodity, raw materials generally received priority over capital equipment, which in turn enjoyed preference over consumer goods.

26. When asked what criteria were applied for admitting imports from the dollar area of goods contained in the two regional lists, the Danish delegate explained that price was an important, but not the only consideration. In the case of oil, for example, although dollar and non-dollar prices were approximately the same, imports from dollar sources were not permitted in order to safeguard the hard currency reserves. On the other hand, the licensing authorities were inclined to admit imports if for a particular commodity one source of supply offered a distinct price advantage. But again, where there was a large latent demand for such a commodity, balance-of-payments considerations would predominate and the price advantage be disregarded. In order to test the latent demand for restricted imports the Danish Government would issue licences more freely for selected items. Even so, it was not invariably possible to obtain a precise estimate of the demand, because only the formal transfer of a commodity to a free list assured traders of free entry, thereby setting in motion various processes such as the introduction of intensive sales promotion devices and the establishment of branches which could then lead to a very substantial increase in imports.

27. As set out in the basic document, the General Free List, while applicable to imports from the EPU and dollar areas, was not formally being applied to the rest of the world, although in practice imports were subject to a liberal régime. A member of the Committee enquired about the reasons for maintaining such a special régime, especially in view of the fact that Danish trade with the non-EPU and non-dollar countries was almost balanced. The Danish representative said that he knew of no example where applications for licences had been refused for imports of commodities on the free list. A question was put as to whether the licensing policy applied to goods originating in the non-EPU non-dollar trade agreement partners which were not specified in Section (f)(iii) of the basic document. The Danish representative explained that although the Regional Free List and the Regional Licensing List applied formally to the EPU area only, they were in practice also applicable to non-dollar non-EPU countries.
28. One representative called attention to the fact that the maintenance of bilateral trade agreements might be hampering further progress in the relaxation of restrictions. The Danish representative replied that only 2.5 per cent of total imports were still governed by bilateral quotas, and that these agreements did not prevent the Government from taking further liberalization measures. Progress in this field was hindered by the restrictive systems applied by some of Denmark's trade partners which consisted in admitting foreign goods only if equivalent export opportunities were being afforded for their own goods. This was the case with the trade arrangements maintained with the Eastern European countries. The trade agreements concluded with OEEC partners included only a few quotas for goods which, for balance-of-payments reasons, could be admitted only in limited quantities, but which had traditionally figured in mutual trading. Such quotas were fixed in accordance with the traditional pattern of trade. Progress in the elimination of bilateral quotas had been achieved by the extension of the previously mentioned regional licensing system. His Government intended to pursue this policy. Restrictions on citrus fruits from the dollar area were wholly justified on balance-of-payments grounds as they were consumer items and as such did not enjoy licensing priority.

29. A member of the Committee enquired whether the issue of licences was in certain cases made conditional upon the exportation of domestic products of a similar nature and equivalent value. The Danish representative stated that provisions regarding barter arrangements were still valid but had no practical importance.

30. It was noted that as from 1 January 1957 the system of granting exporters to the dollar area transferable import rights (Titles to Import Licences) had been extended to cover some additional non-essential commodities, although at the same time the premium paid to exporters had been reduced. As the new measure was likely to exert additional restrictive effects on imports, a member of the Committee wished to know whether hope could be entertained that the restrictive effects of the scheme would be reduced and its protective incidence lessened. The Danish representative answered that it was for technical reasons only that some new relatively unimportant commodities had lately been made subject to the procedure. The system permitted a wide range of commodities to be imported from EEU countries provided the importer was prepared to acquire import titles. The main item subject to the import titles scheme was motor cars; the Government intended to raise the purchase tax and this would enable it to withdraw cars from the scheme.

The delegate for Canada was that he had been concerned by the complexity of the control system and the numerous variations in each licensing method. This intricacy could lead to confusion and deter foreign exporters from prospecting the Danish market. He therefore urged that consideration be given to a simplification of the restrictive system. The Danish representative noted that the import restriction system was far from simple, but it was hardly more complicated than the systems being applied in certain other countries. Such a situation was partly due to historical reasons and partly to the fact that concurrently with every improvement in the reserves, steps were taken to free imports and grant licences more liberally and consequently a variety of control techniques had been evolved.
The system had been developed in cooperation with traders' associations. The public were always afforded full opportunity to obtain all necessary information on quotas and import possibilities. In response to a question the Danish representative confirmed that the reference in the basic document to fruit imports from the United States should have been to the dollar area as a whole.

Steps taken to reduce the Protective Effects of the Restrictions

32. The Danish representative stated that in attempting to encourage industrialization, his Government fully realized that there could be no interest in protecting uneconomic industries which, in any case, owing to the size of the Danish market, would have to compete on world markets. To lessen the protective effects of the restrictions a technique had been adopted of amalgamating quotas with a narrow commodity classification into quotas covering a large range of products. The importers would use the total amount of their licenses to import goods where the greatest difference between Danish and foreign prices existed. This compelled the domestic producers to face the competition of imports and lessened the incidental protective effect of the import regulations. In addition, as indicated in the basic document on 25 May 1956 the Controller of Monopolies, in collaboration with the Directorate of Supply, had been instructed to compare prices in Denmark with those in other countries, of commodities to which the quantitative restrictions afforded incidental protection. It was the policy of the Danish Government to reduce excessive price differences and to foster competitiveness by admitting more imports. At this stage it was hard to assess the effects of these recent measures.

33. A member of the Committee enquired whether the existence of domestic production was an over-riding factor in deciding on applications for licenses in the discretionary sector. This member instanced an application for the importation of machinery or equipment on the Regional Licensing List. The Danish representative said that if the differences in price and quality between the foreign product and the domestic product was small, the licence might be refused on balance-of-payments grounds. Indeed, if the national product was sufficiently competitive, outlays of foreign exchange for imports of the same commodity would be unjustified in present payments circumstances. If, on the other hand, there was a large difference in price the licensing authorities might prefer to grant the licence.

34. In reply to a question, the Danish representative indicated that he did not think it could be said that Denmark had hard-core problems. Liberalization had already reached a very high level and the Danish economy was kept competitive by means of the procedures which he had described. The Act on Trade Control Measures and Commodity Supplies, which formed the statutory basis of the present controls, was temporary and specified that all measures should aim at and prepare for a return to normal conditions of economic life. Being of a provisional character this legislation prevented the Danish producers from considering themselves entitled to permanent restrictive import regulations.
35. A representative wished to know whether the Danish Government had experienced restrictive effects of foreign import regulations on its exports of industrial goods and whether in the recent past it had noticed any changes. The Danish representative stated that over the last four years the volume of exports of industrial products, particularly of machinery, had increased by 75 per cent. Very dissimilar trends, however, had been noticed in various export markets. While exports to Norway and Sweden and to several of the bilateral agreement partners had been stagnating, exports to most Western European countries had considerably increased. There had been no significant change in exports to the other countries. In his opinion, the rapid expansion of industrial exports was to be attributed to the investment boom in Europe over the last four years rather than to liberalization measures.

General

36. Several members of the Committee stressed the usefulness and excellence of the basic document prepared by the secretariat and of the background information submitted by the Fund. This extensive documentation had greatly assisted the discussions and had helped to contribute to the quality of the debate. The very informative introductory statement made by the Danish delegate had, by focusing attention on the structure and difficulties of the Danish economy, permitted members of the Committee to understand more fully the balance-of-payments problems with which Denmark was confronted, particularly in view of the very low level of reserves. It was furthermore noted with gratification that the Government was relying mainly on internal measures to cope with the recent deterioration in the payments position, and hope was expressed that Denmark would continue to relax its restrictions and further reduce its reliance on bilateralism.

37. The delegate for Canada wished to stress the importance which his Government attached to further relaxation of the restrictions, particularly in view of the fact that roughly one half of the imports of Canadian goods in Denmark were still under licensing control. The liberalization of oats, barley, canned foods, asbestos and electrical meters was of particular interest to his Government.

38. The delegate of the United States wished to associate himself with the remarks made by his Canadian colleague concerning the rather complex import control system in Denmark. He said his Government fully appreciated the balance-of-payments and other difficulties which Denmark was experiencing, and noted the additional steps that Denmark was taking to relieve the internal pressures that affected the balance of payments. He expressed the hope that some improvement would take place to afford opportunities for further liberalization of imports from the dollar area. He hoped also that there would be less reliance on bilateralism, and that discriminatory treatment could be reduced or eliminated.

39. In a brief final statement the Danish representative said that his Government believed in reciprocity, and hoped that other countries would assist Denmark in every way possible to increase her export trade. He would bring to the attention of his Government the observations made by other members during this consultation.
Opening statement by the Danish representative

The Danish balance-of-payments position must be viewed in the light of the structure of the Danish economy. For Denmark foreign trade is of greater importance than to most other countries. Almost one third of what is produced in Denmark is exported and one third of the commodities used for consumption and investment originates from other countries. For the United States the corresponding figure is only 4-5 per cent. In the case of Denmark this is a result of lack of natural resources. We have no coal, oil, iron or steel. Import of energy in the form of coal and oil alone account for about 20 per cent of the import bill. Our dependence on foreign trade is also a result of specialization of production, the main emphasis being laid on agriculture. The export industries we are developing are also rather specialized and dominated by shipbuilding and production of machinery such as diesel-engines.

As one third of the National Product is exchanged for commodities produced in other countries the terms of trade become a cornerstone of the economy. The Danish balance of payments is thus extremely sensitive to fluctuations in world market prices, both for our import goods and for our export goods.

The fact that the average import ratio is about 30 per cent is in itself an important factor in the economic structure of Denmark. This fact is, however, accentuated thereby that the marginal ratio of imports is much higher, perhaps about 60 per cent. If, therefore, our Gross National Product rise by a certain amount, say $100 million, imports will at the same time increase by about $60 million. And in order to pay for these imports, we must increase our exports correspondingly. In other words, in order to expand our Gross National Product by $100 million we have to find additional outlets for exports in an amount of at least $60 million. This is the crucial point in our economy, in particular because most of our exports come up against all kinds of trade barriers in most countries. I shall revert to this question shortly.

For a country with an economy so dependent on conditions abroad adequate reserves of foreign currency to act as a buffer for short-term adverse developments are of paramount importance. Failing adequate reserves the internal economy is subject to adjustments whenever the terms of trade become adverse. The Danish reserves are, however, far from adequate. During the first part of this year they have even shown a rapid decline owing *inter alia* to higher prices for oil and coal following the Suez crisis combined with lower prices for our agricultural exports. The dollar reserves today only amount to about £12½ million and the total liquid reserve of foreign assets - which *inter alia* includes the remaining credit facilities in the E.P.U. - amount to £17½ million, only enough to cover about two weeks' imports.
In this serious situation it would be no wonder if import restrictions were contemplated. It is therefore an evidence of the free-trade policy we always have been advocating that this is not the case. The measures contemplated by the Danish Government in the present situation are not import restrictions. Ever since conditions began to normalize after the war it has been the Danish policy to try to overcome balance-of-payments difficulties by internal measures such as credit and fiscal policy rather than resorting to barriers to trade. The Danish tariffs therefore still are among the lowest in the world and have—apart from a changeover from specific duties to ad valorem duties on textiles—not been increased since the first world war. Their incidence has on the contrary been reduced owing to the fact that of the total revenue from import duties, about 80 per cent derives from specific duties and only about 20 per cent from ad valorem duties. The total revenue from import duties today represent about 2-3 per cent of the value of total imports and about 5 per cent of the value of imports of dutiable commodities.

As regards quantitative import restrictions a relaxation has been going on steadily since 1949. Developments in this field have, however, been dealt with thoroughly in the excellent report before you, so I will not elaborate on this point now. I can add that it is the intention of the Danish Government to pursue this policy of liberalization to the widest possible extent within the limits set by the balance-of-payments position.

The internal measures taken by the Government to diminish the pressure on the balance-of-payments have been in the field of credit and fiscal policy.

The restrictive credit policy pursued has thus raised the effective rate of interest on long-term loans to 6-7 per cent. At the same time the banks undertake a rationing of credit. The fiscal policy has been concentrated on increasing the indirect taxation on consumption combined with a decrease of Government expenditure with the aim of overbalancing the budget. In the present situation the programme of the new Government aims at a further curtailment of consumption. The purchase tax on certain luxury goods will be increased, compulsory savings for higher income will be introduced and Government expenditures will be further cut. In order to stimulate investments, corporation savings will be exempted from income tax, and depreciation allowances will be increased. This programme has several aims. One is to cut down internal consumption in order to turn production away from the home market towards the export market. A further development of industry and industrial exports is also considered necessary in view of the protectionism prevailing on the export markets for our agricultural products, and increased investments are needed to finance this structural change of the Danish economy. The fact that the influx of manpower into the labour market will increase sharply in the coming years because the birth rate went up by about one third from 1941 to 1951 also accentuates the drive for further industrial expansion since the newcomers to the labour market cannot find employment in agriculture where expansion is hampered by restricting marketing possibilities abroad.
When varying Danish Governments have preferred internal measures to import restriction it is on the basis of the thesis, that in the long run a small country cannot be self-sufficient. In the case of Denmark internal measures can, however, not bring about an overall expansion because of the balance-of-payments position. An overall expansion entirely depends on conditions on our export markets.

Now, let me turn to this very important aspect of our economy, our export possibilities. With an economic structure based upon international division of labour Denmark has experienced serious difficulties in the postwar period as regards our exports. Our agriculture, which today accounts for about 60 per cent of our total exports has not benefited from the large-scale expansion of trade and payments which has been the pre-requisite for the general prosperity of the postwar world. On the contrary, an almost universal protectionism has prevailed in that very sector. From 1953 to 1956 Danish exports of butter, eggs, bacon, cheese, beef and cattle did not expand at all. This was not because agricultural production had reached its physical limits or because the Danish farmers had not been able to sell their products at competitive prices. No, the main reason for this stagnation is the protectionism prevailing in most of our markets and which today is of a more severe character than before the war.

It may be tiresome always to hear Danes bringing up the problems of trade in butter, bacon and eggs. But believe me, it is most discouraging to see how the natural pattern of production and trade is being distorted in the agricultural sector, and as we come up against this distorted pattern every day, we may claim a special title to stressing this aspect. Besides quantitative restrictions we are faced with State trading, excessive tariff barriers, preferential tariff systems, minimum prices, export subsidies and various systems of subsidizing production which tend to close the markets to our goods and in some cases even lead to over-production and consequently to exports of heavily subsidized products. In particular I would like to mention the sales from the American surplus stocks which have been of such harm to Denmark's normal exports that it seems out of proportion in comparison to the advantage gained by the United States.

We realise that in the agricultural sector a change cannot be brought about overnight. But we trust that eventually it will be realised that the abolition of protectionism would not only benefit Denmark but would also be of advantage to our trading partners. The quantities we have to offer are only fractional and would therefore be of no consequence to the economy of farmers in other countries. On the contrary it would help to create a more sound basis for agricultural policies.

In the industrial field the picture is not much more encouraging. Danish industry is not protected by tariff walls, and while foreign exporters can compete on the Danish market on equal terms with Danish producers, the high tariff rates maintained by other countries do not afford Danish producers
similar opportunities to expand their exports or to offset potential losses in the home market by increased sales in export markets. Dual prices applied by other countries, for instance on steel products, also make it difficult for Danish industry to compete.

Furthermore, the nature of our export goods, both agricultural and industrial, and our needs for imports of raw materials make our bargaining position in bilateral negotiations rather weak, a situation which often results in discrimination being applied vis-à-vis our exports to the benefit of countries in a better bargaining position.

In spite of these difficulties conditions for our industrial exports have, however, been better than for our agricultural commodities. While we experienced stagnation in agricultural exports from 1953 to 1956, our industrial exports increased by 75 per cent in volume during the same period. It is against this background that the structural change which is taking place in our economy must be viewed. The result of this change is so far that while industry before the war covered about 25 per cent of our total exports, this share today amounts to about 40 per cent. The increase of our industrial exports has, however, not been big enough to avoid balance-of-payments difficulties for Denmark.

My conclusion therefore is that by and large our balance-of-payments difficulties must be seen as a result of the protectionism prevailing in other countries, and that the quantitative restrictions we apply are a reflection of this protectionism. It is therefore of the greatest importance to us that this protectionism is abolished. Our experience is, however, that it is not sufficient to single out certain types of trade barriers, as for instance quantitative restrictions, and try to deal away with them. It is our view that all barriers must be dealt with simultaneously and only when full reciprocity has been established will it be possible for a country like Denmark to abolish the last quantitative restrictions.

Today the situation for us is that the structural change which is taking place in our economy increases the demand for import of investment goods. The resulting scarcity of foreign currency, which so far has been difficult to overcome through an expansion of exports, makes it necessary to economize with the available holdings of foreign currency. It is for this general reason that we still maintain quantitative restrictions, and a review of our remaining quantitative restrictions, commodity by commodity, would therefore not be relevant. For many reasons it is impossible to state today which goods we would first liberalize when our balance-of-payments position permits it. The policy so far pursued has been to increase imports whenever the balance-of-payments position made it possible both by increased issuance of licences in the controlled sector and by widening the scope of the liberalized sector. This policy will be pursued within the limits set by the balance-of-payments position.
We hope that these consultations will help to make it clear that it is first and foremost up to our trade partners to create the marketing possibilities for our export goods which are a prerequisite for the ultimate abolition of our quantitative restrictions and for an expanding Danish economy which would be able to buy more foreign goods than today.

As I have already stated it is the decided policy of the Danish Government to abolish all kinds of trade barriers. It might even be said that we have gone too far in this respect. If we shall go further it must be up to other countries, and in particular to those countries with great reserves of foreign currency, to take the lead in the drive for the expansion of trade by abolishing not only quantitative restrictions including State trading, but also all other barriers to trade.
II. REPORT ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH NORWAY

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Norway under paragraph 4(b) of Article XII.

2. The Committee had before it:

   (a) a basic document prepared by the secretariat in collaboration with the Norwegian authorities describing the system and methods of the balance-of-payments import restrictions in operation in Norway. The document also contains a statement under Part II—"Effects on Trade", submitted by the Norwegian authorities;

   (b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 of Article XV the CONTRACTING PARTIES had invited the Fund to consult with them concerning this consultation. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its most recent consultation with Norway concluded on 25 July 1956. The results of the Fund's consultation with Norway are reproduced in document QRC/4.

5. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Norway. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Norway which was concluded on July 25, 1956. The Fund's 1957 consultation with Norway has not yet been completed, although it is anticipated that it will be concluded shortly.

1 See Appendix
"As some time has elapsed since the conclusion of its last consultation with Norway, the Fund has also provided a supplementary paper on Norway dated May 1, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the 1956 consultation, and the results of the 1956 consultation have been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, pending the conclusion of its 1957 consultation with Norway, the Fund sees no reason to alter the appraisal of the situation contained in the results of its 1956 consultation which have been transmitted to the CONTRACTING PARTIES.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Norway. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the Representative of Norway

6. In opening the discussion the Norwegian representative stated that Norway was confronted with the special external problems common to all countries with a small internal market and a highly specialized economy, heavily dependent on foreign trade. In 1956 approximately 40 per cent of the Gross National Product went into foreign trade; trade per capita therefore was one of the highest in the world.

7. With an economy so dependent on foreign trade, and extremely sensitive to the terms of trade and to fluctuations in the world market, there was a need for adequate exchange reserves to provide for unforeseen contingencies. Since the level of the reserves was at present relatively low a policy of caution in the import field was necessary. The considerable improvement in the balance-of-payments position in the past two years could be ascribed to the favourable developments in Norway's terms of trade and to the gradually increased returns from the heavy investment in the export industry and shipping which had taken place since the war.

8. The improvement in the balance-of-payments position had enabled Norway to take a series of new liberalization measures. On latest calculations 80.8 per cent of total private imports from the EPU, on the basis of 1948 imports, had been liberalized. Excluding tankers, which Norway did not consider as commodities in the ordinary sense of the word, the percentage would be 94.3. Thus, the remaining restrictions on imports equalled 5.7 per cent. Most of the commodities within this group were subject to a liberal regime of licensing, and a large number of them were imported under the global quota system. On 1 July 1956 a dollar free list had been introduced covering 83.7 per cent of the imports on private account in 1953. On the same date the global quota list was extended to include the dollar area (with the exception of passenger cars and delivery trucks). The possibility of removing the remaining restrictions depended on the
future balance-of-payments situation. His Government, however, hoped to take steps in this direction in the course of the current year and with that end in view the Ministry of Commerce had recently submitted to trade and industrial circles lists of commodities with the notice that these goods might be liberalized at any time.

Balance-of-Payments Position and Prospects

9. The Norwegian representative referred to the International Monetary Fund's supplementary background paper which summarized the National Budget forecasts for the balance of payments in 1957. It was assumed that in volume imports would increase by 4 per cent and exports by 5 per cent, while net freight earnings were expected to rise by 14 per cent due to both increased tonnage and higher average freight rates. He pointed out to the Committee that the resulting estimates of the goods and services deficit were based on the assumption that there would be no changes in the total terms of trade in 1957 as compared with 1956. It was assumed that a slight worsening in the commodity terms of trade would be compensated for by higher freight rates. Following these assumptions the forecast showed a deficit on goods and services (including dividends and interest payments) of Nkr 140 million. Developments in the first quarter of 1957, however, have led the authorities to believe that the deficit would be greater.

10. As a consequence of a catch smaller than predicted, export receipts for fish and fish products might be Nkr 140 million lower than the Budget estimate. This would be partly offset, however, as a result of increased exports of whaling products, which, due to a relatively favourable season, were now expected to be Nkr 75 million higher than the estimate. Total export income for 1957 might now be estimated at a value of some Nkr 50 million less than that predicted in the National Budget. While the increase in the volume of commodity imports in the first quarter approached the National Budget estimate of 4 per cent, at the same time import prices had risen 7 per cent above the 1956 average and it was now expected that the total value of imports for 1957 would be Nkr 150 million above the Budget estimate. Freight incomes in the first quarter, on an annual basis, almost exactly corresponded to the Budget prediction and there appeared no reason to change those estimates. The net effect of these movements therefore would be a further deterioration of the balance on current account to the extent of some Nkr 200 million. He pointed out that this was a very preliminary revision and that for several other items on this account no revised estimates had been made.

11. The official forecast for the balance of payments in 1957 implied that the estimated increase in currency reserves would be Nkr 300 million. In 1955 and 1956 currency reserves increased by Nkr 800 million and in both these years there were deficits on current account; net capital inflow from abroad accounted for the increases. Capital inflow was expected to continue during 1957 but if the deficit on current account should be Nkr 200 million higher the increase in reserves would be very small, around Nkr 100 million. The reserves at present were considered to be inadequate; on 31 March 1957 they stood at Nkr 1,95 million, which represented twelve weeks' imports (excluding ships). In spite
of the fact that the need for a high level of exchange reserves was more necessary in view of the special structure of the Norwegian economy, they were, with the exception of Denmark and Iceland, the lowest in Western Europe.

12. His Government was particularly concerned by the current deterioration in Norway's commodity terms of trade since the present high level of freight rates could not be expected to be maintained. Of the improvement in the balance-of-payments situation in 1956, which amounted to approximately Nkr 1,000 million, two-thirds of the increase could be attributed to improved terms of trade which were 17 per cent more in Norway's favour as compared with 1938. The remaining third resulted from changes in volume.

13. His Government had drawn up a long-term budget for the year 1958-1961 which included balance-of-payments forecasts for the same period. Obviously in such a study the assumptions made with respect to the terms of trade would be quite decisive and it was found reasonable to use those prevailing in 1955 which, though favourable compared with the immediate post-war years, were 5-6 per cent adverse as compared with 1956. With an estimated annual increase of 3 to 3.5 per cent in the volume of commodity imports and 4.5 per cent for exports and allowing for an annual increase of 7-8 per cent in the shipping fleet it was concluded that the deficit on current account for the whole period would be US $ 175 million. The deficit, however, would show gradual improvement from year to year, to US $ 70 million in 1958 and to nil by 1961. On capital account the total amortization of debt from 1958-1961 was estimated at US $ 180 million. These commitments together with the projected deficit on current account over the period amount to US $ 355 million and would have to be financed by an inflow of capital from abroad. Net loans on ship imports totalled US $ 170 million and, in addition, credits already secured amounted to US $ 70 million. The remaining US $ 115 million represented the inflow of new and unknown capital, which would be necessary during the period to avoid a reduction in the exchange reserves.

14. The forecast, which was of a similar character to that made in the National Budget served as a guidance for economic policy and gave a good indication of the inter-relation of various factors in the Norwegian economy. It was not a programme as such and did not show what the future levels of consumption and investment should be but rather what they could be, given various assumptions. In the forecast no increase in the exchange reserves had been relied on to alleviate the situation. However, if the terms of trade did improve as against that assumed, and/or capital inflow was increased, there would be a strengthening of the reserves. The estimates with respect to commodity imports were based on the assumption that further liberalization measures would be carried out in the period.

15. A member of the Committee enquired whether the estimates were based on the assumption that there would be increased liberalization of trade during the period or on the assumption that any such liberalization would be treated from time to time on an ad hoc basis. In reply the Norwegian representative stated that no specific assumption had been made in that respect but that it was the intention to proceed as soon as possible with liberalization, and the
import estimates in the long-term programme took into account the fact that such progress would be made. For reasons explained in the basic document, liberalization measures would be extremely difficult to take for two items in particular, namely tankers and passenger cars. It had been estimated that if passenger cars were placed on the free list additional importations in the first year of operation would be 30-35,000 units at a cost of some Nkr 200-250 million.

16. Another member of the Committee sought clarification from the Norwegian representative of a statement in the IMF background paper of 1 May 1957 to the effect that in recent years there had been a large unexplained capital inflow which had been entered as "Errors and Omissions" in the balance of payments. In reply the Norwegian representative stated that that was a standard balancing item in balance-of-payments statistics. In Norway a committee of experts had worked in the past year to examine and classify the statistics in an endeavour to find partial explanations and their studies had resulted in some reductions to the figure. For the most part it might probably be explained by inflows of short-term private capital for which no reliable statistics were available.

17. The United States representative referred to the percentage of liberalization of 80.8 per cent for total private imports from the EPU area calculated on the basis of 1948 imports as against 83.7 per cent for the dollar area. He pointed out that these figures were not comparable for many well known reasons and that there were still a very substantial number of items liberalized from the EPU area and in respect of which there was discrimination against imports from the dollar area. The Norwegian representative agreed that the comparison of percentages as such could not give the exact situation with respect to liberalization of imports. An alternative method of calculating the real degree of liberalization would be to ascertain what percentage freed imports were of the Gross National Product. Such an exercise was once undertaken by his Government and among OECD countries Norway was found to have the highest percentage. A member of the Committee noted that Norway's reserves had increased concurrently with dollar liberalization and questioned whether in present payments circumstances the remaining degree of discrimination between the dollar area and OECD area was really necessary.

18. Members of the Committee welcomed the substantial improvement in Norway's balance-of-payments position and expressed appreciation of the action taken by the Norwegian Government in 1956-1957 in further liberalizing its imports both from the EPU and the dollar area. The hope was expressed that such relaxations would continue as the payments position permitted and that discrimination could be eliminated.

Alternative measures to Restore Equilibrium

19. The Norwegian representative summarized the fiscal and monetary measures which his Government had taken to restrain internal investment and demand. The most important were taken early in 1955 when it was clear that the balance-of-payments deficit would continue, and that the internal equilibrium was threatened. The Government raised the discount rate of 2.5 per cent to 3.5 per cent and issued directives to the banking system to pursue a more restrictive
credit policy. A portion of the Savings Banks' reserves and liquid assets were blocked and the lending activities of the State Bank were restrained. A 10 per cent tax was levied on all building and construction activities, with some minor exceptions, and also on motor vehicles, tractors and new contracts for ships. To further strengthen the measures the Government and the Central Bank, in December 1955, reached agreement with the private banks and the insurance companies to set a ceiling on credits granted for 1956 and 1957. The 1956-1957 Budget would be balanced and possibly show a small surplus. The projected 1957-1958 Budget at present provided for a small deficit on Capital Account but this had already been secured by external loans. At the beginning of 1957 a new tax system (pay as you earn) was introduced and it was expected to be more efficacious in restraining internal demand. Despite certain internal pressures to remove some of the measures the Norwegian Government had decided that the situation justified their maintenance.

20. The United Kingdom representative referred to the 10 per cent tax on cars that had been introduced and enquired whether the Norwegian Government had ever considered the institution of such taxes as an alternative to quantitative restrictions. He cited the case of Denmark, a country with a similar social economy and a larger population than Norway, where there were effectively no quantitative restrictions on cars provided the importer paid a premium under the Titles to Import Scheme. The level of unrestricted imports into Denmark under this Scheme had been about 25,000 to 26,000 cars a year with an additional 5,000 to 6,000 units imported against essential users permits. The Norwegian representative replied that as far as he was aware such an alternative had not been considered by his Government.

System and Methods of the Restrictions

21. The Norwegian representative drew attention to a new table giving a revised breakdown of imports according to import systems, which was to replace a similar table in the basic document. The Norwegian representative also indicated that the commodities listed in Annex IV (B) of the basic document prepared by the secretariat were non-liberalized items imported on Government account. They included commodities which were imported under bilateral agreements and others which were not restricted to bilateral agreement commitments.

22. In reply to a question by the representative of Japan, the Norwegian representative stated that applications for licences under the global quota list to import from countries outside the global quota area, which comprised countries within the EPU and their associated monetary areas and the dollar area, were treated on a "case by case" basis. The representative of the United States stated that there were a number of items on the global quota list, imports of which were permitted only from the EPU area. Since the intention of placing commodities on this list was to protect the balance of payments by controlling the overall quantity of imports of particular commodities, it was difficult to see any balance-of-payments justification for the discrimination. The Norwegian representative replied that the geographical coverage of the global quota list could hardly be extended without increases being made in the quotas concerned.
23. The United Kingdom representative enquired about the meaning of the statement on page 7 (English text) of the basic document to the effect that compensation and barter arrangements were entered into because the exchange of goods could not take place in a more regular and normal way with the country concerned. The Norwegian representative explained that this type of arrangement was made necessary by obstructions to Norway's exports in the form of import licensing requirements or other impediments and was limited to different practical cases.

24. The United Kingdom representative referred to the arrangements entered into by Norway for the import of cars, outside the global quota of 8,000 cars. In particular, arrangements covering the import of 3,000 cars had been made with a Swedish firm in return for corresponding Norwegian exports of motor car components to Sweden, although these exports met with no licensing or currency difficulties of the kind described on page 7 of the basic document. He considered that these arrangements appeared likely to distort the normal pattern of trade and to provide an inducement to the Norwegian authorities to maintain restrictions on imports of cars longer than might be necessary on payments grounds in order to protect the Norwegian exports concerned.

25. Should the Norwegian authorities find it necessary to reduce the global quota after 1957, he suggested that they should reconsider the special arrangements then in force in order to avoid further disturbing the normal pattern of trade.

26. Another delegate thought that, on the facts given, there appeared to be a prima facie case, on balance-of-payments grounds, for the global quota to be raised by the amount of the additional imports reaching Norway under the special arrangement, to at least 11,000 cars for 1957.

27. The Norwegian delegate replied that the arrangements were intended to provide additional imports of cars at no direct cost in foreign currency. The global quota for 1957, which was twice the level of the 1956 quota, was as high as the balance of payments permitted at present. In his view the arrangements were not discriminatory in that the Norwegian authorities were prepared to agree to similar deals with other countries and some had in fact been made. Norwegian exports under the deals were fully competitive, and the cars imported in return had to be at normal prices. It was the intention of the Norwegian authorities, as the payments position allowed, to increase the global quota progressively and to aim at complete liberalization of cars in the period 1958-61.

28. The global quota for 1958 had not yet been considered and the arrangements with the Swedish firm included a reservation with regard to the amount to be imported in 1958. The views expressed would be reported to his Government.

29. A member of the Committee said he had observed that there had been no progress in dismantling bilateral agreements and expressed the hope that there would be some advance in this direction in the near future.
30. A member of the Committee expressed concern that the annual review of global quotas could result in some disruptions in trade. He enquired whether established trade interests would be taken into account at such reviews. The Norwegian representative replied that in the last few years the review had resulted in changes in an upward direction only in that quotas had either been increased or items subject to quotas had been transferred to the free lists. The member then remarked that the annual review, if not equitably administered, could create problems for certain trade interests. He also wondered whether for certain small items, such as electrodes, the restriction of imports was really significant from the payments point of view.

31. In response to a question by the United States representative the Norwegian representative stated that the inclusion of items in Annex V of the basic document, which related to non-liberalized imports for which licences are liberally granted, was an indication that they would be liberalized when new steps in this direction could be taken. It was not possible at present to indicate whether imports of these items from the dollar area would be liberalized at the same time as those from the EPU area. That would be considered in the light of the circumstances prevailing at the time. While appreciative of the progress made during 1956 towards reducing discrimination against the dollar area the representatives of the United States and Canada enquired whether those items that have been liberally licensed could not now be transferred to the free lists since this liberal policy had been pursued for almost a year and throughout that period the balance-of-payments position had improved. In their view, there were significant advantages in free-list treatment, which would remove the uncertainties which hampered trade and which were inherent in licensing systems. The Norwegian representative referred to earlier statements made to the Committee on the need to exercise caution with respect to Norway's import policy particularly in regard to imports from the dollar area in view of the uncertainties of Norwegian exports to the highly competitive and sensitive dollar markets. Moreover, one Norwegian export product was subject to constant escape clause investigation and for others similar investigations had been proposed.

Effects on Trade

32. The Norwegian representative stated that as with most countries it had been found difficult to assess the degree of hardship that might be expected upon a relaxation or elimination of the restrictions and that such hardship was difficult to avoid. Until 1 April 1957 some commodities comprising 2 per cent of total private imports from the OEEC area were on a so-called negative list. Producers were, however, warned that these items would ultimately be transferred to the free list and that they must prepare in advance for the increased competition that would result. In fact, producers have made considerable efforts to increase their productivity and their ability to compete with imports, and on 1 April 1957, ready-made clothes and footwear, which had been on the negative list, were liberalized. The majority of items not yet liberalized could not be referred to as "hard core" cases, and in fact only a few commodities such as glassware, paints and lacquers could be so classified.
33. The basic document and the replies to the Annual GATT Questionnaires had already mentioned steps taken by the Norwegian Government to minimize the incidental protective effects of the restrictions. Other policy measures taken with this end, e.g. the reimbursement of customs duties on machinery, to assist certain industries to prepare for increased competition from imports when the restrictions were eventually removed. In addition it had been the policy not to liberalize importations of raw materials and machinery unless the finished goods themselves were liberalized.

34. A member of the Committee, referring to the prohibition of imports noted in the basic document, enquired to what extent the Norwegian Government was taking into consideration the obligation in Article XII:3(c)(ii) "not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities". The Norwegian representative referred to the statements in the basic document on measures taken to avoid damage to the trade interests of other countries and said that he could add no more to what was said in that document.

35. The United States representative observed that there were several types of commodities which, for social and other reasons the Norwegian Government was not prepared to liberalize. These commodities, such as fresh fruit and dairy products were the type of goods his delegation had in mind when referring to "hard core items". He enquired whether the Norwegian Government considered them as such, and if so, whether and how the Norwegian Government intended to deal with them in terms of GATT and the "hard core" waiver. The Norwegian representative replied that there were some agricultural products which could be considered as "hard core items"; he was unable to indicate at this stage the intentions of his Government.

36. Several members of the Committee stated that their Governments had been favourably impressed by the internal measures taken by Norway to restore equilibrium and to reduce their balance-of-payments difficulties; by the various measures taken to minimize protective effects of the restrictions; and by the progress made in Norway to relax restrictions. They also expressed gratification concerning the present situation in Norway and the hope that the improvement would be reflected in further liberalization, and that full liberalization would be attained as soon as possible.
III. REPORT ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH SWEDEN

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Sweden under paragraph 4(b) of Article XII.

2. The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the Swedish authorities describing the system and methods of the balance-of-payments import restrictions in operation in Sweden. The document also contains a statement under Part II - "Effects on Trade", submitted by the Swedish authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 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 Sweden. As a part of this consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultations with Sweden concluded on 5 June 1957. The results of the Fund's consultations with Sweden are reproduced in document QRC/4/Add.1.

5. In accordance with the procedure agreed upon by the Committee, the representative of the International Monetary Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Sweden. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Sweden which was concluded on June 5, 1957. This documentation has been distributed to the members of this Committee.

1 See Appendix
"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Sweden under Article XIV of the Fund Agreement, and particularly to paragraph 4 and to paragraph 5 which reads as follows:

5. During 1956 and early 1957 there has been a further relaxation in restrictions and the degree of discrimination against the dollar area has been reduced. The transferability of the Swedish krona has been extended, the dependence on bilateral agreements has been diminished, and the scope of the transit dollar scheme has been reduced. The Fund welcomes these steps and hopes that Sweden will further reduce reliance on bilateral agreements and will find it possible to extend formal dollar liberalization. The Fund does not object to the continuation of the transit dollar scheme on a temporary basis, but hopes that Sweden will progress toward the elimination of this scheme."

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Sweden. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Sweden

6. In opening the discussion the Swedish representative referred to the "Introductory Statement" made by the Swedish Government in the basic document circulated by the secretariat (MGT/42/57) and he called attention to the salient points therein. It was noted that at present practically no restriction existed on imports from OEEC and other countries to which the OEEC free list applied; imports from these countries of goods not included in the free list were being licensed very liberally. Similarly most imports from countries not formally covered by the free lists were admitted without limitation. As for imports from the dollar area, the dollar free list covered about 70 per cent of import goods from that area in 1956, whilst most other items were being admitted under licences issued without limitation. Since the drawing up of the Introductory Statement in the basic document further liberalization measures had been taken whereby the number of items subject to restriction had been further reduced. As from 1 July 1957 the following items in the agricultural sector will be exempt from licensing requirements when imported from the dollar area. Consequently, these items should be deleted from the list of restricted products in Annex I to the basic document:

certain live animals;
wheat and rye;
flour;
sugar;
copra;
salted horse meat;
edible parts of sheep, horse, cattle and swine;
butter dyes and cheese dyes containing oil; certain sauces; grains other than rice; soya beans, oil cakes, feeding stuffs; peanuts and certain other oil seeds; (other than linseed) beans and peas; olive and cotton seed oil; margarine and other butter substitutes; certain seeds; fish oils.

7. These imports would remain subject to the conditions described in the basic document; that is, the commodities will be admitted freely provided the domestic prices are within certain predetermined limits. The Swedish representative also announced that licensing requirements for salt herring from OEBC countries had been suspended for a further period to 15 July 1957. Several members of the Committee expressed gratification concerning this new development.

System and Methods of Restrictions

8. A member of the Committee, referring to the "transit-dollar list" of commodities which were in principle admitted freely from the dollar area subject to certain special conditions, enquired as to the criteria whereby commodities were placed on or taken off that list. The Swedish representative explained that the transit-dollar procedure might be regarded as an intermediate step towards formal liberalization. The large number of imports previously included in the "negative list" had been gradually transferred first to the transit-dollar list and subsequently to the free list. No particular criteria guided the moving of products from one category to another, such action being taken in the light of the dollar payments position, and the general purpose being to make as much progress as was deemed possible in the direction of liberalization of dollar imports.

9. Referring to the statement in the basic document that "imports from dollar countries not free-listed or automatically licensed under the transit-dollar scheme are permitted for some commodities corresponding to Swedish requirements, for others according to directives periodically drawn up with due regard to dollar currency availabilities and import needs", a member of the Committee requested information on the criteria and methods used in the issue of licences for goods in this category. The Swedish representative replied that only a few commodities fell within this category and that these were being licensed very liberally. The major items under restriction were oil, ships and aircraft; these commodities were licensed in accordance with internal requirements and it was difficult to describe the precise criteria determining the licensing of such imports. It should be noted, however, that there was no total prohibition of the import of any commodity.

10. It was pointed out by a member of the Committee that the importation of motor cars was still subject to licence and that quotas for this product were generally established through bilateral negotiation. On this point the
Swedish representative explained that the general policy of his Government was to reduce reliance on bilateral arrangements. In the case of motor cars, large quotas were provided in the trade agreements with EPU countries and imports had been freely licensed in the past years. In 1956 imports had been over 100,000 units and it was expected that they would increase to more than 120,000 or 130,000 units in 1957. As for motor cars of dollar origin, practically no limitation existed in the past year, as imports had been admitted under the transit-dollar scheme. The Government had not, however, found it possible to include this item on the free list both because of the balance-of-payments implications and because of the general economic effects resulting from these big imports of motor cars. As to the nature of these economic effects the Swedish representative, in response to a question put by a member of the Committee, explained that the rapid "motorization" of the country affected the economy in many ways: increased imports of petroleum products to meet the new demand would introduce an additional burden on the balance of payments; additional road-building required to meet the increased traffic demand would place a further strain on the labour market; the maintenance and servicing of motor transport would drain the resources of skilled labour, possibly to the detriment of essential export industries. These considerations were in addition to the concern over the effects of further increased imports of cars on the balance of payments. In effect, however, restrictions on the importation of cars had been avoided and the Government had instead tried to hold back consumption through taxation.

11. The representative of the United States called attention to the fact that according to information supplied by a trade association in the United States, no United States whisky could be imported into Sweden except under barter arrangements involving tied purchases of similar products from Sweden, and enquired as to the policy governing the purchase of this product by the government monopoly. The Swedish representative stated that in principle the Swedish monopoly administration took due note of the demands of domestic consumers and that imports of such alcoholic beverages were permitted. He undertook to obtain further information and would discuss the matter again with the United States and any other delegations expressing an interest in the matter. The Canadian representative indicated that his delegation had a special problem in this field which it would wish to take up with the Swedish delegation.

12. The United States representative wished to know what action had been taken regarding the removal of seasonal restrictions on the import of apples and pears, a measure which had been considered by the Swedish Agricultural Marketing Board. The Swedish representative informed the Committee that such seasonal restrictions had been in force since 1952 and affected imports from all countries without discrimination. From 1947 to 1952 the imports were subject to quotas, and thus the regime introduced in 1952 represented a step towards liberalization. Under the present system, the Government consulted annually representatives of growers, consumers, and of the import trade, and decisions were taken on the basis of such consultations. No decision had been taken this year, and in fact one was not likely to be taken before September when the size of the crop would be known. The Government did not consider it advisable to liberalize entirely the importation of these two products as long as other Western European countries maintained restrictions on them; elimination
of restrictions on these products might create a situation in which substantial surpluses resulting from the restrictive policies of other countries would be concentrated on the Swedish market. This was not to say, however, that changes had not been made in the direction of freer imports. In the interest of both producers and consumers the "closed period" had been shortened as much as possible. In the case of apples the period was in general about four and a half months and in the case of pears between one and a half and two and a half months. As a result of this seasonal liberalization, imports had been increased by 100 per cent over the level obtaining at the time of the introduction of this system. Compared with pre-war, when imports were completely free, the present level of imports was also about 100 per cent higher.

13. In reply to a question whether apples and pears and other non-liberalized products were being restricted for non-payments reasons, the Swedish representative confirmed that as noted in the basic document, the restrictions on apples and pears did have a protective effect on local production, although producers had been constantly warned that the system would not be continued indefinitely. The balance-of-payments considerations were therefore not the over-riding ones in the case of these restrictions.

Prospects for further liberalization

14. In discussing the prospects for further removal of restrictions on imports from dollar countries, the representative of Sweden referred to the structural trade deficit with the dollar area which had to be covered by earnings from shipping and by trade surpluses with EPU countries. In 1956 the trade deficit with dollar countries had amounted to $180 million. As Swedish exports to the dollar area consisted principally of items which were particularly sensitive to fluctuations in the level of economic activity in North American countries, the dollar balance-of-payments situation was basically uncertain. Further steps in relaxing dollar restrictions would, therefore, have to be taken with due caution. In the view of the Swedish Government it would be most undesirable to take further steps without due regard to the future situation, which in the event of the favourable payments situation being reversed might require retrogression. The few items liberalized from OEEC sources but remaining under restriction when originating in the dollar area were such that the elimination of the discriminatory treatment might entail heavy expenditures on the dollar account, and therefore must remain restricted for the time being, although it was fully realized by the Swedish Government that their liberalization might be beneficial to Swedish industries. The representative of Canada wished to know whether the Swedish Government consider that further liberalization of dollar imports was dependent on Swedish current dollar earnings or whether such liberalization would be undertaken if and when considered possible in the light of the payments and reserves position as a whole. The Swedish representative confirmed that the basic import control policy of the Swedish Government was to aim at liberalization to the fullest possible extent permitted by the foreign exchange situation.

15. Members of the Committee expressed gratification concerning the progress made by the Swedish Government in relaxing import restrictions and in particular the recent addition of commodities to the free list, to be effective on 1 July 1957. The United States representative observed that these developments would
have favourable effects on various groups in the United States at a time when its foreign trade policy was under review. Other members expressed the hope that the recommendations made by the International Monetary Fund at the conclusion of its 1956 consultation with Sweden which were based on a careful review of the Swedish balance-of-payments situation, its import restrictions and its internal fiscal and monetary policies, and which represented sound basic judgements, would be fully taken into consideration by the Swedish Government.

16. The Swedish representative undertook to bring the views expressed at this Committee meeting to the attention of his Government and expressed the hope that the favourable effects referred to by the United States representative would ultimately benefit Sweden's exports to the North American market.
IV. REPORT ON THE CONSULTATION UNDER ARTICLE XII: 4(b) WITH
ITALY

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Italy under paragraph 4(b) of Article XII.

2. The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the Italian authorities describing the system and methods of the balance-of-payments import restrictions in operation in Italy. The document also contains a statement under Part II - "Effects on Trade", submitted by the Italian authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 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 Italy.

5. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultation with Italy concluded on 24 April 1957. The results of the Fund's consultation with Italy are reproduced in document QRC/4.1

6. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Italy. The statement made was as follows:

1 See Appendix
"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Italy which was concluded on April 24, 1957. This documentation has been distributed to the members of the Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Italy under Article XIV of the Fund Agreement and particularly to paragraph 4 and to the following sentence in paragraph 5: 'The Fund believes that Italy could undertake further relaxation of dollar restrictions and welcomes Italy's intention to do so as soon as practicable as well as to endeavor to eliminate bilateral arrangements.'

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Italy. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Italy

7. The full text of the opening statement of the representative of Italy is appended to this report in Annex I, and is summarized in the following paragraphs.

8. Since the war Italy's foreign trade has been characterized by a close relationship between the domestic economy and international economic conditions. Between 1948 and 1956 the volume of Italian imports and exports increased at an average annual rate exceeding 10 per cent, compared with the rate of 7 per cent for world trade, 8 per cent for OEEC imports and about 11 per cent for OEEC exports. Imports of foods increased more slowly and imports of manufactures slightly faster than imports as a whole. In regard to exports, the advance was particularly marked in the sector of semi-finished products and finished products.

9. During the immediate post-war years, as a result of reconstruction needs and of the difference between internal and world prices, there was a considerable increase in the trade deficit. This deficit was met out of important contributions from abroad in the form of special assistance, in particular from the United States Government."
10. The Government from the outset viewed the problem of balance-of-payments difficulties as an exchange and price problem rather than as a matter for administrative controls. This attitude was made clear as early as March 1946, with the establishment of the system of foreign exchange accounts embodying 50 per cent in freely convertible currencies. Subsequently, further steps were taken in the exchange field such as those relating to clearing arrangements and arrangements with the sterling area which between 1947 and 1948 led to the establishment of a single exchange rate for the lira with orderly cross-rates, the dollar rate being determined according to market conditions. As these measures preceded similar restoration of sound exchange rates in other countries, the use of swing credits provided for in various bilateral agreements caused some distortions in the movement of Italy's foreign trade and in investments and domestic consumption. These distortions were corrected through the devaluation measures taken in the autumn of 1949.

11. In the field of quantitative restrictions, however, the restoration of a market economy proceeded at a slower rate. Such a course was followed because it was considered the most appropriate course to meet the difficulties resulting from temporary disparities in prices and productivity as between various countries and from the different levels in the currency reserves of the various countries. A particularly restrictive policy had to be applied in respect of the dollar area in order to meet the dollar shortage. The problem of balance-of-payments difficulties appeared therefore to be a problem of trade restrictions in general with varying degrees of severity depending upon the monetary areas concerned. Generally speaking, Italy, on account of the very nature of her foreign trade in which essential imports and non-essential exports predominate, opposed the concept of quantitative restrictions. The policy adopted in this field aimed at the gradual elimination of quantitative restrictions as the balance-of-payments situation permitted and at the accumulation of sufficient exchange reserves for the purpose of meeting possible temporary difficulties without having to reinstate quantitative controls. In other words, import restrictions are not regarded as a normal instrument for exchange policy but as a method which is to be abandoned as soon as structural equilibrium of the balance-of-payments has been fully achieved. To appreciate the Italian policy in this field, one has therefore to take account not only of the level of the present restrictions but also of the fact that relaxation of restrictions is not a reversible process.

12. At the time of the Korean crisis the trade deficit was permitted to rise from about $160 million (f.o.b.) in 1950 to about $750 million in 1952 without reducing liberalization. From 1953 until now imports have increased at an annual rate of about 8.5 per cent, (f.o.b.), but exports have increased at a greater rate (about 12.5 per cent), so that the trade deficit declined from $750 million in 1952 to about $660 million in 1955 and $705 million in 1956. This increase in imports is accounted for by raw materials (about two-thirds), by finished products (approximately 21 per cent) and by foodstuffs (13 per cent). Exports of finished products increased by about 50 per cent, raw
materials (mostly iron and steel) by 30 per cent and foodstuffs by some 20 per cent. Exports in the metal-working engineering groups and metallurgical groups have increased significantly as a result of the modernization of equipment and the establishment of important iron and steel plants in Italy or because of the pressure of foreign demand for investment goods.

13. As far as services are concerned, tourism and shipping earnings have increased considerably during the last few years. Incomes from unilateral transfers have steadily increased as a result of increases in migrants' remittances and private donations and because of a decline in expenditure on account of reparations. Concerning current transactions, the deficit fell from $540 million in 1953 to $245 million in 1955 and subsequently to $220 million in 1956. However, as special foreign assistance is tapering off and in view of the fact that the net inflow of loans and investment of foreign capital is normally less than the above-mentioned deficit, structural equilibrium has not yet been reached.

14. In 1956 foreign governmental assistance and off-shore expenditure reached about $140 million, while the net inflow of foreign capital in the form of loans and investments amounted to $137 million. As a result of current transactions, movements of capital and foreign governmental assistance and taking account of less important special earnings, net availabilities in foreign exchange increased by about $110 million both in 1956 and 1955.

15. The foregoing analysis indicates that in the short-term, Italy has no balance-of-payments difficulties. However, this analysis cannot possibly substantiate a similar conclusion regarding the structural and long-term situation. Furthermore, account has to be taken of the fact that installments for the reimbursement of foreign loans will increase in future and that the elasticity of demand for raw material imports in relation to national income tends to increase as a result of Italy's increasing needs for raw materials and energy and because full utilization of productive capacity has been reached in certain branches of industry. The outstanding quantitative restrictions are retained mainly in order to meet any balance-of-payments difficulties that may arise, until structural equilibrium is achieved and to avoid shifts in the development of domestic productivity by reimposing restrictive measures after lifting restrictions on the domestic market.

16. It might be objected that, in view of the very high degree of OEEC liberalization, and in view also of the fact that 75 per cent of the balances with those countries are eventually settled in gold or in dollars, the need for continuing discrimination as between the two areas is not very apparent. But the degree of liberalization could be harmonized through an extension of dollar liberalization and the re-imposition of restrictions in respect of OEEC countries. Such course might result, however, in disturbances of market or productive conditions which would not be justified, the more so as the measures concerned would only be temporary since it is intended gradually to
achieve the fullest possible freedom of trade. It seems, therefore, that this alternative should be rejected and that dollar liberalization should be increased to the greatest extent permitted by the balance-of-payments situation. Moreover, at the present time measures are being studied to extend the range of products which may be freely imported from the dollar area. If a final decision is taken in Rome in the next few days, more detailed information regarding the new liberalization list could be given to the Committee at these consultations. The proposed new liberalization measures will constitute another important step towards the elimination of quantitative restrictions on dollar goods.

17. It is also noteworthy that while the decline in imports from the dollar area continued until 1954, a marked recovery has become apparent in the last two years. The trade deficit with the United States and Canada, expressed in f.o.b. values, rose from $160 million in 1954 to $218 million in 1955 and $254 million in 1956, although there was a marked increase in exports. The balance for ordinary current transactions showed a surplus of $15 million in 1954, and a deficit of $18 million in 1956. Since the dollar area has become marginal sources of supply for certain raw materials which are essential for the development of Italian production, they tend to benefit fully from increases in our national import demand. If the current evolution of world economic conditions continues, Italy's dollar trade balance may therefore again be submitted to strains and stresses, particularly in view of the fact that there are signs at present even at international level that a certain dollar scarcity is developing.

18. The Italian representative then turned to the problem of currency reserves. Foreign exchange holdings had been practically reconstituted over a period of thirty months, from September 1947 to January 1950, when they reached a level equivalent to $900 million. From 1948 to 1950, economic policy was mainly directed at strengthening internal monetary stability, and at laying the foundation for a balanced development of foreign trade. From 1950 on, currency reserves were fluctuating until the end of 1956 when they reached a net level of $1,109 million. Since 1950 also Italian policy was directed exclusively towards the progressive elimination of restrictions. Evidence of this policy may be seen at the time of the Suez Canal crisis, when in the three-month period from November to January, Italy used $134 million of its own reserves, as compared with only $21 million in the corresponding period of the previous year.

19. From 1949 to the present time, reserves have fallen considerably in relation to the country's import needs. In 1949 Italy's reserves were sufficient to cover imports for 6.9 months; in 1956 the ratio of reserves to imports decreased to 4.4 months. With regard to the absolute increase in Italian exchange reserves, which was about $110 million in both 1955 and 1956, it should be recalled that Italy had earnings, mainly of an exceptional nature, of about $200 million in 1955 and $160 million in 1956. It can be foreseen that the exceptional earnings on account of unrequited aid and off-shore purchases (170 million in 1955, 113 million in 1956) will be terminated in the near future.
20. As to the relation between the amount of reserves and the debtor position of the country, while it is true that Italy has re-established its own currency reserves at a relatively high level, it is also true that her debtor position vis-à-vis foreign countries is particularly important because of the existence of pre-war debts, the conclusion of new medium- and long-term loan arrangements, foreign investments in Italy and, finally, because of short-term debts of credit institutions. Italy must therefore maintain exchange reserves at a level comparatively higher than that of countries which are in a better debtor position.

21. In conclusion, the Italian representative said that although the balance-of-payments and reserve situation was relatively satisfactory in the short term, his Government was not yet in a position to abolish quantitative import restrictions completely. He hoped that the Committee would bear in mind that internal investment needs tended considerably to exceed the rate of formation of new capital, because of the need to cope with unemployment; so that care must always be taken to prevent this tendency from having adverse repercussions on the Italian balance of payments.

Balance-of-Payments Position and Prospects

22. Members of the Committee expressed appreciation for the thorough and informative statement by the Italian representative outlining the economic development of Italy since the war and the policy which his Government had followed in regard to import restrictions. The international economic position of Italy was developing favourably and exports and imports were expanding rapidly concurrently with the growth of the national product. The intention of the Italian Government to reduce and eliminate its budget deficit over the next few years would certainly contribute to these satisfactory developments. It was noted that the current account deficit had been in the neighbourhood of $200 million in the past few years. Italy had, on the other hand, built up an overall surplus of approximately one billion dollars and accumulated sufficient foreign exchange to cover some four months of imports. This was in fact a better reserve position than that of some other western European countries and even some countries in the dollar area. Accordingly, it seemed that Italy would be in a position to reduce remaining restrictions.

23. The Italian representative pointed out that while the level of foreign exchange reserves had risen this improvement had been accompanied by an increase in Italy's international indebtedness, and was partly due to special non-recurrent foreign exchange revenues including foreign governmental assistance, off-shore commitments, and income from military services. There was a permanent inflow of foreign capital which tended to remain at a level between $150 million and $200 million. With increasing expenditures of foreign exchange needed to service this capital, possibilities for financing deficits in the balance on current accounts by foreign investments would gradually diminish.
24. The Italian representative further stated that if there had been an appreciable increase in the absolute level of foreign exchange, imports had progressed even faster. In 1949 Italy possessed foreign exchange reserves equivalent to more than six months’ imports. At that time the corresponding figure for the OEEC countries was 4.8 months. While by the end of 1956 the OEEC partners had accumulated sufficient reserves to cover imports during 4.9 months, the Italian foreign exchange resources had failed to rise as rapidly as imports and covered only 4.4 months of imports. Italy’s reserves position had therefore, in fact, deteriorated. Prospects for increased exports were, notwithstanding the expansion of investments, not very bright. The projection of the growth of the national incomes of the OEEC countries made by the OEEC indicated that the annual rate of expansion would decline from 5 per cent to 3 per cent. Such development would adversely affect Italian exports which were mainly composed of less essential goods. To this must be added that the Italian economy was nearing the stage where no idle production capacity was left so that any further increase in production would henceforth be accompanied by greater increases in imports. Shortage of energy resources would also be conducive to more considerable imports of oil products and coal and thereby contribute to a rise in the demand for imports. As long as the Italian Government was faced with the problem of unemployment, it could not be said that true equilibrium had been achieved in the balance of payments. In order to avoid excessive demand, it had been necessary to limit investments to the financing capacity provided by national and foreign savings. The equilibrium thus achieved could not, however, be considered as fully satisfactory or, therefore, structurally adequate, since it was not linked to a balanced position for supply and demand of manpower within the country. Accordingly, it was not reasonable to request extensive liberalization measures simply on the basis of apparent equilibrium conditions in international payments.

25. Concern was expressed by representatives from the dollar area at the fact that OEEC liberalization for private imports was nearing 100 per cent while the liberalization applicable to the dollar area amounted to some 40 to 57 per cent (depending on the country concerned) on the basis of private trade in 1953 and to 60 per cent when calculated according to 1955 imports. They wondered whether this discrepancy between the levels of restrictions applicable to the two areas, which was substantially larger than that applied by some other OEEC countries, was still justified. Furthermore, the EPU settlements system afforded only a 25 per cent credit which must ultimately be settled in dollars or gold. The international payments position was rapidly moving to a situation where inconvertibility of currencies, on which discriminatory treatment to imports from certain countries was once based, was replaced by de facto convertibility. In these circumstances if Italy had found it possible to achieve nearly 100 per cent liberalization vis-à-vis one area, similar imports could also be admitted from other sources without necessarily involving additional drains on foreign exchange holdings. Indeed the net effect of such measures might only be a diversion of imports away from one area in favour of another.
26. In reply, the Italian representative explained that the difference in treatment applied to imports from the EPU area and the dollar countries was due largely to historical reasons and agreed that there were no longer reasons to maintain such a large degree of differentiation. However, if the Committee recognized that Italy still needed to maintain some import restrictions because conditions for structural balance had not yet obtained and could therefore not proceed to the straightforward elimination of all restrictions, it would also agree that it would not be wise for Italy to de-liberalize some imports from the EPU countries in order to free more imports from the dollar area thereby abolishing all discrimination. The orderly development of production and trade in Italy and abroad required that the restrictions which applied more severely to dollar goods be abolished gradually within the limitations imposed by the balance-of-payments position. This was precisely what the Italian Government intended to do. The Canadian representative said that it was no part of his contention that imports from the OEEC area should be de-liberalized in order to achieve non-discrimination. The point was that Italy's payments and reserves position appeared to be such as to permit a substantial reduction in discrimination through further dollar liberalization.

27. Two members of the Committee welcomed the announced intention of the Italian Government to extend the liberalization vis-à-vis the dollar area thereby reducing discrimination against dollar imports. Such measures, were in conformity with the Fund's decision and the international obligations which Italy had undertaken under the General Agreement and would furthermore foster the stability, growth and competitiveness of the Italian economy by exposing it, not only to the competition of OEEC countries, but also, more directly, to that of the rest of the world. In this regard reference was made to the statement on page 14 of the basic document that in the Italian view dollar liberalization might have repercussions on national production in sectors in which the competitive capacity of North American countries was particularly high. This statement raised the question whether certain of the Italian restrictions were being maintained for protective rather than balance-of-payments reasons. A reference was also made to the reference in the basic paper to the possible relationship between the establishment of a common market and free-trade area and the timing of the removal of Italian payments restrictions. The Canadian representative assumed that it was not the intention to suggest that the removal of restrictions would be tied to the achievement of these objectives rather than to Italy's payments situation. It was pointed out that the representative of Italy had agreed that the present short-term position of Italy's balance of payments was favourable and that there was no longer need for maintaining such a degree of discrimination. He had, however, indicated that the Italian Government entertained serious apprehensions concerning the future on account of the temporary nature of some revenue of foreign exchange, and particularly with regard to the size of capital inflow which would, in the future, entail servicing and repayment expenditure. However, all governments had to face uncertainties. If progress towards the final elimination of all quantitative restrictions had to be postponed until absolute certainty and security had been arrived at, the elimination of restrictions would be considerably held up. It seemed that the international obligations which contracting parties had undertaken under the General Agreement did not render the relaxation of balance-of-payments restrictions dependent upon the existence of excessively strict conditions of structural economic equilibrium. The experience of other countries in similar circumstances had clearly shown that in the field
of liberalization a bold policy was sometimes fruitful even when prospects for the long run were uncertain. As regards the particular question of imports of foreign capital it was fairly easy on the basis of the inflow to calculate approximately what the servicing and repayment costs would be in the future. If the liabilities incurred by foreign borrowing were fairly easy to assess on the debit side of the balance of payments, it was more difficult to assign specific figures to the benefits accruing from such investments. Increases in productivity and competitiveness on foreign markets, and the replacement of imports by domestic products were nonetheless considerable and would become a factor of dominant importance in the long term. The discussions in the Committee had shown that the real issue was not whether liberalization should be extended or not, but when measures would be taken and what their scope would be. As Italy had shown a marked ability to compete against imports from Western Germany and Belgium it seemed that the freeing of dollar goods would not result in excessive dollar imports. Liberalization measures on such imports were more likely to result in a reduction of imports from the EPU area in favour of an increase in imports from the dollar area, rather than to an absolute expansion of imports.

28. The Italian representative pointed out, however, that while it was true that a certain boldness in liberalizing trade might, in some cases, yield fruitful results, it was nonetheless a fact that, in other cases, such as that of a country with a relatively weak economic structure, excessive progress could have harmful effects on the balance-of-payments position, by comprom­ising the results already achieved in eliminating quantitative restrictions. The essential factor was a firm resolve to advance, without having to go back on steps already taken. The policy of the Italian Government was aimed in that very direction. With regard to the effects of capital inflow, the Italian representative recognized that the increased investments resulting from that inflow helped to increase productivity and, consequently, to increase the competitive power of domestic production; he pointed out, however, that production costs were not the sole factor governing success in export markets, since other important elements also helped to increase competitive power. He referred particularly to the means to finance exports which, in the case of Italy, were less considerable than in the case of other countries.

29. Attention was called to the fact that the distinction which was made in page 14 of the basic document between the competitive capacity of production in the North American countries and that of the countries clearing through the EPU indicated that the achievements of the CONTRACTING PARTIES in the field of reduction and consolidation of tariffs were to some extent invali­dated by certain restrictions which were still being applied for balance-of­payments reasons.
30. One representative pointed out that while there had been great progress towards the convertibility of major currencies, distinctions between regional balances of payments were still important and could not be entirely ignored. This helped to explain that certain trade agreements were maintained to keep bilateral balances of payments in equilibrium, although they admittedly sometimes resulted in diversion of trade. Regional balances affected the over-all position of international payments which in turn were having effect on the regional balances. Could the representative of the International Monetary Fund give some indication as to how the Fund felt that over-all versus regional aspects of the balance of payments should be interpreted?

31. The representative of the Fund said that how a balance-of-payments problem should be considered depended upon the circumstances of the particular case under examination. During the first years after the war balance-of-payments difficulties had mostly shown themselves in the differential ability to balance payments with various currencies or currency areas. But such need not always be the case, and in fact, when convertibility had been the rule, payments difficulties which had been encountered had been characterized by the fact that payments in one currency were as easy or as hard to make as in any other. Decisions taken by the Fund — such as those in consultations under Article XIV of the Fund Agreement — in the case of any country represented judgments passed by the countries composing the Fund and it was not for him to analyse such decisions. In the case of Italy, to which the member of the Committee had referred, he could do no more than to repeat the statement which he had provided at the beginning of the consultation. Some members of the Committee then indicated that, since the Fund entered into a detailed analysis of the balance-of-payments position during its consultations, it might be useful for the future work of the CONTRACTING PARTIES to invite the Fund to explain the grounds and criteria lying behind the results of its consultations. The representatives of Canada and the United States indicated that the results of Fund consultations were transmitted to the CONTRACTING PARTIES as representing an objective judgment on the balance-of-payments position of the various countries concerned. As a request to the Fund to furnish information concerning the grounds and motives which led to these results might give rise to certain institutional and other problems, they wished to reserve the positions of their governments. The Chairman stated that the question of the Fund-GATT relations was not within the province of the Consultations Committee which had to operate within the framework of the Fund findings supplied in connexion with Article XV:2.

32. In response to a question by the representative of Brazil the representative of the International Monetary Fund explained that as part of the collaboration with the CONTRACTING PARTIES, the Fund made available to them the results of its consultations under Article XIV of the Fund Agreement. The results in the case of Italy represented one of a series of annual decisions on consultations, each of which took into account the developing situation of the country. Each case was looked at on its merits as the situation obtained at the time of the consultation. He cited that part of paragraph 5 of the Fund results which read:
"The Fund believes that Italy could undertake further relaxation of dollar restrictions and welcomes Italy's intention to do so as soon as practicable as well as to endeavor to eliminate bilateral arrangements." He would not go as far as the member of the Committee had suggested, and say that the Fund results indicated that the Fund had concluded that Italy had no longer any balance-of-payments reasons to maintain restrictions.

33. In the light of the statement by the Italian representative that the purpose of these restrictions was to prevent inflationary trends in domestic consumption, a member enquired whether measures had been taken to restrict hire purchase credit as a supplementary measure to help achieve that end. The Italian representative replied that hire purchase credit in Italy was very limited in volume and very costly to the consumer.

System and Methods of the Restrictions

34. A member of the Committee referred to a paragraph on page 5 of the basic document which read: "As regards imports from the dollar area, applications are examined individually . . . . within the limits of given quantities fixed in advance or without the prior establishment of unilateral quotas, account being taken of the interest which the proposed imports have for the national economy and for Italian trade with the partner countries". He hoped that the phrase did not indicate a concern of the licensing authorities to protect domestic industries. Was the criterion of interest which the intended import offered for Italian trade with partner countries such that licences were granted only insofar as imports would not prevent the implementation of bilateral agreements? The Italian representative replied that considerations of protection of national industries were not taken into account. He further indicated that the last words of the paragraph which had been cited referred to the partner countries of the dollar area.

35. In response to a question as to what the nature was of the price criterion in issuing licences, whether it was the price margin between different foreign sources which was considered or that existing between foreign and domestic prices, the Italian representative said that price considerations had become a minor element. Essentiality and availability of freely convertible exchange were the main criteria in issuing individual licences.

36. Replying to a question as to how the Italian Government ensured that the State-trading organizations followed a policy of non-discrimination for example in the case of imports of tobacco, the Italian representative explained that the choice of foreign suppliers was determined by factors of a strictly commercial nature. Imports of tobacco were included in the State-trading system for reasons of a purely fiscal nature.
37. A member of the Committee wished to have some clarification on a paragraph on page 4 of the Basic Document which read: "In addition to the above-mentioned free lists certain imports covered by bilateral trade agreements are also exempted from licensing requirements". The Italian representative replied that to nearly all countries with which trade agreements were in force, Italy granted, by unilateral action, exemption from licensing requirements for certain commodities. These products could also be freely imported from countries belonging to the EPUB zone. All commodities which still required licences when imported from the EPUB area were subject to licence when imported from bilateral agreement partners. At present such unilateral liberalization measures accorded to bilateral agreement partners covered almost 57 per cent of private imports from these countries, which, however, represented about 6 per cent of total Italian imports.

38. The delegate for Canada wished to stress the importance for Italy of improving its competitive position on world markets by making available to domestic industries all imports on as favourable terms as obtained by their foreign competitors. He instanced the case of stainless steel, steel for machine tools, aluminium, agricultural machinery and polystyrenes, the freeing of which would certainly contribute to the competitive position of certain Italian industries. The Italian representative replied that such liberalization measures, which would admittedly improve the competitive capacity of the Italian industries, could only be taken when permitted by the balance-of-payments position.

39. Referring to the opening statement by the Italian representative the representative of the United States pointed out that if the Italian Government wished to ensure against the event of having to liberalize some commodities in case of balance-of-payments difficulties, one way to reduce such risks would be to issue licences liberally for certain products. Not only were imports of agricultural commodities strongly curtailed but some manufactures which were freely admitted from EPUB countries were granted very low quotas for imports from dollar sources. This was for instance the case with outboard motors, spare parts for United States automobiles and phonograph records, which were severely restricted and for which, as far as was known, licences were not issued liberally. Would it be possible for the Italian Government to test the intensity of the demand for such products by introducing liberal licensing and eventually freeing these items if the effects proved negligible? In reply, the Italian representative said that a certain number of products for which comparatively large quotas had been fixed could also be cited. Quotas for synthetic fibres, tanned hides, abrasives, etc., were large. For some agricultural imports from the dollar area the Italian Government granted import licences fairly freely; quotas were established for example, for prunes, maize, oil seeds, etc. Furthermore, in other cases no unilateral quotas were fixed at all and applications for licences were invariably accepted. The dollar liberalization measures which his Government contemplated would be based on the experience which had been gained previously by issuing licences freely for certain products.
40. One representative invited the Italian delegation to consider whether there might be some cases where de jure liberalization was accidentally vitiated by alternative measures of control of different kinds. One of these concerned copper sulphate used for fertilizers for which there was only a seasonal demand. For this item price regulations were in force which required domestic producers to notify their price before the official import price could be established. This procedure led to certain delays which made it difficult, and on occasion impossible, for foreign exporters to enter the market before the end of the season. The Italian representative answered that he believed that this was a particular case. This item was made subject to price controls established in favour of agriculture. Recently it was found that domestic prices for copper sulphate could be reduced, and the system was therefore not intended to restrict imports. Moreover, the customs duty on this item was extremely low—somewhere in the neighbourhood of 5 per cent ad valorem.

41. The Italian representative recalled a reference made in his opening statement to the effect that at the present time measures were being studied to extend the range of products which may be freely imported from the dollar area. He explained that although the vicissitudes of the Italian political crisis would not yet permit the Ministerial Decree necessary for these new measures to be made, he could at this stage furnish a few statistics to the Committee in order to give an indication of the scope of the new dollar free list. The present liberalization was extended to 39 per cent of private imports from the dollar area on the basis of 1953 trade. As a result of the new measures that percentage would be increased to 71.24. He referred to the fact that the base year taken for these calculations, 1953, was the same year as that taken by the OEEC in its computations of liberalizations extended to the dollar area and pointed out that the new liberalization measures would appear even more substantial if 1955 was used as the reference year; in this case the percentage of liberalization vis-à-vis the dollar area would be 78.85. He regretted that he could not provide any information to the Committee at present which would detail the specific items involved in the new measures. The list of liberalized products, will be, when available, annexed to the present report. (See Annex II)

42. The representatives from the dollar area expressed their appreciation to the Italian representative for having provided additional information on further liberalization of imports from that area and stated that they awaited details of the new measures with great interest. The representative of Canada pointed out, however, that there was still a substantial difference between the extent of liberalization afforded to goods originating in the EPU area compared with that extended to the dollar area, and he reaffirmed the view that in the light of the Italian balance-of-payments position further progress could be made.

43. A member sought details concerning the criteria used for retaining items on the negative lists of imports from the EPU area and the dollar area and enquired whether the continued application of such restrictions upon these commodities might present certain obstacles when Italy was eventually in the
position to achieve full liberalization. In reply, the Italian representative stated that the criteria used for the selection of items for liberalization was dictated by the consideration of their being unlikely to impair the equilibrium of their balance of payments. In addition the slow formation of domestic capital had created certain problems within the Italian economy and had led to the need to restrain any import flows that would inflate domestic consumption. From these two points of view therefore, it was necessary to restrict imports of those goods that would lead to any rapid increase in consumption and run down exchange reserves and for that reason the restrictions on the goods on the negative lists had been maintained. In response to a further question the Italian representative said that it would be difficult to forecast what criteria would be followed in the future as that would be dependent on circumstances prevailing at the time, which would probably be different from those encountered at present.

44. In his concluding remarks the Italian representative stated that he was gratified to have had an opportunity to give an account of Italian import policy to the members of the Committee and to bring to their attention the consistency in that policy, the main objective of which had been to reach as high a level of liberalization as possible within the limits set by the need to maintain balance-of-payments equilibrium.

ANNEX I. STATEMENT BY THE ITALIAN REPRESENTATIVE

The Italian Government has fully appreciated the decision of the CONTRACTING PARTIES to GATT to arrange for a wide programme of consultations on the maintenance of import quantitative restrictions.

As the representative of the United States indicated when he submitted his proposal, a free and frank exchange of views on the operation of import restrictions and domestic, commercial and economic policies in the near future can only facilitate better mutual understanding and make it possible to appreciate the prospects for further progress towards the restoration of international trade on a multilateral basis.

The comprehensive documentation which has been prepared with such care and competence by the IMF and the GATT secretariat to serve as a basis for this consultation permits us to limit this additional statement to considerations relating to the basic features of our balance of payments and the aims of our economic policy, having particular regard to its repercussions on commercial policy.

The Italian Balance-of-Payments Position and Prospects and the extent of Quantitative Restrictions

The evolution of Italian exchanges with other countries during the post-war period has been particularly characterized by a close relationship between the domestic economy and international economic conditions.
Between 1948 and 1956 the volume of Italian imports and exports increased at an average annual rate exceeding 10 per cent. During the same period the increase in the quantum of world trade was 7 per cent and the increase in OEEC trade amounted to 8 per cent in respect of imports and about 11 per cent on the export side.

Compared with world trade, Italian trade has therefore increased at a substantially higher rate. Compared with OEEC trade, the increase in Italian trade has been higher on the import side and lower as far as exports are concerned.

If we consider Italian foreign trade as a whole, the increase in the quantum which has affected all economic sectors was less than the average as regards food imports and slightly higher in the case of imports of manufactures. As far as exports are concerned the advance was particularly marked in the sector of semi-finished products and finished products.

It is therefore evident that the evolution of Italian foreign trade is closely related to both the domestic economy and international economic conditions considering both the complementary nature of the various fields of production and more specifically the specialization of production. This evolution which has continued unabated since the end of the war has not slowed down in the last few years, but the rate of development has been characterized by a tendency to some diversification as between imports and exports in the sense that the rate of increase has been higher in respect of imports than of exports.

The evolution of Italian foreign trade demonstrates the modification which has occurred in the external economic situation of the country. During the immediate post-war years, the needs resulting from the reconstruction and rehabilitation of production equipment and the domestic food requirements, together with the discrepancy between internal and international prices were reflected on the foreign trade situation so that there resulted a considerable increase in our trade deficit.

This deficit was met out of important contributions from abroad in the form of special assistance, in particular from the United States Government, while internally the Government was anxious from the outset to view the problem of our balance-of-payments difficulties as an exchange and price problem rather than as a matter for administrative controls. This attitude on the part of the Italian Government was made clear as early as March 1946, with the establishment of the system of currency accounts including 50 per cent in freely convertible currencies, which constituted one first step towards an exchange system that was more in line with the market situation.
Subsequently further steps were taken in the exchange field such as those relating to clearing arrangements and arrangements with the sterling area which between 1947 and 1948 led to the standardization of the exchange rate for the lire on a cross-rate basis, the dollar parity being determined according to market conditions.

This system of standardization which fully conform with the rules laid down in the Bretton Woods Agreements, was followed by further measures for the standardization of our exchange system vis-à-vis other countries, so that as a result of the swing arrangements provided for in the various agreements there were some distortions in the movement of our foreign trade and in investments and domestic consumption in Italy. Those distortions were corrected through the devaluation measures taken in the autumn of 1949.

On the other hand, in the field of quantitative restrictions the restoration of a market economy proceeded at a lower rate. The line thus followed not only by Italy but also by other European countries was necessary because it was the most appropriate method to meet the difficulties resulting from temporary disparities in prices and productivity as between the various countries and from the different levels in the currency reserves of the various countries. This policy had to be applied with special severity in respect of the dollar zone in order to meet the dollar shortage. The problem of balance-of-payments difficulties appeared therefore everywhere to be a problem of trade restrictions in general with varying degrees of severity and greater or lesser scope depending upon the monetary areas concerned. In respect of trade with the OEEC countries some alleviation was brought about not only by reciprocal swing arrangements but also by regional arrangements. Generally speaking, Italy on account of the very nature of her foreign trade, which includes essential imports and non-essential imports, opposed the concept of quantitative restrictions. In fact the rules followed by Italy in the field of quantitative restrictions were aimed at their gradual elimination as balance of payments permitted and at the same time the Government decided to constitute sufficient exchange reserves for the purpose of meeting possible temporary difficulties without having to reinstate quantitative controls.

In other words, quantitative restrictions are not regarded as a normal instrument for our exchange policy but as a method which is to be abandoned and which is still maintained only because the structural equilibrium of the Italian balance of payments has not yet been fully achieved. In order, therefore, to appreciate the Italian policy in this field, one has to take account not only of the level of outstanding restrictions but also of the fact that relaxation of restrictions is not a reversible process.

An important event tested the rules followed by Italy and at the same time demonstrated the seriousness of our intention to oppose any new and more widespread recourse to quantitative restrictions: that was the Korean crisis. At
the time, we allowed our trade deficit expressed in f.o.b. values to rise from about $160 million in 1950 to about $750 million in 1952 without rescinding our liberalization measures. From 1953 until the present date our imports have substantially increased (about 8.5 per cent annual rate, on an f.o.b. basis), but our exports which have increased faster (about 12.5 per cent) have offset the positive effects of the expansion of our imports, so that the trade deficit rose further from $750 million in 1952 to about $660 million in 1955 and $705 million in 1956.

On the import side, this increase is accounted for by auxiliary or semi-processed raw materials (about two-thirds) and by finished products (about 21 per cent). The outstanding 13 per cent is to be attributed to the sector of foodstuffs.

As regards exports, the increase is accounted for by finished products (about 50 per cent) auxiliary or semi-finished raw materials, mostly iron and steel (30 per cent) and by foodstuffs (about 20 per cent).

Exports in the metal-working, engineering and metallurgical groups have increased significantly as a result of the modernization of equipment and the establishment of important iron and steel plants in Italy or because of the tightness of foreign demand for investment goods.

As far as services are concerned, tourism and shipping earnings have increased considerably during the last few years; however, while earnings on account of tourism have been offset only to a limited extent by an increase in expenditures in the same sector, shipping earnings have been counteracted to a great extent by an increase in payments abroad. Furthermore, unilateral transfers have steadily increased either as a result of increases in migrants' remittances and private donations or because of a decline in expenditure on account of reparations. As far as current transactions are concerned, the deficit fell from $540 million in 1953 to $245 million in 1955 and subsequently to $220 million in 1956. The corresponding increase during the same period is no doubt noticeable, but has not yet resulted in restoring a structural equilibrium because special foreign assistance, in the form of Government donations of off-shore purchases, is tapering off and because the net inflow of loans and investment of foreign capital is normally less than the above-mentioned deficit.

In 1956 foreign governmental assistance reached about $440 million, while the net inflow of foreign capital in the form of loans and investments amounted to $137 million. As a result of the above-mentioned transactions (i.e. current transactions, movements of capital and foreign governmental assistance) and taking account of less important financing operations which depend upon fluctuations in commercial credit, and of special earnings in the field of maritime insurance, our net availabilities in foreign exchange increased by about $110 million both in 1956 and 1955.
The foregoing analysis indicates that on the short-term, Italy has no balance-of-payments difficulties. However, this analysis cannot possibly substantiate a similar conclusion regarding the structural and long-term situation. Future prospects command caution in giving any appreciation; account has to be taken on the one hand of the fact that instalments for the reimbursement of foreign loans will increase in future and on the other that the coefficient of elasticity on imports of raw materials in relation to national income tends to increase as a result of our increasing needs for imports of raw materials and energy and because full utilization of productive capacity has been reached in certain branches of industry.

Outstanding quantitative restrictions should be regarded, in the main, as measures which are retained in order to meet any balance-of-payments difficulties that may arise, until structural equilibrium is achieved. It is intended to avoid shifts in the development of domestic productivity by re-imposing restrictive measures after removing restrictions on the domestic market.

It might be objected that, in view of the very high degree of CEEC liberalization, and in view also of the fact that 75 per cent of the balances with those countries are eventually settled in gold or in dollars, the need for continuing discrimination as between the two areas is not very apparent. On the other hand, the degree of liberalization can only be harmonized through an extension of dollar liberalization and the re-imposition of restrictions in respect of CEEC countries. This might result, however, in disturbances either of market or productive conditions; such disturbances would not be justified, the more so as the measures concerned would only be temporary while it is intended gradually to achieve the fullest possible freedom of trade. For that reason, it seems that this alternative should be rejected and that dollar liberalization should be increased to the greatest extent permitted by the balance-of-payments situation. In this connexion, it should be pointed out that at the present time, in accordance with the above-mentioned criteria, measures are being studied which will extend the range of products which may be freely imported from the dollar area.

The examination of draft ministerial regulations instituting new liberalization measures is fairly advanced, and we hope to be able during these consultations to give the Committee more detailed information regarding the new liberalization list if, as we very much hope, a final decision is taken in Rome in the next few days.

We would like to stress that the proposed new liberalization measures constitute another important step towards the elimination of quantitative import restrictions which are still applicable vis-à-vis the dollar area.
Furthermore, it should not be forgotten that while the decline in imports from the dollar area continued until 1954, a marked recovery has become apparent in the last two years. The trade deficit with the United States and Canada, expressed in f.o.b. values, rose from 160 million in 1954 to 218 in 1955 and 254 in 1956, although there was a marked increase in exports. The balance for ordinary current transactions showed a surplus of 15 million in 1954, and a deficit of 18 million in 1956. Since the dollar markets, and in particular the United States market, have become a marginal source of supply for certain raw materials which are essential for the development of Italian production, they tend to absorb increases in our national import demand; for that reason, it is to be feared that if the current evolution of world economic conditions continues, Italy's dollar trade balance may again be submitted to strains and stresses.

In addition, even at international level, there are signs today that difficulties in financial relations with the United States may recur, because a certain dollar scarcity in currently developing.

The Problem of Currency Reserves

The problem of currency reserves may be considered from two angles, taking into account the development of reserves and their absolute amount in relation to the country's debtor position.

With regard to the first point, it should be recalled that currency reserves had been practically reconstituted over a period of thirty months, from September 1947 (at which time the reserves had dwindled to a negligible amount) to January 1950, when they reached a net level of $900 million in counterpart currency. From 1948 to 1950, Italian economic policy was mainly directed at strengthening internal monetary stability, which had been so seriously threatened in 1947, and at laying the foundation for a balanced development of foreign trade.

That phase may be called a period of a more resolute restoration of orthodox and traditional methods, evidently as a prerequisite for freedom of selection in foreign trade transactions. Since 1950, currency reserves have evolved, now in the direction of slackness, now in the direction of expansion, until at the end of 1956 they reached a net level of 1,109 million, after two years during which they rose at an average annual rate of about 10 per cent.

The variations which occurred in Italian trade operations with foreign countries were therefore fully reflected in the reserve situation, because generally speaking quantitative restrictions did not act as neutralizing factors against the increased demand for foreign exchange. The policy followed was in one direction only, that is to say, it was directed only towards the progressive elimination of restrictions. A recent example of this attitude may be seen in the Suez Canal crisis: in the three-month period from November to January last,
Italy used $134 million out of its own reserves, representing an increased utilization of its reserves by $113 million as compared with the corresponding three-month period of the previous year.

From 1949 to the present day, although there has been an increase in the absolute value of foreign exchange reserves, these reserves have fallen considerably in relation to the country's import needs.

In 1949 Italy's reserves were sufficient to cover imports for 6.9 months; in 1955 the ratio of reserves to imports dipped to 4.7 months, and in 1956 to 4.4 months. The situation also deteriorated from 1949 to 1956 with regard to short-term debts of the Central Bank (from 0.40 to 0.34), monetary circulation (from 0.25 to 0.16) and gross national product (from 0.07 to 0.05).

With regard to the absolute increase in Italian exchange reserves, which was about $110 million in both 1955 and 1956, it should be recalled that Italy had earnings, mainly of an exceptional nature, of about 200 million in 1955 and 160 million in 1956, representing unrequited aid, off-shore purchases, infra-structure equipment and pay-troops.

It can be foreseen that earnings on account of unrequited aid (41 million in 1955 and 32 million in 1956) and off-shore purchases (129 million in 1955 and 81 million in 1956) will be terminated in the near future.

As to the second aspect of the problem, i.e. the relation between the amount of reserves and the debtor position of the country, it must be stressed that, while it is true that Italy has re-established its own currency reserves at a relatively high level, it is also true that Italy's debtor position vis-à-vis foreign countries is particularly important because of the existence of pre-war debts, the conclusion of new medium- and long-term loan arrangements, foreign investments in Italy and, finally, because of short-term debts of credit institutions.

From this point of view, it can be seen that Italy must maintain in her creditors a feeling of security and confidence by keeping exchange reserves at a level comparatively higher than that of countries which are in a better debtor position.

In conclusion, although the balance-of-payments and reserve situation is relatively satisfactory on the short term, Italy is not yet in a position, for the reasons given above, fully to give up quantitative import restrictions.

Lastly, we hope that this Committee, in making an evaluation of Italian commercial policy, will also consider that internal investment needs tend considerably to exceed the formation rate of new capital, because of the need to absorb new manpower, so that care must always be taken to prevent negative repercussions on the Italian balance of payments.

ANNEX II. LIST OF LIBERALIZED IMPORTS FROM THE DOLLAR AREA; NEW ITEMS EFFECTIVE FROM JULY 1957

(List referred to in paragraph 41 of the Report; to be circulated separately when received).
V. REPORT ON THE CONSULTATION UNDER ARTICLE XII.4(b) WITH GREECE

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Greece under paragraph 4(b) of Article XII.

The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the Greek authorities describing the system and methods of the balance-of-payments import restrictions in operation in Greece. The document also contains a statement under Part II - "Effects on International Trade", submitted by the Greek authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be regarded as supplementary material to be annexed to this report.

2. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Greece.

4. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its latest consultation with Greece concluded on 21 December 1956 and a supplementary paper dated 21 May 1957. The results of the Fund's consultation with Greece are reproduced in document QRC/4.1

5. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Greece. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Greece which was concluded on December 21, 1956.

1 See Appendix
"As some time has elapsed since the conclusion of its last consultation with Greece, the Fund has also provided a supplementary paper on Greece dated May 21, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the 1956 consultation, and the results of the 1956 consultation have been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its consultation with Greece under Article XIV of the Fund Agreement, and particularly to paragraph 3, and to paragraph 4 which reads as follows:

'4. The Fund welcomes the progress made by Greece in reducing restrictions and in eliminating discrimination. Greece no longer makes important use of restrictions on imports. However, the Fund urges Greece to re-examine the need for its present bilateral trade and payments agreements, which have somewhat increased in scope.'

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Greece. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Greece

6. The Greek representative opened the discussion with a general statement outlining the policy followed by his Government. As could be seen from the basic document prepared by the secretariat, ever since liberalizing her trade in 1953, Greece had been a leader among those countries with a liberal trade policy. One hundred per cent of imports of agricultural products and raw materials and 89 per cent of imports of manufactured goods were at present liberalized. Within the framework of the OEEC, of which Greece was a member, the member countries undertook to liberalize their foreign trade from all quantitative limitations. Greece had nevertheless been granted a special waiver from that obligation and it should therefore be noted that a country which was one of the least qualified to liberalize foreign trade maintained only a few restrictions; and those restrictions were only partially applied, since import licences were freely granted in most cases. The exceptions to the system of general liberalization comprised certain luxury articles such as furs, jewellery and precious stones, and a series of manufactured goods, mainly special machinery and equipment and parts thereof.
7. Imports of luxury products were subject to the issue of special licences. Even for the products on that list, however, licences were very seldom refused and, if so, only for reasons concerning the balance-of-payments position, since there was no domestic production. Furthermore, the list had been reduced on several occasions; for instance, motor vehicles above a certain value had been freed from the requirement of prior authorization. Imports of certain products in the sector of machinery and parts were subject to licence issued by the Ministry of Industry. This special system had been in existence since 1932, when Greek industry was in a primary stage and required some protection. For these products too the Greek Government had relaxed the restrictions. The licensing system which previously applied to almost all machinery was now applicable to a list of machinery which had been reduced in recent years and now included, inter alia, machinery of a kind produced in Greece. Import licences for these products were nonetheless granted liberally. Although for some of these products the restrictive measures might have protective effects, it should be noted that a more liberal import system might create serious difficulties for the Greek Government, resulting not only in disequilibrium in the balance of payments and a danger of monetary instability, but also in an increase in unemployment and under-employment. The Greek representative maintained that in his view, under the provisions of the Annecy Protocol, Greece had the right to maintain import restrictions imposed under mandatory legislation existing on the date of that Protocol.

8. Parallel to these measures of control which were aimed essentially at safeguarding the balance of payments, a development programme had been undertaken in order to exploit the country's resources. The industries covered by this programme included petroleum refining, chemical fertilizers, sugar, shipbuilding, paper-pulp, etc. It was to be hoped that the implementation of these plans for economic development would have a salutary effect on Greece's monetary reserves and would thus enable the Government to continue its policy of relaxing the remaining restrictions. As shown in the documents prepared by the International Monetary Fund, however, Greece was still in a precarious current account payments position; without extraordinary receipts, the situation would worsen and the Greek Government could not yet consider eliminating the existing restrictions in the near future.

9. Following the opening statement by the Greek representative, several members of the Committee expressed their Governments' satisfaction with the very liberal commercial policy followed by Greece which, for a country in the process of development, was unusual. They were happy to see the high level of trade liberalization which Greece had achieved, and they also pointed out that since 1953, almost all discriminatory measures affecting import trade had been abolished. They also emphasized that this very liberal import policy had not hindered the economic development programme, particularly in the sectors to which the Greek representative had referred in his opening statement.
10. The United Kingdom representative thought all members of the Committee would welcome the decision of the Greek Government to take part in the Article XII consultations. During the consideration of the United States proposal at the Eleventh Session several contracting parties whose economies were in the process of development had indicated that, in view of the special nature of their balance-of-payments problems, it did not seem that any definite results would be gained if they took part in the consultations. She hoped that the example of Greece and the friendly nature of the consultations would serve as proof that the underdeveloped countries only stood to gain from the opportunity to apprise the CONTRACTING PARTIES of the difficulties with which they were confronted in the field of balance of payments. The United Kingdom was in a position to know that a country in genuine balance-of-payments difficulties could count on sympathetic attention from the CONTRACTING PARTIES and in her opinion the members of the Committee would be all the more sympathetically inclined since the Greek Government had refused to rely on the maintenance of quantitative restrictions to protect its balance of payments.

Balance-of-Payments Position and Prospects

11. The Greek representative was asked what were the prospects for increasing reserve holdings and what were his Government's intentions for the future with regard to the relaxation of restrictions. He replied that in the past three years there had been no balance-of-payments difficulties, but it should be noted that there had been extraordinary receipts from the United States Government, and the satisfactory balance-of-payments position did not reflect a balanced economic structure in Greece. Without that assistance, there would be a considerable deficit, and it was therefore difficult to consider eliminating the restrictions completely. His Government was, however, keeping its policy on restrictions under constant review. He added that at the present time, all requests for import licences were granted and that actually his Government only maintained a kind of stand-by control, which would permit it to impose restrictions immediately if the balance-of-payments position warranted such a step.

12. A member of the Committee remarked that the assistance given by the United States Government constituted a determining factor which had allowed Greece to safeguard its balance of payments and to follow a liberal import policy. He wondered whether it was that assistance which had made it possible for the Greek Government to meet the considerable deficit in its trade with the dollar area. Was it thanks to that assistance that it was possible to maintain a non-discriminatory system of import controls? The Greek representative replied that the deficit of over $100 million in trade with the dollar area exceeded the amount of assistance which Greece received from the United States Government, although the latter represented a considerable sum. That disequilibrium was nevertheless normal, since Greek foreign trade generally showed a deficit. There could be no doubt that extraordinary receipts from the United States increased Greece's ability to import in general, rather than from dollar countries only. The large amount of imports from the dollar area was accounted for by the fact that, for certain products, prices were more favourable there. The policy of non-discrimination had been adopted in accordance with the directives and rules laid down by the international organizations of which Greece was a member.
13. In the course of the discussion which ensued, a member of the Committee pointed out that the application of a non-discriminatory policy allowed Greek producers to obtain supplies at the lowest possible prices in the most advantageous market, thus helping to increase the competitive capacity of the Greek economy by subjecting it to foreign competition. Since an appreciable part of the extraordinary receipts from the United States came from the ICA and was not limited to the purchase of United States goods, these funds could be used freely for purchasing supplies in any market. The attention of the Committee was also drawn to the fact that Greece's trade deficit was largely compensated by revenue from invisibles. One member of the Committee observed that in present payments circumstances there would be sound economic reasons for Greece to follow a non-discriminatory import policy, even in the absence of such extraordinary receipts.

14. A member of the Committee observed that it seemed as if extraordinary receipts from the United States were used to reduce the deficit with the EPU area, though it was difficult to attest, since the foreign trade statistics given in the Fund document were classified by currency area, while there was no area breakdown of the balance-of-payments figures. The Greek representative replied that receipts from invisibles were considerable and came from the EPU countries as well as from the dollar area. United States assistance only partially covered the deficit vis-à-vis countries which made use of the EPU facilities. The representative of the International Monetary Fund stated that, in supplying the CONTRACTING PARTIES with basic documentation, the Fund did its utmost to provide all the information at its disposal at the time when the documentation was prepared. In addition to information regarding the balance of payments, the Fund document for the consultations with Greece contained statistics of trade by currency area and some information regarding multilateral settlements. The wishes expressed during the discussions would be taken into account, but it should not be forgotten that technical limitations frequently affected the preparation of statistical studies.

Alternative Measures to Restore Equilibrium

15. In reply to a question on the degree of success achieved by measures to encourage savings in the banking sector of the economy, the Greek representative stated that his Government attached the utmost importance to increasing savings and making them available for investment. The rate of interest payable on national savings had recently been raised to 10 per cent and the rates paid by savings banks had been increased considerably. These increases, together with other similar measures, had contributed towards a rise in amounts deposited, which had almost doubled in a year.

16. A member of the Committee enquired whether the economic development programme laid emphasis on the industrial sector and if, apart from the protection afforded to certain industries by means of customs duties and quantitative restrictions, the Greek Government also subsidized investments financed by Greek as well as foreign capital. The Greek representative pointed out
that, for the last two years at least, import licences had been freely granted for machinery still subject to special regulations, and that one could not therefore speak of protection by means of quantitative restrictions. He emphasized that the plan was for industrial development, but that at the same time agricultural projects had been launched in order to widen the range of agricultural products exported by Greece. In that connection, impressive results had already been achieved regarding cotton and rice. He added that the Greek Government was anxious to increase the level of industrial investment, but was hampered by lack of capital. That was why it had raised the rate of interest and passed a law encouraging the inflow of foreign capital.

System and Methods of the Restrictions

17. In reply to a question concerning the need to maintain a double system of protection, by means of the tariff and quantitative restrictions, for machinery and parts thereof, the Greek representative stated that the licensing system applicable to imports of those products was maintained principally in order to safeguard the balance of payments and monetary stability. He could not quote the rates of import duty levied on such machinery, but that information could be found in the Greek customs tariff. A member of the Committee asked if all requests for licences to import such machinery were granted; the statement of the effects of the restrictions on international trade, in the second part of the basic document, indicated that the restrictions applied to the sector of machinery and parts thereof had an incidental protective effect.

18. In that connection, the Greek representative pointed out that that passage of the basic document referred to the general objective of the law under which these products were still subject to licensing control, but that it should be read in conjunction with the following text which reads: "In spite of these difficulties, the Greek Government has taken steps to reduce to the fullest extent possible the incidental protective effects of quantitative restrictions imposed for balance-of-payments reasons. As an example, it should be mentioned that certain machinery items have been removed from the list of products requiring prior import authorization. With regard to machinery items still included in the list, the competent ministry, i.e. the Ministry of Industry, has followed a very liberal policy which has allowed such machinery to be imported on a fairly wide scale. This can be seen from the statistical table in Part I (e) of this report."

19. In reply to a question as to whether the special import system for machinery was intended to control and direct agricultural investment and industrial development, the Greek representative explained that that system did not imply any control or direction but was only maintained in case the Government found it necessary, because of increased balance-of-payments difficulties, to restrict imports and replace foreign supplies by domestically-produced equipment.
20. In the course of the discussion, a member of the Committee noted that the requirement that importers must deposit funds with their bank, might in certain cases, have a restrictive effect on imports. It seemed to him that imports were rendered more or less difficult according to the size of the deposit; that was in accordance with Article XII, which permitted a contracting party to give priority to certain products which were more essential to its economy. The Greek representative replied that these measures were principally aimed at combating monetary inflation; to the extent that the system hindered imports for speculation purposes, it helped to safeguard the balance of payments. He also pointed out that in deciding what amount the importer was required to pay as a prior deposit, the Greek Government had taken into account the degree of essentiality for the national economy of the products subject to that system.

21. A member of the Committee then asked a question regarding measures taken by the Greek Monetary Committee for the granting of certain discount facilities which benefited domestic products, but were not applicable to the same products when imported. Those measures, established on 12 April 1957 by Service Order No. 283 of the Monetary Committee, seemed to have a restrictive effect on imports. The Greek representative explained that in many countries producers enjoyed other advantages resulting, for example, from the area covered by the domestic market, and from the abundance of capital; he did not think that the assistance afforded to domestic products in Greece exceeded that granted by other governments.

22. Referring to the special régime applicable to imports from Japan, the representative of that Government asked if the bank permits required for imports of Japanese products were the same as those required under procedure E, or whether they were permits granted by the Central Bank. He also asked why a more restrictive import system was applied to spectacles, lenses for spectacles, pottery products, textile products and writing pencils. The Greek representative replied that the bank permit was issued by the commercial banks and was a mere formality. The special licensing régime was justified by the fact that it applied only to certain products of a non-essential nature.

23. In reply to various questions, the Greek representative explained that wheat and flour were subject to State-trading because of their importance for the national economy, and that the State acted like a trader with regard to those products. The luxury products included in List A were imported in accordance with quotas provided in trade agreements, whereas no quotas were fixed for those imports outside such agreements. With respect to wheat and flour, a member of the Committee pointed out that the requirement of a special licence for ordinary dollar imports, but not for such imports from OEEC countries, would seem to constitute a discrimination.

24. Several members of the Committee wished to draw the attention of the Greek Government to the fact that, in certain cases, the liberalization of imports might be affected and even nullified by various measures, such as the levy of discriminatory luxury taxes on imported products, financial regulations regarding the sale on credit of foreign products, etc. They also pointed out that the
maintenance of a liberal licensing system was not as satisfactory as liberalization, because of the uncertainty for the foreign exporters which resulted from the licensing requirement. In that connexion, the Greek representative reminded the Committee that as he had already pointed out, his country's economic situation did not permit the Government to consider abolishing the licensing system.

25. Several members of the Committee thanked the Greek delegation for the way in which the numerous questions asked had been answered, and again expressed their satisfaction at the high degree of liberalization, the very liberal trade policy in the sector subject to quota restrictions, and the almost total absence of discriminatory measures in Greece. They also expressed the hope that the implementation of the economic development programme would have a beneficial effect on the Greek balance of payments and thus assist progress towards the complete liberalization of imports.

26. In his concluding remarks, the Greek representative stated that he had been happy to have the opportunity to explain to the members of the Committee the commercial policy followed by his Government and to have been able, to some extent, to provide the additional information requested by certain representatives.
VI. REPORT ON THE CONSULTATION UNDER ARTICLE XII.4(b) WITH
THE KINGDOM OF THE NETHERLANDS

Introduction

1. In accordance with the Decision taken at the plenary meeting of the
CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has
conducted the consultation with the Netherlands under paragraph 4(b) of
Article XII.

2. The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with
the Netherlands authorities describing the system and methods of
the balance-of-payments import restrictions in operation in the
Netherlands. The document also contains a statement under Part III
"Effects on Trade", submitted by the Netherlands authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to
this report.

3. In conducting the consultation the Committee followed the Plan recommended
by the CONTRACTING PARTIES for the consultations. The present report summarizes
the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 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 the Netherlands.
As a part of the consultation between the CONTRACTING PARTIES and the Fund,
the latter transmitted the results and background material from its 1956
consultation with the Netherlands concluded on 25 July 1956, and in addition,
supplied a more recent supplementary paper. The results are reproduced in
document QRC/4.¹

5. In accordance with the procedure agreed upon by the Committee, the
representative of the International Monetary Fund was invited to make a state-
ment supplementing the Fund's documentation with respect to the position of the
Netherlands. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING
PARTIES the results and background material from its 1956 consultation
with the Netherlands which was concluded on July 25, 1956. The Fund's
1957 consultation with the Netherlands is expected to be concluded shortly,
with discussions between the Netherlands representatives and the Fund staff
already having taken place.

¹ See Appendix
"As some time has elapsed since the conclusion of its last consultation with the Netherlands, the Fund has also provided a supplementary paper on the Netherlands dated May 31, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the 1956 consultation, and the results of the 1956 consultation have been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund is now conducting its 1957 consultation with the Netherlands and it is expected that the results of this consultation will be transmitted to the CONTRACTING PARTIES.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with the Netherlands. The Fund has no additional alternative measures to suggest at this time."

6. It was agreed that the results of the Fund's 1957 consultations with the Netherlands when available, would be added to the documentation for this GATT consultation.

Opening Statement by the Representative of the Netherlands

7. In opening the discussion the Netherlands representative referred to the "Introductory Statement" made by the Netherlands Government in the basic document circulated by the secretariat (MGT/46/57) and he called attention to several points therein. The favourable post-war trends in the Netherlands balance-of-payments position were reversed in 1956, and according to most recent available statistics, the deterioration in the overall balance of payments was still persisting. He drew particular attention to the unfavourable developments vis-à-vis the dollar area and referred to statements in the basic document to the effect that "the Netherlands are applying restrictions based on Article XII considerations only with respect to imports from the dollar area" and that "in the course of the years 1952/55 the dollar trade deficit increased from less than $100 million per annum in 1952 and 1953 to about $300 million in 1955". In 1956 the position had further deteriorated and the deficit in that year was some $370 million. The returns for the first quarter of 1957, although not sufficiently representative to enable reliable conclusions to be drawn, showed, on a quarterly basis, a still further increased deficit with the dollar area.

8. During 1956 the monetary reserves declined substantially, the gold and convertible currency reserves, having fallen by some $125 million. The first quarter of 1957 witnessed a further decline and at present the reserves represented the equivalent of a little over three months' imports. As stated in the basic document the Netherlands Government had in the post war years relied to a substantial degree on measures other than quantitative restrictions in pursuit of their policy of restoring equilibrium. Relaxations of the more severe
restrictions had continued since the war, and a high level of liberalization had been attained. When faced with a deterioration in the balance of payments in 1956, the Netherlands Government had decided to use fiscal and monetary measures rather than to resort to new or intensified quantitative restrictions. Moreover, it was clear from the import statistics for that period that even in the non-liberalized sector dollar exporters had profited from the higher import rate.

Balance-of-Payments Position and Prospects

9. A member of the Committee noted the statement of the Netherlands authorities in the basic document that the Netherlands Government was applying restrictions under Article XII only with respect to imports from the dollar area, and that some of these imports were restricted for financial and also for other reasons.

10. Several members stated they had noted with satisfaction that the Netherlands Government had succeeded in achieving a rapid rate of economic growth concurrently with the maintenance of a high degree of internal economic stability. The view was expressed that the policy of the Netherlands Government of relying on internal measures to safeguard the balance of payments, rather than quantitative restrictions, which were used only as a last resort, was in accordance with the spirit of the General Agreement. Further, it was recognized that the Netherlands had attained a high degree of liberalization and some members expressed their appreciation of the fact that even though monetary reserves fell during 1956, the Netherlands authorities did not resort to any intensification of quantitative restrictions. The representative of the Netherlands for his part was gratified to hear the corroborations of the representatives of the dollar area that the effects of the remaining restrictions on trade with that area were indeed limited and in the recent past had had no serious consequences.

11. A member welcomed the internal measures taken by the Netherlands Government during 1956 and early in 1957 to deal with its difficulties and, while recognizing that the recent measures had not been in force sufficiently long to have had a marked effect on the balance-of-payments position, enquired whether some indication could be given of the effects the measures were in fact having on the Netherlands economy and what the prospects were for an improvement in the Netherlands reserve position. The Netherlands representative replied that it would be difficult to assess the speed at which such types of general measures would affect the balance-of-payments situation. It was considered that the full effects would not be realized in 1957, but that they would be felt during 1958. Assuming no extraordinary unforeseen developments it was hoped that the current balance of payments would be in equilibrium at the end of 1957 and that there would be a surplus on current account in 1958. It should be noted that owing to deficits on capital account and other commitments in the capital field, the Netherlands Government held the view that only with a surplus on current account would there be both an overall equilibrium and a satisfactory development of the monetary reserves.

12. In reply to a question concerning the expected duration of the remaining restrictions and the prospect for their relaxation or elimination as the payments position permitted, the representative of the Netherlands expressed the hope that the future improvement in the balance-of-payments position, as forecast, would be sufficiently satisfactory to enable the Netherlands Government to proceed with the liberalization of all imports.
13. The representative of Canada pointed out that the growth of the deficit with the dollar area in the past two years had resulted from internal demand and had been reflected in increased imports of raw materials consequent upon the general investment boom in Europe and to some extent in higher agricultural imports because of the poor harvest in the Netherlands. He referred to a statement in the IMF background paper to the effect that "there was no evidence of any disproportionate rise in imports of industrial consumption goods from the dollar area" and enquired whether some of the increased demand for imports from the dollar area was not therefore of a somewhat exceptional character. The representative of the Netherlands agreed that the increased imports from the dollar area had been mostly the result of larger imports of raw materials in short supply and to some extent of investment goods. The remaining restrictions against the dollar area would continue to have some value in safeguarding the payments position. He referred to the rise in imports from the dollar area mentioned on page 22 of the IMF supplementary paper, and pointed out that quantitative restrictions for certain important products could be of significance in safeguarding the payments position.

14. Certain members of the Committee referred to the items still remaining under restriction and the policy of liberal licensing applied to them and stated that such a policy was no substitute for a system of full liberalization since it prevented exporters from acquiring the assured future access to a market necessary to enable them to build up an export trade. The representative of the Netherlands, while agreeing that full liberalization would have these advantages, pointed out that one of the preparatory stages in moving towards full liberalization was the free issuing of licences for goods which remained under control. Furthermore, in the light of the recent internal measures taken to restore balance-of-payments equilibrium both the prevailing political and psychological climate would make it difficult at the present moment for the Netherlands Government to proceed with further measures of formal liberalization. He expressed the hope that in view of the present liberal licensing policy the stage of full liberalization would soon be reached.

15. Reference was made by the representative of the United States to the 87 per cent liberalization extended to imports from the dollar area and pointed out that of the remaining 13 per cent of residual items not liberalized 11 per cent were liberally licensed and the remaining 2 per cent were licensed on a restrictive basis. Since from the balance-of-payments point of view the effect was almost the same as full liberalization, he enquired whether substantial balance-of-payments reasons existed for not having liberalized this list and further whether the Netherlands Government had made any assessment of the effects on the payments position should all restrictions on these residual items be removed. In reply the Netherlands representative stated that he did not think that a clear distinction should be drawn between the liberally licensed items and those licensed on a restricted basis. Naturally it would be difficult to predict what effects full liberalization would have on the balance-of-payments position. However, if estimates were made on the basis of the factual situation which existed at present it was felt that full liberalization would have slight and perhaps negligible effects on the payments position. In fact the remaining restrictions were more of a precautionary nature since it was difficult to foresee
future trends in the prices and competitiveness of imports from the dollar area vis-à-vis imports from other sources. He referred to the example of coarse grains for which importations into the Netherlands with respect to country of origin were highly diversified. Full liberalization of this item at present would have practically no effect on total imports. However, if a situation developed similar to that which existed several years ago when United States prices fell below those prevailing on world markets full liberalization would have substantial effects on imports of the item from the dollar area. A similar situation existed with regard to fats and oils.

16. Certain representatives remarked that although they understood the need for some caution in dismantling the import control machinery it was hard to accept a situation under Article XII in which a country maintained restrictions only against unforeseen contingencies such as relative price movements in the domestic and world markets. If such restrictions were permitted contracting parties might never achieve the kind of trading system envisaged in GATT. In addition they felt that those few residual items for which licensing policy was restrictive in the Netherlands should also be subject to liberal licensing since the effects on the balance of payments would be virtually negligible. In reply the representative of the Netherlands underlined the emphasis previously given to the statement that Article XII was being invoked to cope with the balance-of-payments problem and more particularly the absence of sufficient convertibility, and naturally, therefore, there was more reluctance to remove controls with respect to imports from the dollar area. With respect to the reference to a restrictive licensing policy for some residual items he pointed out that there was no such distinction and it existed only insofar as the degree of liberalization was more advanced for some commodities than for others. The Netherlands Government was of the opinion that the restrictive effects of their policy was very limited, but did not feel that the moment had yet come where it could proceed with further measures of liberalization.

Alternative Measures to Restore Equilibrium

17. The hope was expressed that the internal measures taken by the Netherlands Government would be effective in restoring equilibrium and if not that they would be reinforced by supplementary measures.

System and Methods of the Restrictions

18. The representative of the United States sought an explanation of the basis for the distinction whereby all imports from the dollar area were subject to licensing requirements while for the bulk of commodities liberalized to the EFU area no licence or other formality was necessary. The representative of the Netherlands stated that he was not aware of the seriousness of the reasons for the differentiation and expressed the view that within a reasonable time it might be possible to harmonize the two systems. The psychological climate was not favourable for such action at the present time. Furthermore there was a technical reason in that the Administration had thought it advisable to have a larger amount of documentation than with other countries for imports from the dollar area so as to be in a position to exert a more effective control over dollar payments.
19. Members then enquired whether, when better circumstances obtained, it might be possible to keep a record of dollar payments by alternative methods. Reference was made in this regard to a declaration procedure introduced by Belgium, and the opinion was expressed that trade interests would appreciate such a dismantling of formalities. The representative of the Netherlands stated that his Government was conscious of the fact that other systems of control were perhaps more feasible. He had taken note of the observations that had been made and the possibility of relaxing the control system, to avoid any difficulties that might arise, would be examined. However, the representative of the Netherlands pointed out that although theoretically there was more control over dollar imports the effects of that control should not be over-estimated since the administrative procedures were very flexible and did not cause many hindrances to traders.

20. A member sought information as to the types of commodities or groups of commodities which, for import licensing purposes, were treated on a "case by case" basis. The Netherlands representative replied that this method of licensing control was used only in a limited number of cases, in particular in the agricultural sector. The system was intended to be an introductory stage towards full liberalization of items subjected to it.

21. A member said that he had observed in the basic document that the Central Agency had delegated its licensing authority to certain boards for the importation of many agricultural and horticultural products. Since these boards seemed to be largely composed of members whose interests would be concerned at competition from abroad he enquired whether the government representative on the boards was responsible for the interests of importers and consumers? The representative of the Netherlands replied that the boards acted under the instructions of the Central Agency and their recommendations were not necessarily accepted. He assured the Committee that both the interests of consumers and importers were safeguarded.


23. In view of the reference in the results of the 1956 Fund consultations to the effect that the Fund attached particular importance to the intention of the Netherlands Government to continue its efforts to reduce and eventually eliminate its reliance on the use of bilateral arrangements, the representative of the United States sought information on the extent to which the need for having recourse to such practices was diminishing and in particular an indication of when it was expected that such arrangements with OEEC countries would be terminated. The representative of the Netherlands pointed out that bilateral arrangements were confined to the non-dollar area and all possible measures were being taken in an endeavour to resume trade on a multilateral basis. In the light of the reply received, the United States representative then enquired whether liberalization of products now restricted, but subject to bilateral arrangements, would be delayed until the problem of reliance on bilateral arrangements was eventually solved. The representative of the Netherlands assured the representative of the United States that there was nothing in the system of bilateral arrangements which would postpone full liberalization.
Effects on Trade

24. The Netherlands representative took note of an observation made by a member that it would be particularly useful for trade interests to have published information on the licensing treatment afforded to individual items. He said that the Netherlands Government could investigate into the matter, and that where such information was inadequate the Netherlands authorities would endeavour to improve publicity as far as possible.

25. A member referred to the incidental protective effects of the remaining restrictions maintained for balance-of-payments reasons and enquired whether the Netherlands Government envisaged any specific problems regarding their ultimate removal when the balance-of-payments problem ceased to exist. Furthermore, if such problems were foreseen information was sought on the measures the Netherlands Government would propose to contend with them within the framework of the General Agreement. The representative of the Netherlands replied that the elimination of all balance-of-payment import controls at the present stage might create some problems, the seriousness of which, however, would be difficult to determine at this stage. Nevertheless, the full liberalization of import trade remained the stated objective of the policy of the Netherlands Government. In the present circumstances, it would be difficult to determine whether the problems mentioned above would still exist at the time when it should become possible definitively to overcome the balance-of-payments difficulties, but he assured the Committee that the policy of the Netherlands Government was certainly to act in full conformity with the provisions of the General Agreement and in the long term would undoubtedly be prepared to eliminate all those restrictions that did not conform with those provisions.

26. In their concluding remarks several members thanked the Netherlands representative warmly for the manner in which he had responded to questions put to him. These members said they looked forward to the time when the Netherlands' balance-of-payments position would be such that the Netherlands Government would not need to have further resort to Article XII.
VII. REPORT ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH AUSTRIA

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Austria under paragraph 4(b) of Article XII.

2. The Committee had before it:

   (a) a basic document prepared by the secretariat in collaboration with the Austrian authorities describing the system and methods of the balance-of-payments import restrictions in operation in Austria. The document also contains a statement under Part II - "Effects on Trade", submitted by the Austrian authorities;

   (b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 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 most recent consultation with Austria concluded on 12 October 1956. The results of the Fund's consultation with Austria are reproduced in document QRC/4.1

5. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund documentation with respect to the position of Austria. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Austria which was concluded on October 12, 1956. The Fund's 1957 consultation with Austria has not yet been completed, although it is anticipated that it will be concluded shortly.

1 See Appendix
"As some time has elapsed since the conclusion of its last consultation with Austria, the Fund has also provided a supplementary paper on Austria dated May 3, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the 1956 consultation, and the results of the 1956 consultation have been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, pending the conclusion of its 1957 consultation with Austria, the Fund sees no reason to alter the appraisal of the situation contained in the results of its 1956 consultation which have been transmitted to the CONTRACTING PARTIES.

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

Opening statement by the representative of Austria

6. Recent years had witnessed a substantial strengthening of the basic structure of the Austrian economy which had now become even more viable than that which existed before 1938. A rapid increase in economic activity had been taking place and employment, subject to rather sharp fluctuations, was at present satisfactory. In spite of the difficulties created by events in Hungary and the economic repercussions of the Suez crisis, inflation had been kept under control. On current account the balance of payments had shown a surplus in 1956, compared with a deficit in the previous year, and had thereby contributed to a rise in the monetary reserves of the National Bank. On first examination, it might appear surprising that, in spite of these favourable developments, Austria maintained vis-à-vis the United States and Canada a level of liberalization which amounted to only 40 per cent of private trade in 1953, compared with a corresponding average percentage for the dollar liberalization of OEEC countries as a whole of 61 per cent. However, the balance-of-payments situation could not fully and accurately be assessed without examining the economic facts on which the favourable developments were based.

7. The balance of payments deficit, which amounted to $53 million in 1955, was converted into a surplus of $52 million in 1956. This reversal was accounted for mainly by the proceeds of loans from the International Bank for Reconstruction and Development ($25 million) and from United States agricultural surplus credits ($22 million). Thus the balance of payments was not in surplus, but merely in equilibrium. This was undoubtedly satisfactory, but it had to be considered whether this situation was due to permanent rather than to unstable and non-recurrent factors.
8. In spite of a good harvest the trade deficit was still considerable in 1956, and totalled about 3 billion Austrian schillings. Excluding tourism, the deficit on services account was 203 million schillings. The equilibrium of the balance of payments could only be attained thanks to the tourist revenues, which exceeded 3 billion schillings. As for the current year the National Bank had forecast a trade deficit including deliveries to the USSR under the State Treaty of $162 million and a surplus on service account including tourism of $118 million. With net capital inflow the balance of payments would again be in equilibrium. Results so far achieved, however, were not very encouraging, and during the first four months of 1957 there had been a trade deficit of $67 million as against only $43 million in the equivalent period of the previous year. The Austrian representative therefore entertained doubts whether the expectations of the National Bank were not rather too optimistic.

9. Experience of the past few years lead to the following general conclusions: the trade balance would remain passive because of the structure of Austrian foreign trade and because of the compensation deliveries in the form of unrequited exports which had to be made to the USSR in accordance with the State Treaty and which would for six years amount to 1.1 billion schillings and for four years thereafter to about 500 million schillings. The capital balance would show a deficit owing to an increasing burden from the servicing of foreign debts. The invisibles balance, without tourism, which showed a deficit in the past would be equilibrated at the best. Thus tourism would be the only important factor which might bring about an equilibrium in the global balance of payments. But incomes from tourism were of a special, rather uncertain, nature, and depended on the international political situation, weather conditions and the like. Taking this projection into account the Austrian representative concluded that although particular concern did not seem justified at the time, the balance-of-payments position would, in future years, remain precarious and would dictate the need for a cautious commercial policy and a progressive relaxation of restrictions in order to avoid being forced to rescind liberalization measures.

10. Efforts in the field of liberalization of trade had to be judged in the light of certain factors, which, although connected with balance-of-payments difficulties, were of a rather particular character. Since 1918, the Austrian economy had undergone three major structural modifications; after the second world war Austria had lost a great part of its markets in Eastern Europe which, before 1938 accounted for about 33 per cent of total trade. Austria was considered up to 1952 as a structural debtor of EPU. It was only two years ago that this country had recovered her full political and economic sovereignty. These facts were enumerated not in order to plead for extenuating circumstances but in order to show that Austria had to make special efforts, in order to make up for lost time and to get in line with the more advanced countries. In spite of a later start with the reconstruction programme, and notwithstanding the political, economic and psychological difficulties which arose from a quick increase of liberalization, Austria had liberalized imports from OEEC countries to the extent of 90.3 per cent of private imports.
11. Parallel steps to free trade on a world level and with the United States and Canada, hampered by the inconvertibility of currencies, had been taken within the limitations imposed by the balance-of-payments position. The External Trade Law which came into force on 1 December 1956, had further increased the liberalization of trade, vis-a-vis the rest of the world to about 27 per cent. On 15 October 1956, the free list of imports from the United States and Canada had been extended and the percentage of liberalization raised to 40 per cent of private imports from these two countries in 1953.

This level of liberalization, while appearing low at first sight, nevertheless compared favourably with that achieved by other countries in a far better economic position than Austria. Raw materials and manufactured goods were liberalized to levels of 88.1 and 86.8 per cent respectively. In the food and feedingstuffs sector, however, liberalization was only 4.5 per cent. This low percentage did not reflect a more protectionist policy than that followed by other countries, but resulted from the maintenance of import controls on wheat and maize which were mostly under State-trading in numerous other countries. These two items accounted for approximately 20 per cent and 23 per cent of total imports from the United States and Canada in 1953. The 40 per cent overall liberalization did not indicate therefore the real progress that had been made with the removal of quantitative restrictions. For motives of internal and external policy, it was unfortunately not possible to free these two items.

As Austrian farms were mostly of a small size, and did not as a rule permit the extensive use of machinery, productivity could not easily be improved. On the other hand the maintenance of price stability was of paramount concern to farmers and consumers alike. The freeing of imports of maize constituted a special problem as it might result in an overproduction of pigs, which in its turn would lead to an excessive fall in meat and other agricultural prices, and disrupt the whole agricultural economy. As far as commercial policy was concerned a liberalization of imports of wheat and maize would hamper the sales of agricultural products of some of Austria's Eastern European trading partners, and thereby adversely affect Austrian industrial exports to these countries.

12. The representative of Austria then announced that in accordance with the policy of progressive trade liberalization a new dollar free list containing about 400 tariff items and parts thereof—among which oilseeds, spelt, canned fruit, cheese and liquors—would in the near future be submitted to the Council of Ministers. This additional list could be expected to come into force on 15 July 1957 or shortly thereafter. (A copy of this list will be appended to this report as soon as this list is available.)

13. In the field of imports still subject to quantitative controls, his Government had followed a very liberal licensing policy. Notwithstanding the high liberalization level, vis-a-vis OEEC countries, imports from North America had, since 1954, expanded much more rapidly. The share of that area in total Austrian imports had increased from 10 per cent in 1954 to 12 per cent in 1955 and 14 per cent in 1955. The trade deficit with North America had, in the meantime, risen from $33 million in 1954, to $66 million in 1955 and $84 million in 1956, and in the four first months of the current year, it had reached $38 million with the United States alone. Although increased
purchase of raw materials were admittedly playing a large rôle, imports
of other commodities had also expanded considerably. These increasing
trade deficits gave rise to apprehension since it seemed difficult to keep
them within limits which would not endanger the equilibrium of the overall
balance of payments, this all the more because of the lack of convertibility
with surpluses in other directions. The structure of the Austrian industry,
with the prevalence of medium and small-size enterprises, and a wide range
of export commodities, rendered marketing in North America particularly
difficult. To that must be added the disadvantageous geographic location
of Austria and consequential increased shipping costs. There was also a
deficit on service account with the United States and Canada which was
mainly due to the fact that the percentage of North American tourists
visiting Austria was still relatively low.

14. It seemed necessary to mention some factors of internal policy which
influenced the balance of payments and commercial policy. As the Austrian
economy was, in a large measure, dependent on foreign trade, and would become
increasingly so should the projected free trade area come into being, her
competitive strength in world markets would remain a primary concern. In
a number of fields, Austrian production was not yet in a position to face
international competition, owing to economic consequences of political events
in the past few decades and to the necessity to integrate the Eastern zone of
the country in the national economy. This process of assimilation was taking
the form of rationalization and conversion of industries which involved
considerable investments, which, on account of the narrowness of the domestic
capital market, was a very difficult financial problem. Investment was,
for example, necessary in the oil industry, where production was declining
owing to the exhaustion of fields actually under exploitation. New prospecting
would involve considerable expenditure. These investment programmes would
unfavourably influence the balance of payments, as a high proportion of
machinery would have to be imported from abroad.

15. The Austrian representative concluded by saying that his Government
would pursue its liberalization programme with caution, in order to avoid a
deterioration in the balance of payments. The straightforward elimination
of all quantitative restrictions would upset the present equilibrium and
disturb the further development of the economy. In view of the late commence­
ment of the reconstruction of the Austrian economy compared with other Western
European countries it was clear that no excessive caution had been exercised
hitherto; Austria had liberalized rapidly and its liberalization percentage
vis-à-vis CEEC countries was already 90.3. In the issue of licences as well
as in the negotiation of bilateral agreements, interests of third countries
had been taken into account. His Government hoped to be in a position to
abolish all quantitative restrictions in the not too distant future, as soon
as economic conditions would allow it, but could not outline a time-table for
such measures. Any trade partner experiencing difficulties in its trade with
Austria would be most welcome to approach his Government on a bilateral basis
with a view to discussing any problems that might have arisen. As in the past Austria would pursue her policy of harmonising further liberalisation with the progressive stabilization of the balance of payments, while avoiding a dislocation of the structure of the economy, which was still in the process of development.

16. Several members of the Committee thanked the representative of Austria for his informative statement, which had focused attention on the difficulties with which the Austrian Government was confronted and had shed considerable light on some particular aspects of its balance-of-payments difficulties. It was particularly gratifying to note that in the previous years difficulties had been dealt with largely by internal measures of monetary and fiscal policy. They helped to bring about an increase in Austria's monetary reserves since at least 1952. They expressed the hope that further improvements in the financial situation and the continued stability of the Austrian economy would permit the progressive removal of quantitative restrictions and in this connexion the announced measures of further dollar liberalisation were particularly welcome. At the same time they expressed some surprise at the rather pessimistic analysis of the Austrian representative. Austria had a reserve position which compared favourably with that of a number of countries with which consultations had been held. Equilibrium in the balance of payments had been achieved but Austria had not gone as far as a number of European countries in removing restrictions and discrimination. They urged that further progress should be made.

17. The representative of France thought that it was a wise policy to exercise caution in matters of trade liberalization. The experience of his Government showed that balance-of-payments positions could be reversed extremely rapidly.

Balance-of-Payments Situation and Prospects

18. One representative enquired about the reasons for expecting a less favourable balance-of-payments situation in 1957. Did not the developments which had been outlined in the introductory statement and in particular the increase in foreign exchange reserves permit the Austrian Government to approach the future with confidence? Even if receipts from foreign capital were not of the same nature as those accruing from current transactions they were still an important element contributing to an improved reserve position. As for exchange income from tourism, Austria could certainly expect to benefit from the current expansionary trends in this industry. The Austrian representative replied that on the basis of the first four months of 1957 estimates made by the Austrian National Bank seemed somewhat optimistic. The forecast for the deficit on goods account of $117 million (deliveries to the USSR excluded) was likely to be too optimistic, since in the first four months of the current year the deficit already amounted to $67 million i.e. an annual rate of $201 million, there might however be certain seasonal influences. The National Bank had anticipated an increase in foreign exchange earnings from tourism of somewhat more than 25 per cent. At this stage such estimates seemed
in any case not too cautious. He further indicated that while reserves had risen in absolute terms, when compared with the present rate of imports, they had in fact declined since the current level represented only 4.8 months of imports instead of 6 to 7 months which had been the case previously.

19. In reply to a question concerning the reasons for the rather marked fluctuations in the balance of payments, the Austrian representative explained that from 1946 to 1952/53 the reconstruction process resulted in a high level of imports while exports were very low. The considerable deficit incurred in that period was met by an extension of the drawing rights in the EPU mechanism and by borrowing from other sources. From 1952 onwards the balance of payments was nearly equilibrated and exports expanded rapidly thereby facilitating the task of stabilizing the Austrian currency. As a result of the improved competitive position of Austrian products on world markets a surplus was achieved with the EPU area and the EPU quota for Austria was increased. Partly as a consequence of the monetary expansion resulting from a high level of exports, inflationary pressures again developed which, with the further increase in investments and extremely rapid economic development, led to a deficit vis-à-vis the EPU area. Stocks of merchandise were run down to a considerable extent so that the commercial deficit did not in fact reflect the real underlying imbalance. The situation was reversed by the adoption of credit controls and a reduction in Government expenditure. In 1955/56 new inflationary pressures of a milder nature appeared which were for a part caused by budgetary deficits. By the end of 1956, however, inflation had almost been checked and with the adoption of cautious budgetary policies all dangers of excessive monetary expansion seemed to have been removed.

20. In response to a question, the Austrian representative indicated that the upward movement of prices and wages was a general phenomenon in many countries and was not limited to Austria. These inflationary pressures, which resulted partly from full employment, were perhaps stronger in Austria where, owing to the situation during the occupation of the country, price levels were not yet in full conformity with those of world markets. The Austrian authorities had been aware of these inflationary developments and had taken steps to cope with them. A "Price Wage Board" had been created to deal with demands for price and wage increases and the Ministry of Finance had concluded a Credit Control Agreement with the credit institutions to reinforce the disinflationary policy. Some decline in prices of imports had helped to restore stability.

21. When asked whether Austria had structural deficits in her trade with the EPU area, the Austrian representative explained that for several years Austria had incurred trade deficits with the EPU which, however, did not fully appear in the monthly settlement figures of the EPU. Indeed, bilateral settlements not handled by the agent were effected with sterling purchased for dollars. Rather than use the credit facilities of the EPU, his Government preferred to settle all deficits in gold or dollars. He estimated that the deficit on goods and service account thus settled was in the order of magnitude
22. Referring to the opening statement by the Austrian representative, one member of the Committee wished to know whether the increase in the trade deficit with the United States and Canada, which rose from $33 million in 1954 to $84 million in 1956, and the parallel expansion of imports from the OEEC countries and the sterling area, and the relative stability of trade with other countries were in some way the result of import policies followed by the Government. The Austrian representative replied that the Austrian trade policy was based entirely on commercial considerations. His Government wished to expand trade with all countries, because that was the way to maximise benefits from international division of labour and to reduce risks connected with excessive reliance on a few trade partners. Stagnation of trade with Eastern Europe and Latin America was due to the limited export possibilities of these countries, and to unsatisfactory payments systems. In regard to trade with Latin America progress had recently been achieved by Austria's decision to become a member of the multilateral payments arrangements of the Paris and Hague Clubs. Settlements with Argentina and Brazil could henceforth be effected in transferable sterling or in other EPU currencies. A further payments arrangement with Uruguay allows settlement in EPU currencies. The multi-lateralization of payments would undoubtedly lead to an expansion of trade with these countries.

Internal Fiscal and Monetary Measures

23. Members of the Committee invited the Austrian representative to comment, in the light of Austria's experience in the past two years, on the relationships between its commercial policy and the internal economy. It was suggested that the liberalization measures should have contributed, through lessening pressures on prices and wages, to the effectiveness of the internal measures designed to maintain equilibrium. The Austrian representative replied that in general, the freer flow of imports had helped in maintaining price stability. On the other hand, liberalization had created difficulties for certain sectors of the industry, e.g. textile which had been obliged to change to some extent their programmes of production. In general the Austrian Government was aware of the value of liberalization measures, along with tariff reductions, as means to reduce internal prices and costs. A member of the Committee, referring to the statement of the Austrian representative concerning the continuing balance-of-payments difficulties in 1957, enquired whether the Austrian Government had analysed the effects of the internal fiscal and financial measures recently taken, on its balance of payments. In his view the lowering of costs should have a beneficial effect on exports and the lessening of pressures on demand.
for imports should equally contribute to an improvement in the balance of payments. The Austrian representative stated that his Government had not yet analysed in detail the trade and economic figures for the first months of 1957. It would appear that the tendency which had become noticeable in 1956 for imports to be concentrated on consumer goods rather than capital goods had been going on to some degree. It would be premature, however, to draw conclusions from the preliminary figures for the first months of 1957.

24. In answer to an enquiry about the movement of wages in relation to productivity, the Austrian representative observed that although desirability of relating wages closely to productivity was generally recognized, it was an aim difficult to attain in practice; any increases in wages granted in one industry on account of a rise in productivity would be followed by claims for similar increases in other industries.

25. Members of the Committee welcomed the internal fiscal and monetary measures taken in Austria in the past two years and expressed the hope that these would contribute further to economic progress with stability and to the easing of Austria's balance-of-payments difficulties.

System and Methods of Restriction

26. The Committee discussed the system and methods of the restrictions applied in Austria as described in the basic document prepared by the secretariat. In the course of the discussions the Austrian representative clarified certain ambiguities and supplied supplementary information. In answer to a question as to the competence and functions of the Advisory Council in the Federal Ministry for Trade and Reconstruction, the Austrian representative stated that the Council had no competence in matters of liberalization such as might be suggested by the statement in the basic document that "all matters of principle relating to foreign trade .... must be brought before the Council". The functions of the Committee were limited to considering certain types of transactions such as compensation arrangements and licensing of imports over and above established quotas. Import policy relating to liberalization etc. was considered by an Inter-ministerial Committee.

27. A member of the Committee noted that in addition to the Agency of the Federal Ministry for Trade and Reconstruction, several other ministries and offices were empowered to issue import licences. He wondered whether in view of the fact that these bodies were generally more competent in matters relating to domestic production and would be less concerned with the balance-of-payments situation, undue emphasis would not be given to the interests of domestic producers as against those of importers and consumers. The Austrian representative replied that these licensing authorities, though each was competent in its special field, were expected to act in the general interest of the nation rather than that of a special sector of the economy. The Austrian Administration was compact enough to ensure adequate co-ordination,
and any problems that might arise could always be easily solved by inter-
ministerial consultation. The distribution of authority among different 
ministries should therefore not give rise to the fear that protectionist 
considerations would dominate in the administration of import policy. 
Referring to the statement in the basic document that "Every importer is 
entitled to file applications which must be treated according to uniform 
criteria", a member of the Committee enquired whether these criteria related 
to domestic production. The Austrian representative replied that, as was 
more accurately reflected in the French text of the basic document, the 
statement was merely intended to indicate that no differential treatment 
was accorded to different importers.

28. Representatives from the dollar area pointed out that no exchange 
permit was required for imports from OEEC countries, whereas in the case of 
imports from the dollar area an importer must obtain an exchange licence in 
addition to an import licence. They expressed concern about this differential 
treatment and expressed the hope that the Austrian Government might dispense 
with this additional formality which might have some discriminatory effects. 
In reply, the Austrian representative assured the Committee that the exchange 
permit requirement was a mere formality designed to facilitate statistical 
control of dollar payments. In the present payment circumstances it was still 
necessary to ensure that dollar payments were not made for imports originating 
in non-dollar countries. Exchange licences were issued automatically and should 
therefore have no restrictive effects on trade from the dollar area. The 
Austrian delegation would, however, be prepared to bring the views expressed 
at the Committee on this point to the attention of the competent Austrian 
authorities.

29. A member of the Committee commented on the general system of import 
control in Austria which involved licensing functions distributed among 
several ministries and an advisory council with a large membership, and 
expressed concern about the complexity of this administrative system. It 
was felt that some simplification of the system would be beneficial to the 
trade interests. The Austrian representative stated that the apparently 
complicated system had been considered necessary in the light of internal 
circumstances. He would assure the Committee that it involved no undue 
delay in the consideration of licence applications, which in all cases were 
decided upon within three weeks.

Treatment of Imports from different Sources

30. The representative of Australia noted that different import régimes 
applied to OEEC countries and other countries in the EPU area and expressed 
the hope that the Austrian Government might find it possible in the near 
future to extend the treatment now accorded to the former to countries in 
the latter category. The Austrian representative replied that although 
there would be no difficulty in extending OEEC treatment to certain countries in
the EPU area outside Europe there were difficulties in doing so in respect of certain other countries. The representatives of Australia and Austria agreed that on this point there were no specific problems which they wished to pursue at present and that they would engage in bilateral discussions should the issue arise.

31. The basic document stated (on page 11) that "Commodities which are licensed free under the External Trade Law must be treated in accordance with that law even though they are specified in the OEEC negative list". A member of the Committee wished to know whether this involved discrimination against OEEC countries. The representative of Austria stated that there were only one or two commodities which fell within this exceptional category and that even in these cases the additional requirement related only to the allocation of currency.

32. It was noted by members of the Committee that the bilateral commitments entered into by Austria, as described in the basic documents, might involve undue discrimination against other countries, and the Austrian representative was invited to comment on the effects of such arrangements and the scope of the trade covered. Specifically, a representative wished to know whether goods covered by bilateral agreements could equally be licensed for importation from other countries. The Austrian representative replied that in principle, as noted in the basic document, it was irrelevant to the consideration of a licence application from what country an import should be made. The licensing of imports was generally guided by commercial considerations. Even though quotas for a given commodity were provided in bilateral agreements, imports from other sources could always be made if supplies from such sources should prove more advantageous. Imports from countries with which Austria had concluded bilateral trade agreements would be preferred in cases where the supply conditions were equal. Furthermore, in general, the total of bilateral quotas did not cover the import needs of Austria so that there was enough leeway to take into consideration export interests of countries with which no quota agreements existed.

33. A member of the Committee pointed to the rather high percentage of imports under trade agreements, and wondered why more use was not made of other régimes such as global quotas. The Austrian representative said that the system of bilateral quotas had been proved useful so far and Austria, at the present time, saw no necessity to replace it by global quotas. However, the introduction of global quotas for certain agricultural products was under study. Other members of the Committee thought that global quotas, especially if in the sense of quotas applying to imports from all sources, were a useful way to reduce unnecessary damage to exporting countries. The Austrian representative replied that the methods used in restricting imports were under constant review. Although he could give no commitment as to the use of any specific technique, he would undertake to bring the views expressed at the Committee on this point to the attention of his Government. Certain members of the Committee emphasized that to derive the full benefit of any such improvement, global quotas must be really "global", in the sense of applying to all countries of the world.
Restrictions on agricultural Products

34. The basic document mentions (on page 6) "special systems" of control and regulation applying to agricultural products and notes (on page 7) that in fixing prices for import milk and dairy products, account was taken of domestic production. Referring to this, a member of the Committee requested the Austrian delegation to supply some statistics to indicate the proportion of imports and local production in relation to total consumption, and asked whether import duties were included in the calculation of import prices. Further, it was asked what were the internal market conditions to be fulfilled and how licences were distributed among the sources of supply. The Austrian representative replied that for many of these products, actually no import duty was levied. The Ministry of Finance had suspended among others the tax on butter, lard and meat, and had the power to reduce the duty on cheese. The equalization tax had been applied so far only to pig imports from Eastern European countries. This system of equalization tax had been provided in order to stabilize prices and to overcome certain difficulties met in agricultural production in Austria, partly because of the high costs prevailing in domestic production, but principally because of the policies of subsidizing agricultural production and exports in other countries. As to the question of distribution of imports among different sources of supply, the Austrian representative referred to the statement in the basic document to the effect that imports were directed exclusively by commercial considerations.

Effects of the Restrictions

35. The Austrian representative was invited to supply information on the rôle played by price considerations in the licensing of imports where imported goods were available on terms competitive with those of domestic goods. In reply the Austrian representative referred to the statement in Part II of the basic document that "quantitative restrictions applied in Austria have the purpose to protect the balance of payments and partly also to protect certain productions. For the time being, this protection seems necessary with regard to the economic development of Austria as well as for geographical, social and other reasons ...". The policy of the Government was to provide certain incentive to particular domestic industries which were considered to deserve development. In such cases, licences might be refused in order to provide the desired advantage. Applications for licences in such cases were considered on their individual merits, and there were no definite criteria as to the price margin between imported and local products.

36. A member of the Committee referred to the statement made in the basic document that the Austrian Government were considering invoking the Decision taken by the CONTRACTING PARTIES on 5 March 1955, with respect to those restrictions which were being maintained partly for protective reasons, and asked if any indication could be given as to whether any such action would relate to most of the items in the negative list or whether further liberalization could be expected to remove from that list items in respect of which quantitative
restrictions were now being applied for balance-of-payments reasons. The Austrian representative observed that protectionism in Austria was closely linked to the internal economic policy, which covered, among other things, the integration of the eastern territory of the country; industries recovered after the evacuation required reorganization and development, and the task of rationalization of production was still being examined by the Government. The general situation, after two years of examination, was not yet clear enough to the Government and it was difficult at this stage to indicate which items could be liberalized and which items would require "hard core" treatment in the context of the General Agreement.

37. A member of the Committee expressed the opinion that the tariff negotiations held in 1956 had brought out the fact that the elimination of quantitative restrictions on imports in Austria had been accompanied by increases in customs tariffs, in some cases to prohibitive rates. The Austrian representative was invited to comment on this in the light of the statement in Part II of the basic document concerning the establishment of a new customs tariff. The Austrian representative stated that there was no direct link between the quantitative restrictions and the new tariff, which was at any rate not yet in force. The work on the new tariff had been started some years ago when the obligations undertaken by Austria with regard to quantitative restrictions had not been as they were today. The modern nomenclature contains a number of items not existing in the present tariff, which had been adopted more than thirty years ago and had now become obsolete. The general purpose of the new tariff was to ensure stability for the Austrian economy.

38. Commenting on the licensing policy in relation to the domestic economy, members of the Committee stressed the desirability of admitting imports as freely as possible when this would have the effect of reducing internal costs and ensuring price stability. Insofar as permitted by the balance-of-payments situation, it would be in the interest of both Austria itself and other contracting parties if due consideration were given to price margins between foreign and domestic products, so as to avoid high costs of production.

39. At the request of the Committee, the Austrian representative described in detail the EPU payments mechanism and explained that Austria was not interested in availing itself of the credit facilities provided in EPU, amounting only to 25 per cent of the monthly deficit while 75 per cent had to be settled in any case in gold or dollars; such credit was of a short-term nature and involved the payment of interest, and was therefore of little value to Austria in present circumstances. Consequently, it has been the recent practice of Austria to purchase EPU currencies with gold or convertible currencies for settlement in EPU. This practice could therefore not be interpreted as a step towards convertibility of the Austrian currency. Members of the Committee remarked that in these circumstances, the Austrian Government should find little advantage to be gained from the payments point of view in discriminating against imports from the dollar area. It was to be hoped that the remaining discrimination would be reduced and eventually removed and that
the items now subject to discriminatory restrictions would figure in the new liberalization list to be announced in the near future. The Austrian representative said that his delegation took due note of these views which, however, were in general agreement with the policy being pursued by his Government.

40. The United States representative stated that producers and exporters in his country were concerned about the lack of liberalization on products on which Austria had granted concessions in the tariff negotiations held under the aegis of GATT, and about the difference in treatment of imports of dollar and non-dollar origin, especially in the agricultural sector. Concern was also expressed about the protective effects of the restrictions as mentioned by the Austrian representative. The United States delegation would wish to discuss with the Austrian delegation problems relating to specific items. The United States Government was fully aware of the difficult problems faced by Austria but would hope that further improvements of the balance-of-payments situation would enable further reductions in restrictions and in the degree of discrimination. The United States representative noted further that the internal difficulties mentioned by the Austrian representative were important for the CONTRACTING PARTIES in their implications for the General Agreement. He thought that it would be in the interest of all concerned if the Austrian Government would endeavour to find solutions to these difficulties so that when the balance-of-payments position permitted import restrictions could be removed progressively. The continued use of quantitative restrictions should be avoided since such restrictions, if applied for long periods, generally created areas of domestic protection and thus had a tendency to become permanent. The Canadian representative associated his delegation with these remarks and added that dollar liberalization might not in itself lead to a net increase in imports as seemed to be suggested on page 12 of the basic document.

41. In their concluding remarks members of the Committee expressed their appreciation to the delegation of Austria for the frankness and co-operation they had shown during the discussions. The exchange of views that had taken place had enabled the Committee to gain a greater insight into the measures taken by the Austrian Government in the field of quantitative restrictions and their future balance-of-payments prospects.
VIII. REPORT ON THE CONSULTATION UNDER ARTICLE XII.4(b) WITH THE

FEDERAL REPUBLIC OF GERMANY

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with the Federal Republic of Germany under paragraph 4(b) of Article XII.

2. The Committee had before it:

(a) a basic document prepared by the secretariat in collaboration with the German authorities describing the system and methods of the balance-of-payments import restrictions in operation in the Federal Republic. The document also contains a statement under Part II - "Effects on Trade", submitted by the German authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. The present report summarizes the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with the Federal Republic of Germany.

5. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultation with the Federal Republic of Germany concluded on 11 June 1957. The results of the Fund's consultation with the Federal Republic are reproduced in document QRC/4/Add.2.1

6. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of the Federal Republic. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with the Federal Republic of Germany which was concluded on June 11, 1957. This documentation has been distributed to the members of this Committee.

1 See Appendix
"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with the Federal Republic of Germany under Article XIV of the Fund Agreement, and particularly to paragraph 4, and to paragraph 5 which reads as follows:

'5. The Fund believes that Germany's efforts to maintain internal price stability would be strengthened and balanced growth of international trade would be facilitated by the dismantling of its restrictions. The Fund welcomes the measures taken by Germany to relax restrictions and reduce discrimination, including the reliance on bilateral arrangements. The Fund considers that restrictions on imports are no longer necessary in order to safeguard Germany's monetary reserves and balance of payments. The Fund urges Germany to eliminate its remaining restrictions and discrimination, other than prescription of currency, as soon as possible."

Opening statement by the representative of the Federal Republic of Germany

7. In opening the discussion the German representative described the overall development of the restrictions on imports in the past, which in his view showed that the facts set out in the basic document prepared by the secretariat did not reflect a static situation, but rather a phase of a dynamic development which he believed had already come rather near the objectives of the General Agreement and would come even nearer to them.

8. As a member of the OEEC, the Federal Republic had already begun to eliminate quantitative import restrictions in 1948. Owing to the balance-of-payments crisis at the beginning of 1951, all measures taken up to that time had to be suspended. After this balance-of-payments crisis had been overcome, the Federal Government resumed its policy of removing quantitative restrictions, always taking care to avoid, as far as possible, any new regress. On 8 January 1952, imports from the member countries of the OEEC were liberalized to the extent of 56.8 per cent of private imports in 1949. Several further liberalization measures raised this percentage to 92.6 per cent of private imports, or to 86.2 per cent of total imports in the year of reference.

9. The progressive improvement of the balance of payments rendered it possible to extend the liberalization policy also beyond the OEEC area. In the spring of 1952, free lists for imports from OEEC non-member countries settling payments through the EPU were put into force. These free lists, except for a few negative items, were able to be harmonized with the OEEC free list in March 1954. For countries with which the Federal Republic had concluded clearing agreements, quantitative restrictions were de facto likewise removed, beginning in May 1952, with the special system of "Open Licences"; in November 1952, a free list was for the first time put into force for imports from Spain.
10. A new decisive step was the putting into force on 17 February 1954 of the first dollar free list. The Federal Government had since that time continued gradually to relax quantitative restrictions on dollar imports and had, in four further stages, increased dollar liberalization to approximately 93.4 per cent, on 24 May 1957 (computed on the basis of private imports in 1953). This policy of progressive and gradual dollar liberalization had stood the test and experience had shown that it was justified. It had not only left sufficient time for the economy to adapt itself to changed conditions, but had also prevented the liberalization measures from having prejudicial effects on dollar reserves, on domestic production and on imports from other partner countries. Furthermore, imports from the dollar area had been progressively allowed to compete on the German market and trade with that part of the world had increased steadily. This favourable experience, which had recently also been recognized by the OEEC Working Party No. 6 on dollar liberalization measures, had reinforced the intention of the Federal Government to carry on the policy it had followed hitherto.

11. The representative of the Federal Republic then said that the short survey he had made had shown the permanent progress of German liberalization measures. The procedure which had been applied was merely empirical, and could not prevent certain discriminatory effects, but it had the advantage of permitting full utilization of the regionally and individually existing possibilities of liberalization.

12. With the measures carried through in May 1957, the Federal Government had initiated a new phase in its liberalization policy. The so-called harmonization of the free lists aimed at gradually putting the present liberalization measures on a uniform and worldwide basis, in accordance with the provisions of the General Agreement and the Articles of the International Monetary Fund. In this action his Government was guided by two principles: (1) The desired harmonization should, as far as possible, not be accompanied by regressions in the present degree of liberalization of imports from certain areas and countries, but should rather (2) from the outset, lead to an extension of the existing measures. In accordance with the new policy, with effect from 4 May 1957, a uniform import free-list had been established for the countries of the partly convertible currency area as a whole (specified in the footnotes on page 4 of the basic document) and considerably extended as compared with the free list hitherto in force; concurrently with this measures, the dollar free list had been extended by the inclusion of some 500 new items.

13. Apart from the extension of the liberalization measures, the first result of the new policy was a unification of the free-lists and, thus a clear division into three import areas. The three free-lists currently in force had been established in accordance with this geographical division, i.e. the OEEC negative items were automatically non-liberalized also vis-à-vis the other countries of the partly convertible currency area and vis-à-vis the dollar area, and, vice versa, there was no commodity liberalized vis-à-vis the dollar area which was not liberalized also under List I and List II. The representative of the Federal Republic stressed the fact that it was and would remain the basic aim of his Government to remove at the earliest possible date the difference which still existed between the three free-lists and to grant all trade partners a uniform treatment by the application of one free-list of worldwide validity.
14. Concerning the non-liberalized commodity sector, as far as the Federal Government had agreed upon bilateral quotas with its trade partners, the quotas were generally considered only as minimum quotas and treated as such in practice. In many cases also the establishment of bilateral quotas corresponded to the wishes of these trade partners themselves. The licensing authorities had been directed automatically to admit the quota limits to be exceeded by 15 per cent. Even beyond that level, licences were granted in the most liberal way in accordance with the situation of the market, so that licensing quite often considerably exceeded the agreed quotas. This could be demonstrated in detail by many practical examples. For commodities for which no general import possibilities had been established, interested importers had the right to apply for licences. In such cases, simplified licensing procedures applied to import applications of a value not exceeding DM 10,000.

15. A particular procedure had recently been adopted for imports of non-liberalized commodities from the dollar area. Global import possibilities were being established from time to time for entire groups of commodities, in order to ascertain real import needs and thus gain experience for further liberalization. The practical results so far obtained by this procedure had led the Federal Government to consider the possibility of proceeding in a similar way in the future as regards imports from non-dollar countries. There was no doubt that such global quotas applying without limitation to all countries of the same currency area offered certain advantages not only because of the simplification involved for the administration but mainly because of the elimination of certain restrictions inherent in any bilateral quota system. The establishment of global quotas might be considered a suitable stage of transition to full liberalization and their application could be extended.

16. In concluding, the representative of the Federal Republic wished to repeat that his Government considered the reduction of quantitative restrictions and the full re-establishment of freedom in trade and payments to be a basic and lasting aim of its foreign trade policy, and would attach a fundamental importance to the principles of GATT and to the recommendation of the International Monetary Fund.

General Discussion

17. The representative of Canada stated that his Government regarded the consultations with the Federal Republic as a matter of very high importance. From a bilateral point of view, Canada was concerned by the existing situation. The Federal Republic had become Canada's third largest export market where it traditionally, and also in the recent past, sold substantial quantities of agricultural products and a wide variety of industrial products. His Government was perturbed by the fact that two-thirds of Canadian exports to the Federal Republic were still under control of one sort or another; it could not accept such a situation with equanimity. On the multilateral plane, these consultations had a considerable significance because the work of GATT and the relations between GATT and the Fund were at stake. The issue before the Committee was a test case, in much more than a formal sense of the term.
In the course of the previous fortnight consultations within the agreed framework had taken place with seven countries still maintaining restrictions to safeguard their balance of payments under Article XII of the Agreement. In the opinion of the Canadian representative, it had to be recognized at the outset that the consultation with the Federal Republic must, by its nature, be somewhat different from that with the other contracting parties which had so far been examined. For the position of the Federal Republic was unique amongst the countries which had until then been maintaining restrictions for balance-of-payments reasons.

One could not but be impressed with the very remarkable progress which the Federal Republic had made in recent years. There had been a steady and progressive growth of production under conditions of relative price stability. In the past two years the Gross National Product had expanded by not less than 18 per cent in real terms. On the external side, both exports and imports had shown a continuous expansion and the Federal Republic had been running a surplus on trading account, which in the previous year amounted to some $700 million. It was true that in 1956 there had been a considerable trade deficit with the dollar area but according to the paper prepared by the IMF a good part of the rise in dollar imports could be attributed to the fact that many dollar goods previously purchased through third countries were bought directly during this period. Furthermore, supplies from the dollar area proved to be cheaper or more easily available, as was for example the case with coal, scrap iron and, after the Suez crisis, oil. Actually taking all current transactions in dollars into account there had apparently been a rough payments balance during the year.

In considering the capacity of a country to do without restrictions, one had, of course, to look not only at the current payments position and outlook, which in the case of the Federal Republic was very favourable, but also at the adequacy of the central reserves. So far as Germany was concerned there had been a remarkable and continuous increase of gold and foreign exchange. By the end of 1956 German holdings had attained a level of about $4.3 billion, equivalent to about eight months' imports. In effect Germany had a stronger reserve position than any major trading country other than the United States.

In the circumstances one was inevitably led to the conclusion that there was no need for the Federal Republic to restrict the quantity or value of merchandise imported in order to safeguard its external financial position and balance of payments. So far as these consultations were concerned it was clear that the Federal Republic was not experiencing a very low level of monetary reserves and that no action was called for to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves. The Canadian representative quoted the sentence from the recent decision of the IMF reading as follows: "The Fund considers that restrictions on imports are no longer necessary in order to safeguard Germany's monetary reserves and balance of payments". Surely, he thought, members of the Committee would endorse this judgment and agree that the report on the consultation should leave no doubt on that question.
22. It was a matter of surprise and somewhat of regret that the German representative had not accepted this position unequivocally along with the clear implications for the immediate future. The review he had made of past relaxations of restrictions had been of considerable interest, and the liberalization of trade referred to had certainly contributed to the substantial rise in imports that had taken place. Unfortunately, regarding the future the opening statement had not been very encouraging. The German representative had spoken of modifications of existing arrangements, of harmonization of several free lists, of feeling the way forward in one direction or another. The Fund's decision had been referred to as a matter of fundamental importance but no suggestion had been made by the representative of the Federal Republic of its immediate relevance or of the new situation which it created.

23. The Canadian delegation expected that the Federal Government would proceed to remove its remaining restrictions on imports as soon as possible and would in so doing bring its position into conformity with the spirit of the General Agreement. It was appreciated that there were a number of problems which the Federal Republic would have to deal with in proceeding rapidly in that direction and which at an appropriate time it might wish to discuss with the CONTRACTING PARTIES. This Committee was exclusively concerned with Article XII and restrictions maintained under it.

24. The Canadian representative then suggested that the Committee, instead of following the four headings of the plan for consultations, as it had done in the case of other countries, should be concerned primarily if not solely with the first point, i.e. balance-of-payments position and prospects. Discussions under headings II, III and IV might confuse the issue. Indeed, the position was one which called for a general removal of quantitative restrictions.

25. The representative of the United States in the first instance expressed his appreciation to the delegate of the Federal Republic for his thoughtful and concise statement on the measures that have been taken by the German Government to eliminate quantitative restrictions. He then referred to the sentence of the decision of the IMF which read "The Fund considers that restrictions on imports are no longer necessary in order to safeguard Germany's monetary reserves and balance of payments" and pointed out that that decision formally recognized a new level of achievement in the economic progress of the Federal Republic. The growth of her economy and trade had been so notable that there was no need to repeat the details already mentioned by the delegate from Canada. His delegation extended their congratulations in the friendliest of terms of the people and the Government of the Federal Republic on their achievement.

26. The economic progress of the Federal Republic might be ascribed to a number of factors. Without minimizing the human and natural contributions to the expansion of production, productivity, and trade, the constructive policies of the German Government might also be cited as being of particular importance. The policy of providing a sound financial basis for the German economy appeared to have been a most significant element contributing to economic expansion. The encouragement of free enterprise internally and the establishment of a liberal trading regime externally had also been crucial.
27. The representative of the United States believed that a consideration deserving special emphasis was the international environment. The existence of the General Agreement on Tariffs and Trade and the Articles of Agreement of the IMF, and the principles of economic freedom and friendly international collaboration which they were designed to promote, had provided opportunities for the Federal Republic's development that would not otherwise have been available. In addition, the forward-looking policies of individual governments represented at the Consultation Committee should be recalled; policies which assuredly the Government of the Federal Republic would be the first to commend in analyzing the progress it had made.

28. In congratulating the Federal Republic he felt that at the same time recognition could be given to the contributions to German economic progress of the contracting parties to the General Agreement and of the other members of the community of friendly nations.

29. It was well known by members of the Committee that the Federal Republic had progressively achieved a high degree of trade liberalization and had substantially reduced its discrimination against the dollar area. The distance to be covered before the objective of full liberalization was reached might not appear great in conventional statistical terms but it was of real importance to the United States and to the CONTRACTING PARTIES in terms both of substance and of principle. A considerable number of items in the Federal Republic's import schedule, particularly agricultural products, but also many raw materials and manufactured articles, were of interest to the Federal Republic's trading partners over the world, yet remained unliberalized for any area or liberalized only for certain currency areas. Against this situation, the Committee had before it the indisputable facts of the Federal Republic's strong balance of payments and monetary reserves, both present and prospective, which the IMF had summed up in a simple and clear-cut decision. The decision made it plain that the Federal Republic no longer had a low level of monetary reserves and had the ability to remove import restrictions without inviting the threat of a decline in its monetary reserves.

30. The United States representative was of the opinion that in a sense the present discussion was a critical moment in the history of the General Agreement and in the evolution of trading relations among nations. It was a point at which the foundations of the structure of international trading relations were being subjected to a critical test. The response of Germany to this test would tell how well this structure had been built and how well it would serve the international community in the future. If it had been soundly built, and it was the belief of his delegation that it had, and if it was kept in good repair it would provide benefits not only to the Federal Republic's trading partners but to the Federal Republic herself since she, as a large exporting nation, would reap the benefits that flowed from adherence to fair and liberal world trade rules. If these benefits were to be achieved, the Federal Republic would have to resist inevitable internal protectionist pressures and take a stand in terms of the long-run national interest in expanding trade. Particularly when the Government of the Federal Republic was on the point of entering a regional trading arrangement of unprecedented and historic significance, it was of special importance that it demonstrate in concrete terms its devotion to the principle of multilateralism which underlay the General Agreement.
31. The United States representative stated that his Government welcomed the decision of the IMF and the favourable developments that it reflected. It was considered by his delegation as essential that the Federal Republic take early and forthright action to meet its responsibilities under the General Agreement, in consonance with its external financial position as reported by the IMF. In the opinion of his delegation the Federal Republic could meet its responsibilities to the CONTRACTING PARTIES only by removing the import restrictions it had been applying to safeguard its monetary reserves. Such action would not only add to the vitality of the German economy but would also contribute additional strength to the joint endeavours of the contracting parties under the General Agreement. In conclusion, the representative of the United States said that in view of the unique position of Germany his delegation would associate itself with the suggestions on procedure outlined by the delegate of Canada.

32. The representative of the United Kingdom stated that the views expressed by the delegates for Canada and the United States represented an attitude which other contracting parties should adopt not only from the point of view of their own particular interests individually but more importantly in the light of the provisions and functioning of the General Agreement. The crucial point was the fundamental change in the situation of the Federal Republic that flowed from its factual position and from the Fund's decision. His delegation, therefore, shared the disappointment that had been expressed as a result of the representative of the Federal Republic not having made a clear and explicit recognition of that fact in his opening statement. Against the background of the findings by the Fund and having regard to the provisions of Article XII of the GATT and to the facts of the present situation of the Federal Republic, there could be no doubt that the Federal Republic could no longer claim balance-of-payments justification for the restrictions it maintained. He hoped that the Federal Republic would recognize this fact, and would remember the precedent established by Belgium. Given that clear recognition the question then remained of examining how the Government of the Federal Republic would proceed in dismantling the remaining restrictions. It would, of course, be unrealistic not to recognize that such action by the Federal Republic would create certain difficulties in some fields. To deal with such problems, however, the Federal Republic might approach the CONTRACTING PARTIES for a "hard core" waiver under the Decision of 5 March 1955. He recalled that the delegation of the Federal Republic at the Review Session had themselves foreseen the type of problem that gave rise to the adoption of the Decision and had taken part in the negotiation of the terms and conditions laid down in it. He expressed the hope that the problems now envisaged would not mean that the hard core list would not be as extensive as the present restricted list, and that there would be an area where the Federal Republic authorities could proceed rapidly with their elimination, or at least relaxation. Such action would be a modest contribution to solving the problem of the Federal Republic's overall external credit position which had been causing other countries a great deal of concern. In conclusion the representative of the United Kingdom expressed the hope that before the end of the consultation the Federal Republic would give a clear and unequivocal recognition of its position in relation to the provisions of the General Agreement.
33. The representative of Denmark stated that his delegation had listened with great interest to the opening statement of the representative of the Federal Republic. He thought that no clearer conclusions could be drawn from all the factual information at the disposal of the Committee than what was stated by the Fund in paragraph 5 of the document QRC/4/Add.2. His delegation also shared the view of the Canadian representative on the situation of the Federal Republic and the procedure outlined by him for dealing with the remaining German restrictions.

34. As the Committee was aware and as was also seen in the documentation before them, liberalization of agricultural products was expected to give rise to special problems. These problems ought clearly to be dealt with under provisions or devices other than Article XII. The Danish delegation welcomed the more liberal import policy in agricultural products which had been followed by the Federal Republic in the past year, although Danish exports had not benefited from it to the same degree as they would have wished. One of the reasons for this had been the agricultural policy of other countries, which had dislocated trade in these commodities. Nevertheless the import regime in Germany for agricultural products still had all the features of what was called restrictive state trading. The main characteristics were that imports did not take place unless permitted by price developments on the home market or a shortage of the goods in question. There were, therefore, only occasional importations and then often in rather large quantities which as a rule were to be delivered within a very short time. He pointed out that a hog could be produced within nine months only and that sudden additional demands for beef or butter similarly could not be met on a day-to-day basis. During the present round of consultations it had been stated at several meetings that a liberal import policy did not give the same certainty for exporters as formal liberalization. This was even more true in regard to agricultural products since there was a considerable time-lag between the preparation of production and delivery.

35. The Danish representative pointed out that in spite of the more liberal import policy in Germany for agricultural products the Aussenhandelsstelle had maintained a difference between imports and the latent demand for imported agricultural products so that the prices on the internal market had remained on a high level. This had given to the agricultural producers the protection which was mentioned in the basic document. As an illustration, he mentioned a few examples. Exports to the Federal Republic from Denmark of beef cattle in the autumn months was usually limited during a period of six to eight weeks due to the greater seasonal supply in the German home market. The export of sows for slaughtering to the Federal Republic following a German request had in long periods of past years been limited to certain quotas the allocation of which were checked by Denmark. As long as only importations of marginal quantities was allowed German farmers had no inducement to reduce costs of production and the cost of living in the Federal Republic would remain relatively higher than in those European countries which were mainly dependent on agricultural exports. The Danish delegation had noted that the increase in the cost of living had given concern to the Federal Republic authorities and that credit policy had been tightened. He expressed the opinion that a further liberalization of agricultural imports might be a better method to solve part of that problem provided that such liberalization was accompanied by a liberal tariff policy on agricultural products.
36. In conclusion the Danish representative stated that it was the hope of his Government that the Federal Republic would continue to pursue a policy of increasing imports also in the field of agricultural products and that it would see its way to solve the remaining special problems in that field in accordance with the principles and aims of the General Agreement and with the specific provisions laid down in regard to such problems.

37. The representative of Australia congratulated the Federal Republic on the rapid development of its economy in recent years and on its sound financial position. He referred to the IMF background paper and to the fact that exports from the Federal Republic had risen 20 per cent in 1956 compared with a 14 per cent rise in imports. As pointed out by the representative of Canada the Government of the Federal Republic was indeed in a fortunate position to have reserves at the end of 1956 equivalent to eight months' imports. Furthermore the favourable trend in the external financial position had continued in the current year. While the Australian Government recognized and appreciated that the Government of the Federal Republic had gone some distance in trade liberalization, it was not convinced that this liberalization had proceeded as rapidly as it might have in the light of the provisions of the General Agreement. Certainly this was the case in the agricultural sector.

38. In view of the present economic and financial position of the Federal Republic his delegation was in agreement with the conclusions of the IMF in its last consultations with Germany. In the opinion of his delegation the restrictions in force could not in fact be justified on balance-of-payments grounds. His delegation, therefore, hoped that the Government of the Federal Republic would take action for their rapid removal. While it was recognized that such action would create problems for the Federal Republic authorities the representative of Australia pointed out that there was machinery in the GATT structure which would assist Germany to overcome many of these problems.

39. Furthermore, in the light of the proposals for a common market, in which the Government of the Federal Republic had played a leading role, the policy pursued by that Government was of considerable importance. The Australian delegation was anxious to ensure that the common market was founded on a liberal trade policy. The achievement of such a policy would be difficult if individual members themselves were not also wedded to liberal trade policies. In conclusion he associated himself with the proposal made by the representative of Canada concerning the procedures to be followed for the consultation.

40. The representative of Belgium joined with previous speakers in expressing satisfaction at the results of the considerable economic progress that had been made by the Federal Republic and the resultant attainment of a high level of monetary reserves which would enable the authorities to envisage further liberalization measures. His Government recognized the particular and complex problems with which the Federal Republic was confronted and which had not yet permitted the achievement of full liberalization. The Belgian delegation, nevertheless, expressed its confident view that any future action which the Federal Republic would take in eliminating quantitative restrictions would be in accord with its commitments under the General Agreement.
41. The representative of the Federal Republic of Germany thanked the preceding speakers for their frank and forthright statements. He pointed out that in principle there was little difference between the opinions expressed by them and the views held by his delegation. Referring to the specific problem that the Committee had addressed itself to he stated that there were two aspects to be taken into consideration; firstly, the formal and legal aspect of the conclusions and recommendations of the Fund, and secondly, the practical one of how to draw conclusions from those findings. He agreed with the views expressed that the Federal Republic was confronted with a basically new situation but nevertheless when the various points of the Fund's findings were read in conjunction with each other the impression was given that the part of the findings referred to by previous speakers was not as unequivocal as they had assumed it to be. He referred to the statement to the effect that "The Fund urges Germany to eliminate its remaining restrictions and discrimination, other than prescription of currency, as soon as possible"; his interpretation of this was that the Fund itself had recognized that Germany had regional balance-of-payments difficulties and that it felt that the prescription of currency should not be eliminated so that the Federal Republic would be able to contend with such difficulties. Even though the overall balance-of-payments position had shown marked improvement there had been a substantial increase in discrepancy by currency area. According to forecasts made by the Federal Republic authorities the import surplus from the dollar area would increase to at least DM 4.5 billion in the current year. At the same time, however, the export surplus to the EPU area would reach the level of something like DM 6 billion as compared with DM 2.5 billion in 1956. No doubt such facts had decisively influenced the Fund's finding concerning the maintenance by Germany of prescription of currency.

42. The representative of the Federal Republic then quoted the part of the Fund's finding which read as follows: "The Fund urges Germany to eliminate its remaining restrictions ... as soon as possible". This, he stated, was a recognition by the Fund that would be unrealistic to expect import controls to be dismantled overnight. Moreover, if the Government of the Federal Republic did take such action it would give rise to severe internal political, social and economic problems with respect to the food and agricultural sector. He pointed out to the representative of Canada that the greater part of Canadian exports of agricultural produce to Germany were not subject to restriction for balance-of-payments considerations, but rather in accordance with national legislation in conformity with GATT. The food and agricultural sector gave rise to special problems within the Federal Republic, as indeed was the case with most European countries and many other contracting parties; the removal of these restrictions would be particularly difficult since it could affect a substantial part of the German agricultural system. As pointed out by the representative of Denmark imports of agricultural products were facilitated but nevertheless it would be a step of considerable consequence to advance from that stage to one of full liberalization.

43. In the light of all these factors, therefore, he stated it was clear that some transitional period would be necessary to enable the Federal Republic to abolish quantitative restrictions and eliminate discrimination. The representative of the Federal Republic then referred to the point on multilateralism raised by the representative of Canada and stated he was in agreement with him; but there
was another aspect of the problem to be considered; for many years before the post-war period Germany's policy had been non-liberal, with efforts to establish an autarchy, isolation and a directed economy, with rigorous exchange control. In the post-war years Germany had succeeded in rebuilding the economy quickly with the aid of all European countries and particularly as a result of Marshall Aid from the United States of America.

44. These new developments had enabled the Federal Republic authorities to adopt a more liberal commercial policy than hitherto and, as he had pointed out in his opening statement, a permanent process of liberalization and the establishment of a free-trade policy were in the course of development. These measures had been carried through confidently and purposefully in order to bring trade policy into conformity with the provisions of the General Agreement.

45. The Chairman then referred to the proposal by the representative of Canada on procedures to be followed by the Committee in its consultation with the Federal Republic of Germany. He stated that, with the acceptance by the Committee, under Article XV of the GATT of the findings of the Fund, the point of procedure taken by Canada and supported by the other delegates who had spoken must be sustained, since it would follow that Germany's restrictions did not fall within Article XII. It would therefore be inappropriate to proceed with this consultation on the basis of the plan agreed for the present series of consultations under Article XII. If some contracting parties nevertheless wished to obtain information from the representative of the Federal Republic they could base their discussions on other provisions of the GATT, such as Article XXII.

46. The Canadian representative referred to the statement by the representative of the Federal Republic that restrictions relating to a substantial proportion of Canadian exports to Germany were justified on the basis of existing legislation. In view of that claim he stressed the necessity to separate the restrictions maintained by the Federal Republic in order to ascertain exactly which of them could eventually be maintained under GATT and which of them must be eliminated.

47. In reply the representative of the Federal Republic stated that the basic document made this distinction sufficiently clear, and mentioned that a full description of the marketing laws was contained in that document. He then referred to the reservation in the Torquay Protocol which provided that Part II of the General Agreement need only be applied to the fullest extent not inconsistent with legislation in force in Germany on 21 April 1951 and he thought that the Revised Agreement would only be accepted by his Government with the same reservation. The Canadian representative expressed thanks for this clarification and said that the Committee was not the appropriate forum to discuss the provisional application of the Agreement. If his delegation or others wished to pursue this matter they would do so at another time. The United Kingdom representative stated that the matter should certainly not be regarded as settled, and he would not like the representative of the Federal Republic to feel that it was not a subject that would require examination in the near future. The question of the connexion between certain legislation and the Protocol of Provisional Application had arisen in several cases before and he was under the impression that there had been little
doubt in a number of people's minds, at that time, that there was no justification for the restrictions under that Protocol. However, as stated by the representative of Canada it would be more appropriate for the CONTRACTING PARTIES to examine the matter, and pending that discussion the position of all contracting parties on this question should be reserved.

48. The representative of Canada drew the attention of the Committee to the expression "as soon as possible" in the Fund's recommendation to Germany to eliminate the remaining restrictions. His delegation certainly expected that the phrase would be interpreted as meaning months rather than years. He agreed that there were administrative and other difficulties in the way of the immediate removal of the restrictions and that a transitional period would be necessary; perhaps different periods would be appropriate for different types of restriction. Indeed, as suggested by the representative of the United Kingdom, the Federal Republic might wish to approach the CONTRACTING PARTIES for the granting of a waiver in respect of those particular groups of items for which a longer transitional period was required. In any case it should be "as soon as possible".

49. With regard to the German view regarding prescription of currency, based on the last sentence of paragraph 5 of the Fund's findings, he said that, if the last two sentences were read together, the intention of the Fund became apparent. The first sentence clearly stated that "restrictions on imports are no longer necessary" for balance-of-payments reasons. The last sentence urges Germany to eliminate "restrictions and discrimination, other than prescription of currency"; and his interpretation of this was that prescription of currency, which merely involved supervision of the currencies in which payments were made, could continue without any restriction on imports. He suggested that the representative of the International Monetary Fund might be invited to comment, but the Canadian view was that prescription of currency did not justify restrictions on trade.

50. The representative of the IMF stated that he preferred to reply on technical grounds. As he understood it the question of the Canadian delegate was whether a country could maintain a non-restrictive trade policy while at the same time prescribing the currencies in which imports from various areas should be paid. This appeared to be entirely feasible. It was true that some system of certification, or otherwise establishing a record, might be necessary to ensure that the Government's policies on prescription of currencies were being complied with. However, such control over imports need not be restrictive. That is, it need not limit or restrict the freedom of any individual to import any goods from any foreign country or countries as long as these imports were paid for in accordance with the prescription rules which had been laid down.

51. The representative of the United States said that his delegation was aware of the economic, social and political problems confronting the Federal Republic and he agreed with previous statements that the removal of the restrictions would create certain difficulties for the Government of the Federal Republic and could not be accomplished overnight. The United States delegation expected, however, that there would be an early review of the remaining restrictions in which the considerations brought to the attention of the delegation of the Federal Republic
by this Committee would be fully taken into account. He hoped that before the end of the current discussion the representative of the Federal Republic could provide a statement regarding its commercial policy in relation to its external financial position as reported by the International Monetary Fund of more precise definition than that already given. Such a statement of intention would be a most constructive contribution to the present consultations. The representatives of the United Kingdom and Denmark supported the United States plea for a more precise statement; the CONTRACTING PARTIES would want to see the position quite clearly when they came to look at the results of the consultation.

52. The representative of the Federal Republic of Germany replied that his Government had taken note of the findings of the Fund concerning its balance-of-payments situation. It was recognized that they were of basic importance to the future policy of the Federal Republic in the field of quantitative restrictions. His Government would carefully examine the new situation and consider the measures which in consequence must be taken. However, he expressed the hope that the Committee would understand that at the present stage, so short a time after the consultation with the Fund, and in view of the imminent German elections, his delegation could not make any binding declaration as to a further liberalization programme. He hoped, however, that as soon as the new Government was instituted it would decide on the measures to be taken in order to conform with the Federal Republic's obligations under the GATT in the light of this new situation. He thought that at the Twelfth Session his delegation would submit to the CONTRACTING PARTIES a programme of their future commercial policy. At this stage, nevertheless, he was in a position to state that in the near future further liberalization measures would be taken and the differences still existing between the three free lists would continue to be eliminated. His delegation confidently believed that all the difficulties still existing in some fields would be overcome after a certain period of transition.

53. The Chairman, concluding the discussion, said that the general feeling of the Committee was that the import restrictions applied by the Federal Republic did not fall under Article XII. Therefore, it would not be appropriate to continue a consultation which envisaged balance-of-payments difficulties, and accordingly he proposed to consider the discussion closed.

54. Members of the Committee expressed their appreciation to the delegation of the Federal Republic of Germany for its valuable contribution to the discussions and in particular for the reassuring concluding statement it had given to the Committee. The representative of the Federal Republic in turn expressed his thanks for the free and fair interchange of ideas which had taken place in the Committee on so friendly a basis. It had given his delegation the opportunity to explain to the Committee the situation of and the measures taken by the Federal Republic in the field of quantitative restrictions and accordingly, he hoped, had enabled the Committee to appreciate the measures and intentions of his Government.
APPENDIX

RESULTS OF THE IMF CONSULTATIONS

As relevant for the CONTRACTING PARTIES in connexion with their consultations under Article XII:4(b) to be held in June 1957, the International Monetary Fund transmitted the results of its latest consultations under Article XIV, Section 4, of the Fund Agreement with Austria, Denmark, France, the Federal Republic of Germany, Greece, Italy, the Netherlands, Norway and Sweden. These results were circulated to the Consultations Committee and are referred to in the reports of the Committee.

AUSTRIA

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

12 October, 1956

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 1955, agricultural and particularly industrial production increased substantially, and the gross national product rose by some 10 per cent. A high level of employment was reached. There was a budgetary deficit. The overall volume of credit continued to increase rapidly during the first three quarters of 1955. Prices increased to a moderate extent. A substantial deficit in the balance of payments in goods and services account was experienced, mainly toward the EPU area.

3. The balance-of-payments deficit and the uncertainties surrounding the economic consequences of the State Treaty signed in the summer of 1955 led the Austrian authorities in the second half of the year to introduce savings in public expenditures and to adopt a number of restrictive measures in the credit field. As a consequence of these measures the expansion in the volume of credit has slowed down, savings have increased, the balance-of-payments position has improved and there was no further loss in reserves in the first half of 1956. The Fund welcomes these measures taken last year by the Austrian authorities. In order to maintain price stability and to strengthen further the balance of payments, there is a continued need for the maintenance of the present restrictive credit policy and for efforts to reduce the expected budget deficit.

4. The Fund welcomes the recent liberalization of restrictions on dollar transactions. It hopes that Austria will continue in its effort further to reduce restrictions and discrimination and to create conditions which would enable a reduced reliance on bilateralism.
5. The Fund notes that as a consequence of Austria's participation in multilateral payments arrangements with Argentina and Brazil, the multiple currency practices arising out of free market dealings in Argentine and Brazilian account dollars are being eliminated. The Fund will remain in consultation with Austria regarding its remaining multiple currency practices.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Austria.

DENMARK

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

13 March 1957

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

2. Until the summer of 1956 production remained at the 1955 level, but since then has shown a rising tendency. In 1956, investment declined slightly while consumption rose in conjunction with increases in wages and other incomes. Prices increased by about 4 per cent and wages rose about 7 per cent partly as a consequence of the link to the cost of living index. In early 1957 there was a small further increase. The 1956/57 budget shows an over-all deficit including debt repayment which is expected to be reduced somewhat in the financial year 1957/58, partly because of a reduction in government loans for house construction. The deficits in both years are expected to be covered mainly by long-term borrowing.

3. Denmark has relied mainly on restrictive credit and fiscal policies to correct the balance-of-payments difficulties that emerged in 1954. The Fund believes that the measures taken have been helpful in improving the balance-of-payments position. It feels, however, that there is still considerable need for caution especially with regard to the amount of government expenditure, and that further measures should be taken to check consumption and lessen the burden of restraint falling on productive investment.

4. Denmark's balance of payments on goods and services account improved from late spring 1955 through the first quarter of 1956, and foreign exchange holdings increased moderately. Since then, movements in reserves have been erratic, lately with a downward trend. The gold and dollar holdings remain low. Prospects for the near future do not point to any improvement.

5. The Fund welcomes the progress that has been made in the relaxation of restrictions and the reduction of discrimination, particularly in relation to the dollar area and notes with satisfaction that it is the policy of the Government to undertake further relaxation of restrictions and discrimination as soon as practicable. Denmark has also reduced its reliance upon bilateral agreements but continues to maintain such arrangements with various countries. The Fund urges that consideration be given to further simplification of the restrictive system and reduced reliance on bilateralism.
6. The Fund welcomes the reduction in the premium on exports under the import titles scheme, although noting that in 1955/56 there was a larger volume of exports and imports under this scheme. The Fund urges that efforts be made to achieve the elimination of the scheme.

7. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Denmark.

FRANCE

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

17 October 1956

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

2. The French economy which in the period 1953-55 had managed to achieve rapid growth without inflation, but had not yet remedied all of its structural weaknesses, has been confronted in the recent past with two serious contingencies. They were the development of a situation in Algeria which necessitated diverting considerable resources from normal use, and the occurrence of severe frosts in early 1956 which caused a large reduction in agricultural output. Under the circumstances, these adverse developments exert a heavy strain on internal stability as well as the balance of payments.

3. Industrial production and productivity rose rapidly in 1955 and in the first half of 1956 but growing pressure on resources may slow down the rate of increase. The upward pressure on prices which developed in the second half of 1955 largely under the influence of a substantial rise in wages was increased by reduced food supplies in early 1956. Wholesale prices rose by 6 per cent between June 1955 and September 1956, and there is a continuing disparity between French and foreign prices and costs.

4. Money supply, credit to business and savings continued to rise at a somewhat faster rate than in 1955. Bank credit to the Government which had been stable in 1955 increased in the first half of 1956. Despite some tax increases, the Treasury deficit is expected to be substantially larger in 1956 than in 1955.

5. The balance of payments on goods and services of the franc area (including receipts from foreign military expenditure) showed a surplus of about $400 million in 1955, as compared with some $200 million in 1954. In addition, substantial receipts of United States aid continued. Thus, France was able to reduce its foreign indebtedness by some $350 million and to add well over $550 million to its central reserves of gold and foreign exchange in 1955. A serious deterioration of the trade position due in part to temporary factors, and a substantial loss of reserves, occurred in the first eight months of 1956. The Fund considers that firm measures are required to counter growing inflationary tendencies and to restore the balance-of-payments equilibrium, and welcomes the intention of the French authorities to take such measures.
6. The Fund welcomes the steps taken by France to reduce restrictions and discrimination, to extend multilateralism of payments, and to lessen reliance on bilateral arrangements. However, restrictive and discriminatory practices remain significant. The Fund encourages France to make further progress toward elimination of discrimination, particularly dollar discrimination. It attaches importance to a further reduction of France's use of bilateral arrangements and notes that France is considering steps in that direction. Continued attention should also be given to the possibilities of reducing reliance on special measures to support the balance of payments.

7. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by France.

FEDERAL REPUBLIC OF GERMANY

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

11 June 1957

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

2. Production in Germany continued to expand in 1956, although at a slower rate than in 1955. A decline in the growth of domestic investment was partly offset by a sustained rise in foreign demand and an increase in domestic consumption reflecting both higher wages and social security payments. Price rises have been moderate; restraint of investment demand has contributed to this relative stability. In 1956 the Central Bank took a series of measures designed to curb excess demand. These measures were relaxed in part in September 1956 and January 1957 when the discount rate was lowered. Recently some new measures of monetary policy were taken to counteract in part the increase in the liquidity of the banking system.

3. The budget for the fiscal year 1956/57 was almost in balance. Revenues continued to exceed domestic expenditures but net foreign expenditures were almost equal to the surplus. The 1957/58 budget provides for higher expenditures, in part to be covered by drawing down of funds accumulated in previous years.

4. The goods and services surplus in the balance of payments increased further in 1956 as commodity exports rose by 20 per cent and commodity imports by 14 per cent. Exports to the EPU area rose substantially. The surplus with that area, as well as the deficit with the dollar area, both increased. Leads and lags in payments also contributed to the large increase in net gold and foreign exchange holdings in 1956.
5. The Fund believes that Germany's efforts to maintain internal price stability would be strengthened and balanced growth of international trade would be facilitated by the dismantling of its restrictions. The Fund welcomes the measures taken by Germany to relax restrictions and reduce discrimination, including the reliance on bilateral arrangements. The Fund considers that restrictions on imports are no longer necessary in order to safeguard Germany's monetary reserves and balance of payments. The Fund urges Germany to eliminate its remaining restrictions and discrimination, other than prescription of currency, as soon as possible.

6. In concluding the 1956 consultations, the Fund has no further comments to make on the transitional arrangements maintained by the Federal Republic of Germany.

GREECE

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

21 December 1956

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

2. During 1954 and 1955 production and the national income continued to rise and, despite further price and wage increases, confidence in the currency improved with favourable effects on savings and the balance of payments. However, budgetary deficits financed by the Central Bank led to relatively strong inflationary pressures late in 1955. The Government has taken credit and fiscal measures to counteract these pressures. The Fund considers that in order to strengthen the consolidation achieved during the past few years and to encourage the formation of savings necessary for the further development of the economy, it is essential that the recently adopted fiscal and credit policies should be consistently and vigorously applied.

3. Despite a substantial increase in imports, the deficit on goods and services has slightly decreased. Exports and invisible earnings have continued to rise. Total receipts, including United States aid and net private capital receipts have substantially exceeded net expenditures on goods and services account. The gold and foreign exchange reserves since the end of 1954 have somewhat improved.

4. The Fund welcomes the progress made by Greece in reducing restrictions and in eliminating discrimination. Greece no longer makes important use of restrictions on imports. However, the Fund urges Greece to re-examine the need for its present bilateral trade and payments agreements, which have somewhat increased in scope.

5. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Greece.
Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

24 April 1957

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

2. The Italian economy continued to expand in 1956. While unfavourable weather conditions held back further growth of agricultural output, industrial production rose by some 8 per cent, almost at the same rate as in 1955. As in previous years, the new employment opportunities created, together with net emigration, were sufficient to absorb the natural increase in the labour force but unemployment continues to cause concern.

3. A sharp rise in food prices at the beginning of 1956 entailed a substantial increase in wages which are tied to the cost of living index by a sliding-scale mechanism. In many branches of industry these wage increases were matched by a rise in productivity, and prices of industrial goods remained substantially stable. While there was a further expansion of credit and of money supply in 1956, prices other than those of food remained stable. The Government's cash budget deficit was reduced in 1956 and the Government was able to reduce its indebtedness to the Bank of Italy. The Fund welcomes the intention of the Italian Government to work towards a reduction of its budget deficit over the next few years.

4. Italian exports continued to increase in 1956, as foreign demand remained strong. The trade deficit increased somewhat due to a substantial rise in imports, particularly of raw materials. Higher requirements for coal and scrap were mainly responsible for a marked increase in dollar imports. Net income from invisibles, including military services, continued to cover a large part of the trade deficit, and there was again a considerable capital inflow. Official exchange reserves showed a further substantial increase.

5. During 1956 restrictions and discrimination against the dollar area were further reduced. A number of bilateral agreements were eliminated and Italy joined the regional payments arrangements of various European countries with Argentina and Brazil. Recently steps have been taken to extend the transferability of the lira. The Fund welcomes these measures. The Fund believes that Italy could undertake further relaxation of dollar restrictions and welcomes Italy's intention to do so as soon as practicable as well as to endeavour to eliminate bilateral arrangements.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Italy.
THE NETHERLANDS

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

25 July 1956

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

2. The Netherlands economy continued to expand in 1955 at about the same rate as in the previous year. Unemployment declined further, while consumption and fixed investment increased substantially. Largely as a result of higher invisible earnings, the balance of payments on goods and services improved. Although total reserves remained stable, holdings of gold and convertible exchange have increased further.

3. Prices remained almost stable in 1955 and monetary expansion was kept within limits by the Netherlands authorities who took fiscal and monetary measures to check the development of inflationary forces. Increases in wage rates, authorized in March 1956, are likely to result in some price increases the extent of which the authorities are endeavouring to restrain.

4. The Fund welcomes the further progress made by the Netherlands in removing restrictions and achieving wider transferability of payments with certain countries. The Netherlands continues to make some use of restrictions and bilateral arrangements, but has indicated its intention to continue its efforts to reduce and eventually eliminate its reliance on these practices. The Fund attaches particular importance to further reduction of bilateral arrangements.

5. The Fund has reviewed the free exchange market arrangements for capital transactions and has no comment to make on the continuation of these arrangements.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the Netherlands.

NORWAY

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

25 July 1956

1. The Government of Norway has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. Production has continued to expand in Norway. Investment remains high although there has been some reduction in the rate of increase. Wages rose by about 6 per cent in 1955, and further wage increases are being negotiated. Prices which were stable in 1955 have risen, partly as a result of the reduction in subsidies. The increase in bank advances to the private sector slowed down during 1955. In 1956 bank advances have been rising. However, the banks have agreed to reduce their loans by between 150 and 200 million kroner during the autumn months. The government budget for fiscal 1955/56 is expected to show a small deficit after payment of debt amortization.

3. In early 1955 the authorities introduced various restrictive monetary and fiscal measures in order to reduce investment and slow down the expansion in bank lending. The discount and other interest rates were raised, and cash reserve requirements introduced. The Government imposed investment levies (except on housing), floated large long-term bond issues, and reduced the amount of funds available for State Bank lending to housing as well as the number of building licences to be issued. In late 1955 further monetary measures were introduced to limit the rise in bank advances. The Fund notes the intention of the authorities to take further measures should these prove necessary.

4. The goods and services deficit has declined since 1954, largely because of the increase in net freight earnings. The entire import surplus has been with the non-dollar area. In 1955 Norway's goods and services deficit was fully covered by net long-term capital inflow and there was an increase in foreign exchange reserves.

5. The authorities have pursued a more liberal import policy. The Fund welcomes the measures taken to relax restrictions and reduce discrimination, particularly the extensive liberalization measures introduced on 1 July 1956. Norway continues to utilize bilateral trade and payments agreements, particularly in transactions with Eastern European countries. The Fund notes the efforts of the Norwegian authorities to multilateralize trade and payments and encourages Norway to pursue these efforts further.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Norway.

SWEDEN

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

5 June 1957

1. The Government of Sweden has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. In 1956, gross national production increased by about 2.5 per cent against 4 per cent in the previous year. The rate of expansion in industrial production slowed down somewhat. Money wages rose by about 8 per cent, the same as in the previous year, while the cost of living index rose by about 4 per cent. In spite of the revenue measures introduced in 1955, the 1956/57 budget is reported to be in over-all deficit, chiefly because of a lower level of income tax revenue than expected but also because of larger government loans and grants for residential buildings. A deficit in the 1957/58 budget is also expected. In recent years the government deficits have been financed mainly by the Central Bank.

3. The Swedish authorities have relied on fiscal policies and restrictive measures in the field of private credit to contain inflationary pressures. The measures taken have been helpful in reducing domestic demand and strengthening the balance of payments. However, these measures are to a considerable extent concentrated on private industrial investment, while favouring house construction. The Fund feels that in the long run the achievement of a strong balance-of-payments position would be facilitated if the impact of the policy of fiscal and credit restraint were more evenly distributed over the economy.

4. In 1956 Sweden's balance-of-payments deficit on goods and services account was reduced as the expansion in exports and shipping receipts exceeded the rise in imports. Despite the deficit on current account, the foreign exchange reserves have increased, partly because of changes in leads and lags and receipts of foreign credits. The Swedish authorities have stated the objective to further raise the level of reserves. Achievement of this and of a strong balance of payments on current account appears to depend upon the strengthening of measures of fiscal restraint and on the introduction of greater flexibility in the money and capital markets.

5. During 1956 and early 1957 there has been a further relaxation in restrictions and the degree of discrimination against the dollar area has been reduced. The transferability of the Swedish krona has been extended, the dependence on bilateral agreements has been diminished, and the scope of the transit dollar scheme has been reduced. The Fund welcomes these steps and hopes that Sweden will further reduce reliance on bilateral agreements and will find it possible to extend formal dollar liberalization. The Fund does not object to the continuation of the transit dollar scheme on a temporary basis, but hopes that Sweden will progress toward the elimination of this scheme.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Sweden.