REPORTS OF THE WORKING PARTY ON BALANCE OF PAYMENTS

On the consultations held with Five Contracting Parties

I. Pakistan  K. New Zealand
J. Australia  L. France
M. Brazil

I. THE CONSULTATION WITH PAKISTAN

1. In accordance with its terms of reference the Working Party has conducted the consultation with Pakistan under paragraph 4(b) of Article XII.

2. The Working Party had before it:

(a) a basic document prepared by the secretariat, describing the system and methods of the balance-of-payments import restrictions in operation in Pakistan, and including a brief statement on the effects of the restrictions which reflected the views of the Pakistan authorities;

(b) documents provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party 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 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 Pakistan. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Pakistan, and a supplementary paper on developments since that consultation. In accordance with agreed procedure, the representative of the Fund was invited to make a

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1 See QRC/17.
statement supplementing the Fund's documentation concerning the position of Pakistan. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Pakistan under Article XIV of the Fund Agreement, which consultation was concluded on December 12, 1956.

"As some time has elapsed since the conclusion of this consultation with Pakistan, the Fund has also provided a supplementary paper on Pakistan, dated October 7, 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 last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of restrictions of Pakistan 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 Working Party is drawn to the results of the last Fund consultation with Pakistan. Pending the conclusion of its 1957 consultation with Pakistan, the Fund has no additional alternative measures to suggest."

5. The Working Party heard a statement from the representative of Pakistan in which he briefly described the economic background of the country, the policies being pursued in economic development and in the application of import restrictions. In the latter field, attention was particularly drawn to the virtual elimination of discrimination against dollar imports. The full text of the statement is given in Annex I.

Balance of Payments Situation and Prospects

6. The representative of Pakistan described recent developments in the balance of payments of the country (see Annex II). It was stated that the heavy deficit in the balance of payments in 1956 had been due to the failure in crops which necessitated the import of large quantities of foodgrains. Although there had been an improvement in the crop situation, the decline in reserves had continued in 1957. In spite of the decline in gold and foreign exchange reserves, the liberalization measures taken earlier had generally been maintained. The long-term objective of the Government was to raise the
exchange reserves to a higher level but for the immediate future it had to be
content with merely holding the line. In the circumstances no further
liberalization of imports should be expected, but the general policy remained
that restrictions on imports should be removed to the full extent as any
improvement in the balance of payments would permit.

7. Members of the Working Party, noting that the principal cause of Pakistan's
recent difficulties had been the failure in foodgrain crops in 1955-56 re-
quiring large imports to meet urgent demand, enquired about the general situation
of food production and supply. In answer to various questions the repre-
sentative of Pakistan stated that following some years of deficiency the three
or four years prior to 1955/56 had been normal in the sense that production of
foodgrains was not only sufficient to meet domestic demand but gave a certain
surplus for export. Deficiency had reappeared in the last two years but the
current year again saw improvement. As the crops depended preponderantly on
natural conditions it was difficult to prognosticate on the future. A member
of the Working Party noted the improvement in cereal production in 1956-57
and enquired whether the Government of Pakistan was considering meeting more
of the essential requirements of industry and other needs for imports, rather
than concentrating on further accumulation of food stocks. A policy of
liberalizing imports, insofar as it might have a salutary effect on internal
prices and export capacity, might be worth pursuing even if this implied a
slower rate of accumulation of buffer food stocks. On this point the repre—.
sentative of Pakistan explained that the recent need to import large quantities
of food had been due purely to the unexpected successive failures in crops.
In the past, steps had been taken to build up stocks to meet emergency demand,
and because of the very nature of the problem it was necessary to do so for the
future also, but it was hoped that with increased acreage and improvements in
production methods the local need would gradually be met fully by domestic
production. To that extent the pressures on the balance of payments would be
lessened by the need to restrict imports would be lessened.

8. The statistics available to the Working Party showed a substantial increase
in exports from Pakistan to the United States in 1956. Requested by the repre—
sentative of the latter country to indicate the causes and factors responsible
for that increase, the representative of Pakistan referred to the intensive
efforts which had been made by his Government to promote exports to various
countries, including the United States with which Pakistan had always had an
unfavourable trade balance, and expressed the hope that the continuing efforts
being made would be accompanied by further improvements in the trade balance
with that country.

9. In answer to a question whether the elimination of discrimination had had
favourable effects on internal costs and prices, the representative of Pakistan
said that although it would be difficult to cite any specific instances as
evidence, it was generally believed that the lowering of import costs by allowing
merchants to purchase from the cheapest source could not but have the effect of
lowering local costs of production. As the policy of non-discrimination had been pursued for several years, any comparison of the costs and prices would have to be made with those prevailing some time ago; such a comparison would be unlikely to yield precise or useful results.

10. A member of the Working Party enquired whether the growing production of processed jute goods in Pakistan meant that supplies of raw jute to foreign markets would be curtailed in future. The representative of Pakistan stated that at present the Government was exercising control on production and acreage and production could be easily increased if there were a greater demand. Raw jute constituted more than 45 per cent of Pakistan's exports and the Government was keen to maintain this export at reasonable prices and meet the external demand in full to enable jute to compete with synthetic and other substitutes. This position would not be affected by indigenous production of processed jute goods.

11. Members of the Working Party, especially those representing countries in the dollar area, expressed gratification at the progress which had been made by the Government of Pakistan in liberalizing imports and in removing discrimination. They emphasized the desirability and advantages of reducing to the minimum the discriminatory element in restrictions.

**Alternative Measures**

12. Referring to Part II of the Plan for Consultations, the representative of Pakistan described the measures which had been taken by his Government with a view to contributing to the restoration of equilibrium (see Annex III). Basically, emphasis was placed on economic development in both the industrial and agricultural sectors. As regards short-term measures, attention was called to the limit to which fiscal and monetary measures could be relied upon in an essentially agricultural economy with a low standard of living. In particular, as imports and production were both concentrated on meeting the essential requirements of the population, there was little scope for increase in taxation. The change in the par value of the Pakistan rupee in 1955 had resulted in curtailing the purchasing power, and in the current year certain measures in the credit field had been taken, notably the introduction of selective credit controls by the State Bank.

13. For further information on the plans being followed in the field of economic development, the representative of Pakistan referred to the International Monetary Fund's background paper of 16 November 1956, noting that the development programme was a predominant factor in any determination that the Government might make regarding the level of monetary reserves and restrictions. He stated that in 1950 the Government drafted a Six Year Development Plan. Emphasis in that Plan was on development of agriculture, transportation and communications. In 1951 a two year priority Plan was introduced raising the total volumes of expenditures. This expansion was made possible because of substantial accretions
to the foreign exchange resources of the country resulting from the Korean boom. A Five Year Plan was published by the Planning Board of the Pakistan Government in May 1956 and was being further scrutinized pending final ratification by the Government. In pursuing the policy of economic development, special attention was paid to the maintenance of an even pace of progress and to the avoidance of giving impetus to uneconomic or non-competitive industries.

14. A member of the Working Party wished to know whether the plans of economic development took adequate account of the requirements of the rapid increase in population; whether the increase in food production would keep pace with the rising demand resulting from economic development or whether increases in food requirements would put lasting strains on the balance of payments. The representative of Pakistan pointed out that in the development programmes particular stress was laid on agriculture. Within the last few years very sizeable projects had been undertaken which aimed at increasing the production of foodgrains. As a result of these measures it was expected that the increase in production would be at a much higher rate than the increase in population.

15. A member of the Working Party called attention to the substantial rise in budgetary deficit in the fiscal year 1957-58, and the inflationary dangers involved in heavy borrowing from the State Bank. The representative of Pakistan replied that budgetary deficits could be met in the present circumstances mainly by borrowing from the Central Bank. A developing economy should always be prepared to face the problems of inflation but the Pakistan Government was fully aware of the dangers and was therefore keeping a close watch on the situation. At the request of members of the Working Party, the representative of Pakistan described the manner in which the "counterpart fund" was operated. It was noted that the fund, accumulated through the selling of imported foodstuffs, was not always spent by the Government to meet its own needs; to that extent the inflationary effect should be mitigated.

16. Members of the Working Party welcomed the statement by the Pakistan representative which showed his Government's awareness of the problems and dangers of inflation and its determination to restore equilibrium through internal measures.

**System and Methods of Restriction**

17. The Working Party took note of the system and methods of restrictions as described in the basic document prepared by the secretariat. In discussing the licensing procedure the attention of the Working Party was called to the difficulties caused to importers and exporters by delays in the issue of import licences. It was noted by a member of the Working Party that complaints had been raised by traders in his country about the time required for obtaining licences in Pakistan. The hope was expressed that as a result of the Pakistan Government's recent action to decentralize the administration of import control, there would be an improvement in the situation. The representative of Pakistan informed the Working Party that the question of avoiding delays in issuing licences had already been under consideration and that the plans for decentralization had been adopted principally with a view to lessening the possibility of hardships of this nature. He pointed out, however, that in a country such as Pakistan, the long distances which often separated the administrative organs from certain localities were a factor which contributed to such delays.
The Working Party discussed with the representative of Pakistan questions relating to the use of bilateral agreements. A member noted that the IMF, at its last consultation with Pakistan, had urged that Pakistan should as far as possible eliminate the use of bilateral agreements, and pointed out that although considerable progress had been made since that time, there had entered into force new bilateral agreements with certain countries. The representative of Pakistan, asked to comment on the extent to which attention was given by his Government to the interests of countries whose trade was conducted purely on a multilateral basis, stated that such agreements as entered into by Pakistan provided for bilateral quotas only for a small proportion of the trade between the countries concerned, and that only an infinitesimal part of Pakistan's imports was covered by such bilateral quotas. In the import policy, provisions were always made for imports from other countries, for items which were included in bilateral quota agreements. The agreement recently concluded with Japan was necessary inasmuch as Japan was Pakistan's important customer, taking about 30 per cent of her total exports of cotton. Such agreements were concluded not because of any desire for them but because of external factors beyond the control of the Pakistan Government, including, for example, the relative scarcity of sterling and the unwillingness of some countries to enter into any trading relations except on a bilateral basis.

A member of the Working Party thought that the arrangement by which Pakistan sought to encourage other countries to purchase her cotton would appear not to be very different from one of barter and as such would be unlikely to confer any particular advantage on the country which sold raw materials and foodstuffs. The representative of Pakistan explained that there was nothing in these agreements to resemble barter. He noted, however, that his Government fully appreciated that bilateral quotas involved some discrimination and in certain circumstances might lead to a disadvantage in the real terms of trade. In the agreements his Government had entered into, however, the element of discrimination was extremely small since, as noted above, the trade affected constituted only a minute proportion both of Pakistan's total trade and of the trade covered by the particular agreements. Measures were taken to keep a check on prices in order to protect the interests of importers. Furthermore, as Pakistan's obligations under such agreements were merely to issue licences, and as global licences were also available for the same items, importers were generally able to make purchases at reasonable prices.

The representative of Sweden pointed out that there were instances where it was understood that the entire import quota for an item was reserved for a bilateral partner; Sweden's export of hardware to Pakistan had been stopped because licences were being issued for imports from Japan only. Sweden fully appreciated the difficulties of Pakistan, but as a country applying free list treatment to Pakistan goods, would wish to see that its exports were not unduly discriminated against. The representative of Pakistan pointed out that it was usual to issue global licences as well for items for which single country licences were issued. Further the trade affected by such licences was negligible compared
with total imports which were virtually admitted without discrimination. He noted that the aim of his Government was to ensure non-discrimination to the fullest extent possible.

21. Members of the Working Party expressed appreciation of Pakistan's policy of non-discrimination, and the hope that further efforts would be made to reduce the remaining elements, and eventually to eliminate the last vestiges of discrimination. The representative of Pakistan referred to certain factors - such as the non-convertibility of currencies, restrictions in certain markets, bilateral policies of other countries - which rendered it difficult for his Government fully to achieve the objective of non-discrimination. The fundamental policy of Pakistan, however, was to reduce discrimination and the use of bilateral arrangements to the minimum.

22. A member of the Working Party referred to the half-yearly licensing programmes followed in Pakistan and observed that if a measure of continuity was not followed in the items permitted under these programmes, it would have a disturbing effect on the continuity of trade. He noted the practice of administering the import programme on the basis of allocations of exchange to individual importers and the limited facilities for new importers. There was a danger that the interests of exporters in other countries could be adversely affected if the system precluded them from selecting the most effective import agents. With regard to adequate publicity given to the licensing policy and the list of permitted imports, he asked for an assurance that these were always published.

23. In answer to this the representative of Pakistan stated that the system under which import licensing policy was drawn up every half-year was adopted in order that full account could be taken of developments in export earnings which varied seasonally and were subject to fluctuations. The present system of providing quotas on the basis of previous imports, which might lead to a certain amount of difficulties to new-comers, was receiving attention. The semi-annual import policies and related regulations etc., were always published in the Government Gazette.

24. According to the documentation before the Working Party, some 311 items were permitted to be imported in 1955, while in the second half of 1957 the number of items was only 240. A member of the Working Party, referring to this change, wished to know to what extent the number of items reflected the degree of restriction. The representative of Pakistan replied that the list of items published in the official Gazette related to items for which licences were issued; all other items were not licensable except in the case of certain industrial goods, etc., which could be imported under special schemes. The list was revised every half-year in the light of the essentiality, domestic requirements, supply conditions of the individual items; insofar as a larger total allocation might be provided for the import of a smaller number of items, the number of items licensable gave only a limited indication of the level of restrictions.
Effects of the Restrictions

25. Certain members of the Working Party urged that, as promptly as the payments position permitted, Pakistan relax its restrictions, particularly on imports of those products which were produced locally, and hoped that no opportunity would be lost to make the producers aware of the temporary nature of the restrictions. The representative of Pakistan stated that while his Government was keen to provide competition to local producers as far as possible, the present balance-of-payments situation did not permit the import even of certain essential goods to a desirable extent. In conclusion the representative of Pakistan reaffirmed that his Government was doing all it could to ensure that as large a volume of imports as possible was admitted.
ANNEX I
INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF PAKISTAN

1. You have already invited attention to the relevant documents. My delegation is thankful to the secretariat and the representatives of the International Monetary Fund for preparing these useful and comprehensive documents which contain detailed information on the various aspects of the import restrictions applied by Pakistan. These papers have been before the members for some time and I shall not take the time of the Working Party in repeating their contents. I would only say that there has been no change in policy or circumstances after the preparation of these documents.

2. Pakistan's earnings of foreign exchange depend mainly on export of a small number of agricultural and primary commodities. Trade in these products is characterized by uncertainties of production, fluctuations in prices and vicissitudes of demand abroad. To reduce this inherent instability in the economy of the country and to introduce balance, a planned programme of industrialization has been undertaken for the past seven years. Progress in this programme has been rapid and it has resulted not only in self-sufficiency in a wide range of manufactured goods but also in their export which has been showing signs of increase every year in case of certain important items. Establishment or expansion of only such industries as can earn or save foreign exchange is permitted. Setting up of new industries requiring the use of imported raw materials in any appreciable degree is not allowed. Foreign and private investment in industry is encouraged. Of late more stress is being laid on the development of agriculture.

3. The system of import licensing followed by Pakistan is virtually non-discriminatory. The licences issued are valid for all countries of the world and importers can make their purchases from the best and cheapest source. Through these measures unnecessary damage to the commercial or economic interests of any particular country is avoided.

4. In principle the use of import control and restrictions is considered as a temporary expedient. In actual practice the import restrictions have continuously remained in force for a long time due to the persistent nature of the balance-of-payments difficulties.

5. Pakistan has bilateral trade agreements in force with a number of countries. These agreements, with the exception of one namely that with Japan, are non-discriminatory in nature as they do not involve any bilateral quotas. The agreed schedules or lists represent only estimates of trade in a given period and imports from agreement countries also take place against global licences. In effect therefore the agreements are designed to achieve expansion of trade on a multilateral basis. Due to scarcity of pounds sterling experienced by certain countries and strictly bilateral policies followed by others, this policy of non-discrimination has been causing loss of some markets to Pakistan's exports, particularly that of cotton, exports of which to certain Eastern European countries has stopped totally. In view of the soundness of the policy and the overall advantages of a multilateral system it is the present intention of my Government to continue this policy as far as practicable.
ANNEX II

STATEMENT BY THE PAKISTAN REPRESENTATIVE ON THE
BALANCE-OF-PAYMENTS POSITION AND PROSPECTS

1. Pakistan is self-sufficient in food-grains and normally has small export surpluses, but failure of crops necessitated heavy imports of food-grains in 1956 and 1957. This factor mainly led to a considerable increase in the level of total imports in 1956 compared to 1955. The deficit on goods and services account of the balance of payments in 1956 amounted to Rs. 810 million against a surplus of Rs. 23 million in 1955.

2. Total gold and foreign exchange assets declined from an equivalent of US $329 million in June 1956 to $282 million in December 1956. Due to the continued import of food-grains in 1957 and steps taken towards liberalization in 1957 there has been a further substantial decline in the foreign exchange reserves with the result that they have been near the minimum statutory requirement. The special features of the country's economy, namely the seasonal character of exports, element of uncertainty in them, the expansionary needs of a developing economy and sizable future liabilities for repayment of external loans, point to the dire need of reducing the existing unbalance in payments and of increasing the present unsatisfactory level of the foreign exchange reserves. This would, however, be a long-term objective. The short-term aim of the import control is to conserve foreign exchange for the import of essential supplies, in particular spares and raw materials for industries, so that the unused capacity is utilized for fuller production.

3. During two years heavy purchases of food-grains have offset small gains in exports especially of jute manufactures and cotton textiles. These purchases are still continuing and in the circumstances there is no immediate prospect of relaxation or elimination of restrictions. In a longer period improvement in the production of food-grains for the realization of which all possible measures are being taken may result in further liberalization in the form of import of essential items for which there is a pent-up demand in the country.
ANNEX III

STATEMENT BY THE PAKISTAN REPRESENTATIVE ON
ALTERNATIVE MEASURES TO RESTORE EQUILIBRIUM

The nature of the problems of Pakistan’s balance of payments in essence is such that equilibrium can be restored only by increased production in the country, both in the agricultural and industrial sectors. Efforts are being directed to achieve this end as rapidly as possible, at the same time avoiding the undesirable trends which may accompany too ambitious plans or too quick a growth. In addition, foremost attention is being paid to export promotion.

In a country where 80 per cent of the population is employed on agriculture, lives in rural areas and has comparatively conservative habits towards the use of modern techniques of credits like the banking systems, there is a definite limitation to the adoption of internal fiscal and monetary measures.

So far as taxation measures are concerned, the present position is that goods on which increased taxation in various forms might be most useful are largely excluded from importation programmes. The imports consist mainly of such essential items as raw materials, spares of machinery, drugs and medicines, oils and fuels, and transport equipment. The increased rate of taxation on them would inflate the cost of domestic production and the general level of prices. Similarly, it was desirable to have comparatively low interest rates in a developing economy in order to stimulate production. Besides, commercial banking in Pakistan was being operated on a conservative basis and the needs of the economy were not being satisfied to the full extent. Nevertheless, as a result of policies followed by the Government, certain corrective measures have emerged in these spheres as well. Consequent on devaluation of the Pakistan rupee in August 1955, the rupee price of imports increased by 40 per cent in terms of local currency. Besides, the devaluation had resulted indirectly in an increase in the cost of imports since most import duties were on an ad valorem basis. In a country where purchasing power was limited, its further curtailment as a result of the above-mentioned factors has already attracted wide criticism. Further, in June 1957 the State Bank imposed certain selective credit controls with a view to checking the hoarding of imported goods and to directing credits to more essential purchases. Measures have also been sponsored by Government and private insurance and banking interests to encourage savings particularly in moderate and low income groups.
J. THE CONSULTATIONS WITH AUSTRALIA

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with Australia under paragraph 4(b) of Article XII. The consultation under Article XIV.1(g) was held at the same time.

2. The Working Party had before it:

   (a) the basic document prepared on behalf of the secretariat by the authorities of Australia, describing the system and methods of the balance-of-payments import restrictions in operation in Australia, and including a statement under Part II "Effects on Trade" submitted by the Australian authorities (MGT/81/57);

   (b) a statement by the Australian Minister for Trade, the Rt. Hon. J. McEwen, on 31 July 1957 on changes in import licensing (L/678);

   (c) 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 consultations the Working Party followed the Plans recommended by the CONTRACTING PARTIES for consultations under the two provisions. The present report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Australia. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted background documents, dated 3 April 1957 and 3 May 1957, related to its last consultation with Australia, as well as the results of that consultation and a supplementary paper dated 30 September 1957.

Note: Throughout this report, £ means pounds Australian.
5. In accordance with the procedure agreed upon by the Working Party, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Australia. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Australia under Article XIV of the Fund Agreement, which consultation was concluded on May 8, 1957.

"As some time has elapsed since the conclusion of this consultation with Australia, the Fund has also provided a supplementary paper on Australia, dated September 30, 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 last consultation under Article XIV of the Fund Agreement, and the results of that 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, Australia should be able to continue making progress in reducing the general level of restrictions which are under reference, if its monetary reserves continue to increase.

"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 Australia. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Australia

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

7. Since the time of Australia's last consultations, at the Eleventh Session, there had been a substantial improvement in the balance-of-payments position and a significant recovery in gold and foreign exchange holdings. During 1957 the Australian Government had been able to relax progressively import restrictions, and had several times announced its readiness to review current levels of licensing if the improvement in the balance of payments was maintained.

8. The Australian representative gave a broad review of the changes which had taken place in the Australian economy, and of the prospects for the balance of payments in the current financial year. One basic aim of Government policy was to maintain a high level of economic expansion; in 1956 gross private investment plus public works expenditure had accounted for almost one quarter of gross domestic expenditure - a very high rate of investment. He mentioned some of the effects of this expansion on the industrial structure and gave, as examples, figures showing the very substantial increases in productive capacity for steel, automobiles, aluminium and oil refining.
9. Another basic aim of Government policy was to keep up the rate of immigration to about 1 per cent of population per annum. The high rate of economic expansion had at times placed a strain on the two other fundamental objectives of Government policy - internal stability and external solvency. However, in these latter respects the Australian economy had reached a reasonable state of balance in 1956-57. In regard to Government finances a small cash surplus had been achieved in 1956-57, after financing all of the Government's capital works expenditure from revenue and about half of the large capital works expenditure of the six State Governments. Monetary policy had also played an important part in the achievement of internal stability in 1956-57.

10. One of the main objectives of the 1957-58 Budget was to preserve the internal balance at a high level of economic activity. On the basis of the estimates the Treasurer would have had a prospective surplus of £145 million; but despite almost unprecedented pressure for tax concessions the Government had decided that a large part of this prospective surplus must be set aside to meet extra-budgetary commitments - the most important being support of the State Government public works programmes - mainly developmental - and provision for redemption of such part of the exceptionally large amount of public debt maturing in the current financial year as it might prove impracticable to re-finance by conversion loans. As a result of taxation changes the prospective surplus was reduced from £145 million to £119 million (a reduction of only 2 per cent of revenue estimates). All of this amount would be appropriated to the Loan Consolidation and Investment Reserve where it would be available to meet the extra-budgetary commitments already referred to. Most of the taxation concessions had been directed towards removing anomalies and most of the taxation increases introduced in 1955-56 to curb inflation had been maintained. In the monetary field the policy of restraint would be maintained.

11. In regard to external solvency, the Australian representative referred to the substantial improvement in the balance of payments in 1956-57 - a net current account surplus of £80 million, compared with a deficit of £235 million in 1955-56. Net capital inflow amounted to £132 million, so that over the year £212 million was added to international reserves, thus restoring the heavy losses in the two previous years. Reserves at 30 June 1957 were £566.5 million. The main factor in the improvement in export income was a substantial increase in the value of wool exports.

12. As soon as it became apparent that the prospects for export earnings in 1956-57 were much better than had previously been thought, the Government decided that there should be an immediate relaxation of import restrictions.

13. Concerning balance-of-payments prospects, it was particularly difficult to make predictions in the early stage of the financial year, but it could be said that Australia's balance of payments was subject to unusually abnormal fluctuations, and he gave a number of the causes of this tendency.
14. The Australian representative gave information about certain tendencies and predictions concerning the volume and value of Australia's main exports, and concerning the probable amount of imports. The net result was that the large trade surplus of £263 million in 1956-57 was likely to be reduced to very small proportions in 1957-58. The normal heavy deficit on other current account items -- notably freight on shipping -- had also to be considered, and even with the trade results he had mentioned, this would lead to a substantial deficit on current account as compared with a substantial surplus in 1956-57. The extent to which that deficit would be likely to be offset by capital inflow was difficult to assess, and it was unwise for any government to count on substantial inflows on private account. Australia could be faced with the possibility of some fall in reserves in 1957-58.

15. In regard to the prospects for further substantial relaxation of import restrictions in the near future, the Australian Minister for Trade had said, in connexion with the recent instalment of liberalizations, that any comprehensive review must await the development of the new export season and that it was the Government's intention to make such a review at the end of November.

16. In stating some of the considerations which would be relevant to the outcome of such a review, especially the possibility of increasing Australia's exports, the Australian representative stated they believed that their inability to import more was in large part a direct consequence of their inability to obtain entry in foreign markets for the commodities Australia was best able to produce. In some cases markets were pre-empted by other suppliers who were not competitive with Australian producers but who were involved in bilateral deals with the buying country; in other cases Australia was excluded from markets by quota restrictions or other regulations of commerce. In many cases there was heavily subsidized production in countries which before the war were net importers. In addition, surpluses had been developing in some countries which normally should be importers, and they were looking for export markets. The disposal of surpluses on commercial markets on concessional terms was being carried on to such a degree that it was bound to prejudice markets for economic producers. The net result of all this was that the quantity of primary products which Australia could sell, and the prices, were often unfavourable.

17. Australia was developing her exports of industrial products - iron and steel, vehicles and parts, petroleum products, for example - but they could do better still if they were able to export more of those commodities such as wheat, where Australia had marked comparative advantages.

18. In concluding, the Australian representative assured the Working Party that his Government's policy was to proceed with trade liberalization as soon as the balance of payments permitted, but hard experience had taught them the unwisdom of making premature relaxations of restrictions.
Balance-of-Payments Position and Prospects, and Alternative Measures to Restore Equilibrium

19. Initiating the discussion, a member of the Working Party complimented the Australian delegation on the comprehensiveness of their statement; Australia was a typical case of a country whose balance-of-payments situation and level of quantitative restrictions, had to be viewed in terms of the world market price of primary commodities - in this case, the price of wool. It was important to consider, separately, the demand for, and the supply of, wool, on the world market. So far as the demand was concerned, it had been stated that this was beyond the control of Australia and was, in fact, influenced mainly by two factors - the balance-of-payments situation of the importing countries, and the state of demand for the particular product. It seemed, however, that there was a third factor of special importance, namely, the general level of economic activity. How far was it possible to determine the influence of each of those factors on the variations in the demand for wool? Concerning the supply side, it appeared that variations in wool supply from Australia could only be negative, in the sense that in some years there might be a shortage resulting from climatic or other reasons. Was it not possible, however, to adopt domestic measures, such as the establishment of buffer stocks, which might minimise the effect of the variations in supply?

20. In reply, the representative of Australia said it was quite true that the prices of commodities from Australia were influenced by the factors mentioned. The balance-of-payments situation of other countries was certainly an important factor. Prices could move drastically within a short time when, as in the case of wool, a major user happened to be in balance-of-payments difficulties. So far as a decline in individual demand was concerned, it was a curious fact about wool that, even in the depths of the depression years, there had been no large stocks left unsold. On the question of the effect of the general level of economic activity, there was a tendency for commodity prices to move up or down together. However, it would be impossible to say which of these various factors on the demand side was most important. Nevertheless, this was one aspect of the whole problem of commodity prices which Australia hoped would receive further attention, if not at the present Session of the CONTRACTING PARTIES, then at the next.

21. On the supply side, the point had been made that variations were likely to be mainly negative. However, in Australia there had been a steady increase in production during the last four years, due to pasture improvement, development of better breeds, and control of pests. The upward trend in the volume of production amounted to about 10 per cent annually in recent years. Thus of the improvement of about £150 million in wool receipts last year, £100 million could be said to have been due to higher prices, and £50 million to increased volume.

22. So far as buffer stocks were concerned, it might be possible to make out a case for a certain measure of stock-holding of wool to ensure availability. For technical reasons, however, neither the producing nor the consuming
countries had been able to see their way to adopt such a course. In Australia's view, it was not variations in quantity, so much as other factors, which appeared to be responsible for price variations. Attempts to exercise control by means of stock-holding had not been considered practicable; instead, Australia had been forced to look upon her accumulated overseas funds as a generalized buffer-stock, and that was one reason why the Government was determined to act cautiously in relaxing import restrictions.

23. While they recognized the degree to which Australia's position was influenced by external factors somewhat beyond her control, members stressed the relevance and importance of internal stability, and expressed appreciation of the Australian Government's realization of the importance of achieving and maintaining domestic equilibrium. There was general satisfaction with the assurance given by the Australian representative that his Government regarded good "house-keeping" - sound fiscal and monetary policies - as a very important factor which would help to eliminate or minimise reliance on import restrictions. Some members urged that Australia continue to apply vigorous fiscal and monetary action so that, in its own interest, as well as that of others, restrictions and discrimination could be further reduced and ultimately eliminated.

24. Questions were raised as to the adequacy of the present and anticipated inflow of foreign capital into Australia, and reference was made to the apparent disparity between the inflow of capital into Australia and into other countries of comparable economic potential. Canada was mentioned as an example.

25. The representative of Australia replied that, with due consideration to the level of Australian imports and reserves, the level of foreign investment in Australia of the past year must be considered fairly substantial. These inflows had been very beneficial and he judged that their level had been favourably affected by Australia's internal policy of good "house-keeping". On the other hand the Australian view was that it would be unwise to rely on the inflow of capital being maintained at the high level of recent years. During the period since 1953, private capital movements had been irregular. In 1952-53 there had been an outflow of £48.5 million (excluding undistributed income); in 1953-54 an inflow of £3.9 million; in 1954-55 an inflow of £74.3 million, in 1955-56 £87.9 million, and in 1956-57 £90.1 million. In view of such fluctuations, it was essential that a cautious approach be adopted in estimating the possible rate of capital inflow. It would be unwise to judge the adequacy of Australia's international reserves on the assumption that capital inflow would always continue at a high level. Furthermore, comparison with other countries could never be entirely satisfactory. Historically, Australia's private investment had always come from the United Kingdom, but since the end of the war, the United Kingdom had been declining in relative importance as a source of capital. At the same time, the dollar area was increasing in importance as a source of capital and the rate of capital inflow in recent years had made a very large contribution to the Australian balance of payments.
26. The representative of Australia was asked whether, if a reasonable degree of internal stability could be maintained, it would still be necessary to have a substantial degree of restrictions on imports; and whether, with the achievement of this stability, the level of the reserves which the Australian authorities would regard as necessary would have to be quite as high as had been considered essential in less stable periods. Further, if the international financial markets of the world were so organized that savings for investment could be better tapped, could Australia, having achieved a reasonable degree of stability, expect that the inflow of both public and private capital would facilitate the financing of necessary imports and contribute to the avoidance of import restrictions?

27. In reply, the representative of Australia said that it was the declared policy of his Government to eliminate restrictions as rapidly as circumstances permitted. Good progress had been achieved in this direction. As regards the level of reserves, what was regarded as necessary at any time depended upon various factors. It was clear that the level which would need to be maintained if there was good "house-keeping" internally, or if the development of diversified exports proceeded satisfactorily, would be lower than if those factors were not present. The object of the Government was to try to operate with an adequate reserve level in relation to needs and trade; an examination of fluctuations in trade figures and in Australia's gold and foreign exchange holdings indicated that a rather higher level of reserves would have to be achieved than existed at the present time. He observed that, between 1950-51 and 1951-52 the current account balance of payments had changed from a surplus of £104 million to a deficit of £575 million. Over the twelve months June-1951 to June-1952, reserves had fallen by no less than £431 million.

System and Methods of the Restrictions, and Effects on Trade

28. Referring to the establishment by Australia of an "all countries" licensing list, a member expressed the hope that, in the light of the recent improvement in the level of reserves and the recent relaxation of restrictions on imports from non-dollar sources, it would soon be possible to add to the list more products available from the dollar area; less discrimination would allow Australian importers to purchase from the cheapest sources. In this connexion he recalled that in October 1955, the Australian Government had announced a reduction of 12½ per cent in dollar imports. He hoped that in the forthcoming review of licensing policy the possibility of widening the market for dollar goods would receive full consideration. He stated that, now Australia had achieved a better balance internally, it was in an improved position to capitalize on its achievements by maintaining momentum consistently in the direction of reduced discrimination. He pointed to the experience of New Zealand, where elimination of discriminatory restrictions against the dollar area had not always led to increased dollar imports, and urged an early expansion of the Australian "all countries" licensing list. He referred also to the system in operation in Australia under which importers of goods from the non-dollar area are assigned quotas, or in various ways are informed of the likely level of their imports for stated periods. He said it was his understanding that this advantage is not available to importers from the
dollar area, and asked if the disadvantage could be eliminated by assigning quotas of controlled goods to importers from the dollar area.

29. Another member called attention to the very substantial degree of discrimination which existed in the Australian system. There were, he believed, only about thirty-five items which could be imported from any source and among them only petroleum was not subject to quantitative limitation. It appeared that the regimes of the United Kingdom and other European and sterling area countries were less discriminatory, and he wondered whether existing payments circumstances could be said to justify maintenance of the marked degree of discrimination in the Australian system. More and more countries throughout the world had been coming to the conclusion that it was in their own interests to permit their importers to obtain their requirements from the most advantageous sources; the Australian system did not seem to have responded to the existence of de facto convertibility for major currencies and the narrowing of the difference between the "hardness" of means of payment now prevailing throughout the world. In the final analysis a country should consider its overall balance-of-payments position and it was not necessary to seek to achieve a balance with each of its trading partners or each currency area. He shared the view of those members who felt that within the general area of restrictions justified by Australia's overall payments position, much greater progress should be made, as a matter of sound economic practice, towards the reduction of all discrimination.

30. In reply, the representative of Australia said that there was a persistent structural deficit in Australia's dollar balance of payments. In 1952-53 the deficit was £126 million; in subsequent years it was £163 million, £237 million, and a little over £200 million. Australia had therefore to acquire dollars elsewhere. It was true that as a member of the sterling area, Australia was able to convert her sterling holdings into dollars on demand. But the sterling area's total dollar availabilities were limited and the United Kingdom had recently been forced to borrow from the Export/Import Bank and to obtain drawings from the International Monetary Fund to bolster the reserves of the sterling area. In the circumstances, Australia, in harmony with the general understanding within the sterling area, felt that it was under some obligation to restrain dollar expenditure and restrict its drawings out of the sterling area dollar pool to a reasonable amount. The Australian representative explained, however, that the import-policy of his Government was determined by the status of, and prospects for, Australia's own balance of payments. From Australia's point of view, the root of the trouble appeared to lie in the general scarcity of dollars in the non-dollar world. It was his understanding that in recent times the balance-of-payments of the dollar area with the non-dollar world had been showing some disturbing trends: United States exports had risen more than United States imports, and payments to the United States of America had increased. The problem of increasing the dollar earnings of the non-dollar world may not be entirely the responsibility of the non-dollar world. Australia had not, in spite
of her efforts, been able to increase her sales to the dollar-area partly because of policies adopted by the dollar countries. Nevertheless, Australia fully realized that from her own point of view, as well as from the point of view of her trading partners, there were dangers in being cut off from certain sources of supply for extended periods of time.

31. In regard to licensing criteria, these had been so devised as to ensure that Australian industry, within the limits of the total dollar funds obtained from earnings, and by conversion of sterling, was not prejudiced or hampered in its activities. Reference had been made to the 12½ per cent reduction in dollar imports announced in 1955, but without some further explanation this statement was apt to be misleading. In fact, compared with 1950-51, dollar imports had increased by about 57 per cent while exports to Australia from the sterling area and from non-sterling non-dollar countries had tended to decline. To this extent there had been a considerable decrease in discrimination over the last seven years. While it was true that in October 1955 dollar goods had been cut by 12½ per cent, imports of sterling area goods had also been reduced. In July 1956, however, when the import licensing rate was cut by about £130 million there had been no reduction in the total funds allocated for imports from the dollar area. Accordingly imports from the dollar area had fallen much less in 1956-57 than imports from the sterling area and the non-dollar non-sterling area.

32. The Australian representative observed that, on the question of the discriminatory elements in the licensing system as between dollar and non-dollar sources, the Australian method was different from the OEEC liberalization procedure which judged the degree of freedom of trade by the percentage of liberalization in relation to a base period. Australia used what was known as the "administrative budget" method which applied principally to goods, such as raw materials, capital goods, and industrial components, which were subject to continual fluctuations in the year to year requirements. The administrative budget provided a sum of money for the importation of those classes of goods, and its allocation depended upon the relative essentiality and the priority of the individual needs for them. The budget applied to dollar goods as well as to non-dollar goods. It was misleading to measure Australian discrimination by the number of commodities in the "all-countries" list.

33. In judging what items should be licensed from the dollar area, careful consideration was given to the needs of importers. If representations were made by an importer that it would be cheaper to obtain a particular item from a dollar source of supply, approval would be given to the extent justified by the payments position. It was sometimes the case that when it became known that licences would be granted for certain dollar imports, the prices of comparable non-dollar goods which, until then, had been higher than those of the dollar goods, showed a quite remarkable tendency to fall. In practice therefore, there was far more flexibility than might appear to be the case.
34. As to the degree of discrimination in the Australian licensing system compared with that of other countries, the fact that the proportion of imports from the dollar area had greatly increased, was an indication that Australia was following a progressive policy. To a much greater degree than might be apparent, importers were being permitted to buy in the cheapest markets without restriction. The fact that the pressure for licences for imports from the dollar area appeared to be diminishing was some evidence that Australia was getting closer to the time when the necessity for maintaining even a framework for discrimination might be expected to disappear. An indication of this trend was the recent increase in the number of items which could be licensed on a world basis.

35. Replying to another question concerning the period of validity of licences, the representative of Australia said that licences were valid for one year—e.ven though they were issued every four months. They had previously been issued quarterly, and the Government were considering whether they might not be issued every six months instead. Since a licence, once issued, was valid for a period of one year from the time of issue, there would be no difficulty in supplies arriving from any part of the world within the period of validity of the licence.

36. A member from the dollar area commented that, in regard to discrimination against the dollar area, the essence of the Australian argument seemed to be that the position was not so bad as it appeared and that full account was taken by the authorities of price considerations in determining whether or not licences should be issued for essential imports. It seemed to him, however, that the "feel" of traders as to the best sources from which to buy had to be communicated to and through the licensing authorities. If Australia were to pursue the logic of its declared policy, it should be led to the position where importers were allowed to decide, in regard to permitted imports, where it was best for them to buy. Australia's attitude concerning the question of discrimination appeared to him to be still influenced by the thinking of the past, and too much attention was being paid to a presumed and not entirely real difference of the costs of settling with different currency areas.

37. Another member, referring to the statement by the Australian representative that the United States balance of payments within recent months had shown a disturbing trend, explained that, from 1950 to the last quarter of 1956, countries other than the United States had, as a result of their transactions with the United States, increased their gold and liquid dollar assets by $12 billion. He added that, during the period 1953—third quarter 1956, the rest of the world had accumulated gold and dollars arising from their transactions with the United States at a rate varying from $1 billion to over $2 billion per year. During the first half of 1956, the rate was running at a higher than average level. During the last quarter of 1956, however, there had been a shift. This was associated with a number of temporary factors, including the need to import large quantities of petroleum from the
dollar area, temporary movements of short-term capital, and inflationary conditions in a number of major trading countries. The inflow of gold and dollars into the United States during the last quarter of 1956 and the first quarter of 1957 had not, however, been of anything like the magnitude of the outflow during the previous years. In the second quarter of 1957, the rate of inflow had slowed down considerably, if not stopped, and the outlook for the third quarter was for further movement in that direction. It was true that the export surplus from the dollar area had been growing within recent times but this did not necessarily mean that it was being paid for in dollars; part of the exports had been sold against foreign currencies. An even more important factor had been the very substantial increase in private investment from the dollar area. This generally took the form of the establishment of plants abroad supplied by and paid for by private investors in the dollar area. In such cases, an increase in United States exports was directly financed by, and was the direct result of, an increase in United States investment abroad.

36. The question was raised by another member as to whether the pursuit of a policy of non-discrimination might not in certain circumstances aggravate the overall balance-of-payments difficulties which a country was experiencing; he expressed the view that if non-discrimination were to lead to a worsening of the position and a rise in the deficit, it would be contrary to the spirit of the GATT.

39. This view was supported by another member who was of the opinion that if equilibrium in the balance of payments was to be restored, and adequate convertible resources were not available, some temporary discrimination was inevitable, however regrettable that might be from the trade point of view. In response, a member of the Committee, while agreeing that discrimination in import licensing might be necessary in prevailing payments circumstances, recalled that such discrimination should be appropriate to the currency difficulties being experienced. He did not accept that in general in the present payments situation a policy of non-discrimination would necessarily involve a substantial additional call on the exchange reserves of the country applying restrictions; there might be additional demand for certain products but this might be offset by reductions in demands for imports from other sources or on domestic availabilities.

40. Replying to the several comments that had been made, the representative of Australia made it clear that such discrimination as existed in Australia was based entirely on currency availability considerations and not on the total overall balance of payments or on domestic protection. Australia had no sources of dollars other than what she could earn by her own efforts, what she had the right to take from the sterling pool, and what she could borrow. Australia did not enjoy having to impose restrictions, and was as anxious as other countries to reach a stage where they would no longer be necessary, since restrictions were hurtful to herself as well as to other countries. He read the following extract from a statement made this year by the Prime Minister of Australia:
"The Government still aims to get rid of import restrictions altogether. This result will, however, depend on the achievement of a number of conditions including a still further increase in the volume of exports, favourable terms of trade, strong overseas reserves and sound internal policies with the restraints on total demand for goods and services which such policies require. These conditions are by no means impossible. In fact we have made good progress towards achieving them."

41. The Australian representative concluded by saying that import policy in his country was designed to reduce to a minimum the possible protective effects of quantitative restrictions on domestic production, and that the Australian authorities would do all in their power to avoid unnecessary damage to the trade of any country.

42. The Chairman, on behalf of the Working Party, expressed appreciation of the thorough way in which the Australian delegation had responded to the various questions. The Australian representative in turn thanked the Committee for their co-operation and understanding during the consultations, which, he felt, were of value to all parties participating in them.
Opening Statement by Australian Representative

Australia consulted with the CONTRACTING PARTIES under Articles XII:4(b) and XIV:1(g) at the Eleventh Session. At that time we had a series of intensifications to report and our balance-of-payments position was extremely unfavourable. Our reserves were at a very low level.

Now, however, we can come before the CONTRACTING PARTIES and report a substantial improvement in the balance-of-payments position and a significant recovery in our holdings of gold and foreign exchange. During 1957 the Government has been able to progressively relax import restrictions and we are currently licensing imports at a rate far above that obtaining at the time of our last consultation. Moreover the Government has several times announced its readiness to review present levels of licensing if the improvement in the balance of payments is maintained. A great deal therefore depends on our balance-of-payments fortunes over the next few months.

Mr. Chairman, the Committee has before it the excellent background paper prepared by the International Monetary Fund which gives very full information on recent trends in Australia. I therefore propose in this opening statement to confine myself to reviewing in fairly broad terms the nature of the changes that have taken place in the Australian economy and the prospects, as we see them, for our balance of payments in the current financial year.

Economic Development

It is a basic aim of Government policy that a high level of economic expansion should be maintained. Last year, for instance, gross private investment plus expenditure on public works accounted for almost one quarter of gross domestic expenditure. This is a very high rate of investment but it has been maintained in Australia for quite a number of years. Expansion at this rate naturally has some striking effects on the industrial structure. I may perhaps mention one or two examples:

**Steel**
Pre-war capacity was 1.3 million tons. Today it is in the region of 3 million tons and by 1961 it will have reached 3.6 million tons. The expansion in productive capacity which has taken place so far is the result of expenditure on new plant and equipment of approximately £60 million.\(^1\)

**Automobiles**
Before the war all Australia's requirements could be said to have been imported. Today Australian factories produce about 60 per cent of the value of motor vehicles purchased in Australia. Furthermore we have entered the export field in motor vehicles.

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1 Throughout this statement all such figures mean pounds Australian.
Aluminium

Production of aluminium commenced in 1955. We are now able to meet roughly 50 per cent of Australia's demands.

Oil refining

Investment of over £100 million has resulted in four large refineries and one small unit processing about 8 million tons of crude oil a year.

The list could be expanded but the examples are enough to illustrate the nature of the industrial expansion taking place.

There is another equally basic aim of Government policy which should be mentioned in any discussion of the Australian economic scene. Between 1947 and 1957, Australia's population increased by 27 per cent. This is a remarkable rate of population increase by any standards and it has only been made possible by a high rate of immigration. It is present Government policy to keep migration to Australia flowing at a rate of about 1 per cent of population per annum.

Naturally this high rate of economic expansion has raised many problems and at times it has placed a strain on the other two fundamental objectives of Government economic policy; namely, internal stability and external solvency. Over the past year, however, the situation in both these latter respects has shown considerable improvement.

Internal Stability

Retail prices increased by about 4½ per cent in 1956-57 as compared with 1955-56. But the greater part of this increase occurred in the early part of 1956-57 and latest advices suggest retail prices have moved little more than 2 per cent over the last twelve months. Wholesale prices were no higher at the end of 1956-57 than at the beginning.

A similar improvement has taken place in the labour market and earlier conditions of over-full employment have given way to a much healthier relationship between demand and supply. There has been a slight increase in unemployment but recipients of unemployment benefits are still less than 1 per cent of civilian employment. Furthermore total employment increased over the year as a whole. Such increases in unemployment as have occurred have been mainly associated with changes in particular industries. Labour turnover has been reduced and there appears to have been a general increase in industrial efficiency.

Output fell in some industries during 1956-57 but it expanded in others and the changes which took place could not be attributed to any general insufficiency of demand. What has taken place has been more in the nature of a "shaking out" process and industrial productivity generally has benefited.

In general I believe it can be said that in 1956-57, the Australian economy has reached a state of remarkable balance. For this result, the Government can claim its fair share of credit.
So far as its own finances are concerned, the Government achieved a small overall cash surplus in its financial operations in 1956-57. It achieved this after financing all of its own capital works expenditure from revenue and about half of the large capital works expenditure of the Six State Governments.

Monetary policy also played an important part in the achievement of internal stability in 1956-57. Bank liquidity was quite buoyant at the beginning of the year. Then about September 1956 the banks began to gain funds partly as a result of higher export incomes. To restrain the growth in liquidity the trading banks were required to meet calls to Special Accounts by the Commonwealth Bank in October 1956 and January, February and March 1957. At the end of the year the ratio of Special Accounts to deposits was about 22 per cent compared with 18 per cent at the beginning. There was also a reduction in Bank Advances during 1956-57 of £27 million, and interest rates were maintained at high levels.

Having attained some sort of internal balance at a high level of economic activity the problem is, of course, to preserve it. This was one of the main objectives of the 1957-58 Budget introduced last September. The following extract from the Budget Speech sets the general tone of the Budget:

"We are in a position to give some tax relief and we propose to give it. But we do not feel called upon to start undoing, step by step, the measures we undertook eighteen months ago for the very purpose of correcting an unbalanced situation and bringing about the kind of well adjusted situation we now enjoy. Neither do we judge it necessary or desirable to give a wholesale boost to activity and expenditure."

Expenditure in 1957-58, after providing for the financing from revenue of the whole of the Commonwealth Government's capital works programme and for increases in the rate of pensions, unemployment and sickness benefits, was estimated at £1,202 million, some £80 million higher than in 1956-57.

On this figuring the Treasurer would have had a prospective surplus in hand of £145 million.

Despite almost unprecedented pressure for tax concessions from all quarters, the Government decided that if its overriding aim of preserving stability was to be achieved, a large part of this prospective surplus must be set aside to meet extra-budgetary commitments. The most important of these are support of the works programmes of the State Governments - mainly of a basic developmental character - and provision for redemption of such part of the exceptionally large amount of public debt maturing this financial year as it may prove impracticable to re-finance by conversion loans.

Accordingly the decision taken by the Government was to introduce taxation proposals the net effect of which was to reduce the revenue estimates for 1957-58 by about £26 million or 2 per cent. As a result of these taxation changes, the prospective surplus was reduced from £145 million to £119 million. The Treasurer announced that the whole of this amount would be appropriated to the Loan Consolidation and Investment Reserve where it will be available to meet the extra-budgetary commitments already referred to. Furthermore most of the taxation concessions were directed towards removing anomalies and most of the taxation increases introduced in 1955-56 to curb inflation were maintained.
Overall the Government has aimed at achieving at least a balance between its total cash receipts and its total cash outlay. Provision has been made to use taxation revenue on an even greater scale than last year to finance Governmental public works expenditure.

In the monetary field the policy of restraint will be maintained. It may perhaps be helpful as some indication of the present views of the Central Bank if I read the Committee the following extract from the annual report of the Commonwealth Bank:

"The Central Bank announced in May that it had informed the banks that the economy appeared to have moved towards a condition of reasonable balance, although there were factors developing, arising particularly from the balance of payments, which could lead to a renewal of inflationary pressures. The Bank stated that while it would not be appropriate at that time to make any general relaxation of credit, it was no longer necessary for total advances of the banking system to fall further apart from normal seasonal variations. However it was emphasized that there would be no general increase in bank loans and that advances should not be relied upon to finance large capital expenditure."

**External Solvency**

While there were notable improvements in the internal economic position in 1956-57, the most dramatic change was the swing-round in the balance of payments. Export income reached the record level of £980 million while imports were held to £717 million. The net deficit on invisibles was slightly lower and with the improvement in the trade balance, there was in the upshot a net current account surplus of £80 million compared with a deficit of £235 million in 1955-56. Net capital inflow amounted to £132 million (mostly on private account) so that over the year £212 million was added to international reserves, thus restoring the heavy losses sustained over the two previous years. Reserves at 30 June 1957 stood at £566.5 million.

The main factor in the improvement in export income was a substantial increase in the value of wool exports. The clip was some 11 per cent greater in volume than in 1955-56 and the average export price was about 30 per cent higher. In consequence the value of wool exports rose to more than £500 million.

As soon as it became apparent that the prospects for export earnings in 1956-57 were much better than had previously been thought, the Government decided that there should be an immediate relaxation of import licensing restrictions. Liberalization measures announced in January, February and April of this year could not, however, greatly affect the recorded import total for 1956-57. In the outcome imports at £717 million were £102 million lower than in the previous year.
Balance-of-Payments Prospects

Because of the variability of the Australian balance of payments, it is particularly difficult to make predictions at this early stage of the financial year. No doubt most countries believe their balance of payments are subject to abnormal fluctuations and I can only say that in Australia's case this tendency to abnormality goes to extreme lengths.

In the case of exports we have the fact that we are still to a large extent, a one commodity economy. In 1956-57, for example, wool accounted for about half our export income, and wool prices are extremely variable. A penny per pound change in the price of wool means about £6 million to our balance of payments.

Then there are changes in overseas markets which are not associated with free movements in demand and supply but which are the result of policy decisions in other countries. We do what we can by negotiation to ease these problems but unfortunately we do not always have complete success.

There is also the problem of unfavourable seasonal conditions. We are in the throes of a drought at the present time and it will have a substantial effect on our incomes not only in 1957-58 but next year as well. In particular, anything which affects sheep numbers now affects future wool clips.

Not only is our export income variable but, to complicate matters, so is the demand for imports, and it seems to lag behind export changes in such a way as to cause a maximum of confusion. The year 1951-52 was a very good example of this. By the time the import boom occurs the export boom has long since passed and reserves are declining.

Another source of instability in the Australian balance of payments is the capital account. Over the last three years we seem to have been able to inspire some confidence in private sources of foreign capital but we have to bear in mind that any loss of confidence could turn a substantial inflow into a substantial outflow.

Let us now look over the balance-of-payments prospects bearing in mind the uncertainties attaching to any prognostications at this stage.

1. **EXPORTS**

Last year exports reached a record figure of £980 million. This year exports should be well below that figure.

**Wool**

On present price trends, receipts from wool exports should show a sharp drop. This is partly due to wool prices which are running at 67d. per lb., compared with 80d. last year. It is also partly due to the effect of continued drought conditions on wool production.
Wheat and Flour

Because of extremely dry conditions the wheat crop this year is likely to be only a fraction of last year's crop which was itself small. It is clear that receipts from sales of wheat and flour will fall sharply in 1957-58.

Other Agricultural Commodities

Production of feeding grains, dairy produce and other foodstuffs will be affected by the dry conditions and this will mean some small reduction on last year's export receipts.

Minerals and Fuels

Because of falling world prices, export receipts from lead, zinc and copper are expected to be below last year's levels. Iron and steel exports are also expected to be down because of the demands of a new tin-plate mill now in operation.

Other Items

Altogether there seem to be very few items which will yield larger returns than last year and a significant fall in total exports seems inevitable.

2. IMPORTS

At the time of Australia's last consultation with the CONTRACTING PARTIES, imports were running at the rate of about £700 million per annum and licences were being issued at a rate aimed at reducing the rate of imports below that figure. There has been a very substantial change-round in import licensing policy since that time.

In January 1957 licensing relaxations were introduced which had the effect of raising import ceilings by somewhere about £30 million f.o.b. per annum.

Further relaxations announced as from 1 April resulted in a raising of the import ceiling for 1957-58 by £40 million f.o.b. to £775 million f.o.b.

Another set of relaxations were announced last August. The net effect of these relaxations on the import rate is not yet known, but there should be a significant increase on the £775 million figure. Over the last three months imports have been entering Australia at the rate of about £785 million per annum and the latest licensing changes will not have their full effects until 1958.

The net result on trade account is that with exports likely to be lower and imports likely to be higher, the large surplus of £263 million in 1956-57 is likely to be reduced to very small proportions in 1957-58.
Then there is the normal heavy deficit on other current account items — notably freight on shipping — to take into account, and if we did have the trade results mentioned above this would leave us with a substantial deficit on current account as compared with a substantial surplus in 1956-57.

How much of that deficit would be likely to be offset by capital inflow? This is anybody's guess since it largely depends on whether or not private capital inflow continues at the high rate of recent years. One factor is likely to be the increase in Bank Rate in the United Kingdom. The longer term investment programmes may not be unduly affected but there might be some adverse short-term capital movements. There have been reports of the switching of short-term wool financing from London to Australia. However London is not by any means the only source of private capital inflow and much will depend on conditions in the capital market in the United States and Canada.

In view of the nature of private capital movements it is unwise for any Government to count on substantial inflows on private account and, if the trade results suggested above came to pass, we would face the possibility of some fall in reserves in 1957-58.

What then are the prospects for further substantial import licensing relaxations in the near future?

In announcing the instalment of liberalizations which operated from 1 August last the Minister for Trade said that any comprehensive review of the possibility of further relaxations must await the development of the new export season, and added that it was the Government's intention to make such a review at the end of November.

It would be improper for us to attempt in any way to anticipate the outcome of that review. However, there is perhaps some advantage to be derived from setting down some of the considerations which would have to be borne in mind. One can look at the situation this way. If imports in 1957-58 were, for argument's sake, in the region of £800 million, one could add to that a deficit on invisibles of almost £200 million. It is risky to count too much on private capital inflow but if one assumed a surplus on-total capital account of say £50 million one would still need exports of over £950 million to allow for any increase in imports without a fall in reserves. Such a high level of exports has occurred only twice in Australia's history. The above figures are more or less arbitrary but nevertheless it is clear that the key to the situation lies in developing exports.

Can we do anything about increasing Australia's exports? Here, Mr. Chairman, we may be accused of drawing red herrings across the trail, but we do believe that our inability to import more is in large part a direct consequence of our inability to obtain entry in foreign markets for the commodities we are best able to produce. In some cases we find markets pre-empted by other suppliers who are not competitive with our own producers but who are involved in bilateral deals with the buying country. In other cases we are kept out of markets by quota restrictions or other
regulations of commerce. In many cases we find heavily subsidized production taking place in countries which before the war were net importers. Furthermore production has often been increased to the stage where surpluses are developing and countries which should be importers are looking for export markets. Then again the disposal of surpluses on commercial markets on concessional terms is being carried on to such a degree that it is bound to prejudice markets for economic producers. The net result of all this is that the quantity of primary products which Australia can sell and the prices at which we can sell are often unfavourable due to circumstances which are no fault of ours.

We are developing exports of industrial products. In 1956–57 exports of iron and steel products increased from £7 million to £27 million. Exports of vehicles and parts increased from £3 million to £10 million. Exports of petroleum products increased from £8 to £11 million. However, Mr. Chairman, welcome as these developments are, we are old fashioned enough to believe that we could do much better still if we were able to export more of these commodities such as wheat, in the production of which we have marked comparative advantages. If that were possible our ability to increase imports from other countries would increase in proportion.

In the meantime I can assure the Committee that the policy of the Australian Government is to proceed with the liberalization of the present import regime as soon as the balance-of-payments situation and prospects suggest that such action can be safely taken.

However, hard experience has taught us the unwisdom of premature relaxations of restrictions. There is nothing more disruptive than sudden variations in the level of import licensing and it would be no more in the interests of our overseas suppliers than of our own economy if we were to introduce liberalization measures which we found it impossible to maintain.

In the course of the present consultations we shall be glad to do our best to supply any further information members of the Committee may wish to have about our balance-of-payments position and about the details of the import licensing relaxations we have introduced in successive stages over the past year.
K. THE CONSULTATIONS WITH NEW ZEALAND

I. Consultations on Import Restrictions

1. In accordance with its terms of reference, the Working Party has conducted the consultations with New Zealand under paragraph 4(b) of Article XII and paragraph 1(g) of Article XIV.

2. The Working Party had before it:

   (a) a basic document prepared by the New Zealand authorities on behalf of the secretariat describing the system and methods of the balance-of-payments import restrictions in force in New Zealand. The document also contains a statement on "the effects of the restrictions on trade" embodying the views of the New Zealand authorities;

   (b) a document provided by the International Monetary Fund; and

   (c) a reply prepared by the New Zealand Authorities to a questionnaire concerning the consultations under Article XIV:(1)(g).

These documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultations the Working Party followed the "Plans" recommended by the CONTRACTING PARTIES for consultations. The present report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with New Zealand. As a part of the consultation between the CONTRACTING PARTIES and the Fund the latter supplied a paper on economic developments and changes in the restrictive system of New Zealand. In accordance with the agreed procedure, the representative of the
The Fund was invited to make a statement supplementing the Fund's documentation concerning New Zealand's position. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on economic developments and changes in the restrictive system of New Zealand, dated September 11, 1957. In preparing this paper, the Fund has had available a considerable amount of factual data on the current situation of New Zealand and has received the co-operation of officials of New Zealand in ensuring the accuracy of the data used and in supplying the latest available information. I should like to take this opportunity to express the Fund's appreciation for this assistance.

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

5. In opening the consultation the representative of New Zealand made a general statement on economic conditions and policies in New Zealand. The full text of the statement is given in Annex I and is summarized in the following paragraphs.

6. The New Zealand representative stressed the vital importance of external trade to New Zealand's economy, and its dependence for export income on the sale of a limited range of agricultural products. It was therefore essential for New Zealand to have freer access for those commodities, particularly dairy products and meat, to the markets of many countries which were now restricted, if New Zealand was to find economic employment for its rapidly rising population. The high rate of population increase in New Zealand called for a very high level of capital investment, and such investment involved many long-term projects on which expenditure could not be reduced in response to short-term fluctuations in other sectors of the economy. Furthermore, the rapid growth in population necessitated provision being made for increased expenditure on capital investment each year, and to finance such increased expenditures without inflation a continuous expansion in New Zealand's external trade was required.

7. The representative of New Zealand then drew attention to the need for New Zealand to increase its external exchange reserves, which had been inadequate for many years. Reference was made to the position in December 1955 when New Zealand's reserves fell to £65 million, an amount equivalent to less than four months overseas payments in 1955. This had been a serious situation requiring immediate and strong action. Although it would have been open to the New Zealand Government to intensify restrictions on imports, it has so far relied on monetary and fiscal measures to curb the rising internal demand in New Zealand. Whilst those internal measures, which the New Zealand representative described in detail, had led to some improvement in the balance of payments, it was considered that they could not by themselves be relied upon
to maintain a balanced economy. New Zealand's reserves in September 1957 stood at £93 million only, and this was considered to be an inadequate level, having regard to the heavy demand for imports and to the possibility of a sudden drop in export receipts because prices for New Zealand's main export products were so susceptible to fluctuations.

8. The representative of New Zealand re-emphasized the need for New Zealand to have freer access to expanding markets for its increased output of farm products. In recent years, however, New Zealand had been faced with grave difficulties in expanding its exports at remunerative prices because agricultural production has been expanded in many countries under the stimulation of artificial support schemes, and this had resulted in restrictions on imports, disposals of surpluses at prices less than production costs, and in depressed prices in world markets. Because of this situation New Zealand's overall terms of trade had deteriorated, and for some of New Zealand's main export commodities, notably dairy products, the terms of trade had declined substantially.

9. In spite of those difficulties, New Zealand had so far been able to continue the policy of liberalization of imports followed during the last few years. Liberalization had been directed not only to reducing the number of items subject to control from non-dollar sources, but also to eliminating discrimination against the dollar area as quickly as possible. During the last five years the overall percentage of liberalized private imports had risen from 74 to 86 per cent, while over the same period liberalization of imports from the dollar area had increased from 9 per cent to 65 per cent.

Balance-of-Payments position and prospects

10. The representative of New Zealand referred to the background paper supplied by the International Monetary Fund and supplied additional statistics (see Annex II). In the view of the New Zealand representative the recent downward trend of wool prices and the persistent tendency for import payments to increase indicated that an improvement in New Zealand's balance of payments in the foreseeable future could not be expected. It was not unlikely that the overall surplus of £9 million in 1956 would be converted into a significant deficit in 1957.

11. Members of the Working Party welcomed the statement by the New Zealand representative which showed that the policy of his Government had been to rely principally on fiscal and monetary measures for restraining internal demand and to continue with the removal of import restrictions wherever practicable. Having regard to the progressive expansion of liberalization measures to imports from the dollar area, a member of the Working Party enquired as to the reasons for the decrease of imports into New Zealand from that source in the past two years as shown in Annex II. The representative of New Zealand pointed out that the figures in Annex II related to the last three years ended June and although they showed a continuous decline this did not represent any secular trend. For example, in the three years ended March 1955, 1956 and 1957 imports from the dollar area amounted to £28.6 million, £31 million and £27 million respectively.
An analysis of the statistics of imports from the dollar area in the calendar years 1955 and 1956 showed that there had been a decline in imports from that source of several important commodities which were on the world exemption list, e.g.

<table>
<thead>
<tr>
<th>Import from United States</th>
<th>1955 (£ million)</th>
<th>1956 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Sulphur</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Timber</td>
<td>0.25</td>
<td>0.13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Import from Canada</th>
<th>1955 (£ million)</th>
<th>1956 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned Fish</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Timber</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Metals</td>
<td>0.9</td>
<td>0.6</td>
</tr>
</tbody>
</table>

As those items could be imported into New Zealand without restriction from any source, it could only be assumed that the decline in imports from the dollar area was due to commercial considerations. With regard to goods still subject to control, there was a decline in imports from the dollar area of certain major items, e.g. machinery and transport equipment because of an improvement in availability and prices from non-dollar sources. The New Zealand representative brought to the attention of the Working Party that in a press statement dated 2 August 1957 regarding the 1958 licensing period the responsible New Zealand Minister had announced, inter alia, the addition of further items to the world exemption list and that the allocation for imports from the dollar area in 1958, of items still subject to control, had been increased to £11 million, compared with £8.8 million for 1957.

12. The representative of a dollar area country welcomed the additional liberalization measures announced by New Zealand and expressed the hope that the New Zealand Government would give consideration to extending dollar liberalization beyond the area of essential raw materials and capital equipment to include some consumer goods. The representative of New Zealand pointed out that dollar liberalization had not been limited entirely to those classes of goods and drew attention to the inclusion in the world exemption list of a number of types of consumer goods, e.g. canned fish, prunes and tobacco. The representative of New Zealand stated, however, that the views that had been expressed in the Working Party on the matter would be conveyed to his Government.

13. In reply to a question from the representative of a dollar area country concerning the effect on New Zealand's balance of payments of the import restrictions it maintained, the representative of New Zealand stated that New Zealand endeavoured to apply as liberal a policy as possible with regard to imports.
Constant attention was given to the possibility of extending liberalization but in present circumstances it was necessary for New Zealand to proceed with some caution because of the risk of running into overall balance-of-payments difficulties. If, for example, imports of motor vehicles were freed New Zealand could get quickly into balance-of-payments difficulties, particularly with the dollar area.

14. A member of the Working Party called attention to New Zealand's large trade surplus with non-sterling EPU countries and enquired as to the reasons for that situation. In reply the representative of New Zealand stressed that in the application of its import licensing controls New Zealand did not discriminate in any way against the non-sterling EPU countries; such countries received exactly the same licensing treatment as the United Kingdom and other members of the sterling area. The principal reason for New Zealand's export surplus with the non-sterling EPU area was the large volume of wool and other international raw materials such as hides and skins which New Zealand sold to European countries. A member of the Working Party suggested that the incidence of tariff preferences accorded by New Zealand might also have some bearing on the trade balances with certain countries but it was recognized that this was a subject outside the scope of the consultation.

15. Members of the Working Party representing countries in the dollar area pointed out that with currencies becoming in effect more convertible there was a general realization that countries should consider their payments position on the overall balance rather than on the regional balances. They submitted that a country applying restrictions on balance-of-payments grounds should give its importers as much freedom as possible in the choice of sources of supply as this would assist in keeping down internal prices and costs of production. In the case of New Zealand they suggested there were certain sectors in which further liberalization of dollar imports might not involve any additional risk for the balance of payments. The representative of New Zealand replied that in the view of his delegation his Government had liberalized imports to the fullest extent justified by the existing position of New Zealand's monetary reserves. Observing that the effects on the balance of payments of further liberalization of imports was a matter of judgment, the New Zealand representative stated that the views expressed by the other delegations on this point would be conveyed to his Government.

16. At the request of members of the Working Party, the representative of New Zealand described his Government's policy regarding foreign capital investment. It was noted that the basic policy of the New Zealand Government was to encourage investment from any source, and that foreign investors received the same treatment as that accorded to New Zealand investors. The remittance abroad of dividends and profits from foreign capital investments was completely free and a liberal policy was followed in regard to repatriation of foreign capital. Under a decision recently taken by the Government, capital which had come into New Zealand for investment in any approved project could be freely repatriated at any time.
Alternative Measures to restore Equilibrium

17. A member of the Working Party, referring to the present difficulties in exporting agricultural products, enquired whether there were any possibilities for New Zealand to develop exports of other products. Reference was made to New Zealand's production of pulp and paper which, according to the IMF background paper, was expanding. The representative of New Zealand stated that timber was one of the important natural resources of New Zealand but development costs were exceedingly high. One project costing some £30 million had only recently come into production. Sawn timber and pulp were already being exported to Australia, and steps had been taken to explore export possibilities in other markets. Generally speaking, it was an industry which, given the necessary capital, could be expanded substantially in the foreseeable future.

18. Members of the Working Party commented favourably on the remarkable degree of internal stability achieved in New Zealand and considered that the statement made by the New Zealand representative also showed that his Government was clearly aware of the need to check any inflationary tendencies and to take effective measures to combat them whenever they appeared. As noted in the IMF background paper, the New Zealand Government had stated that, with a rapidly expanding population, a rising public expenditure should be accepted but this must be provided by taxation and by borrowing from saved money. In reply to a question concerning the financing of any budgetary deficits the representative of New Zealand stated that it was the general policy of his Government not to resort to borrowing from the Reserve Bank. The principal sources of finance were revenue, internal loans and overseas borrowing and it was only in the last resort that loans from the Reserve Bank were requested. Over the past eight years the Government's policy had been successful and there had been no net increase in indebtedness to the Reserve Bank.

19. In reply to a question put by a member of the Working Party as to whether the New Zealand authorities considered internal fiscal and monetary measures would be sufficient to restore balance-of-payments equilibrium, especially in the case of a rapidly developing economy based predominantly on agriculture, the representative of New Zealand referred to his opening statement wherein he had said that internal measures had led to some improvement in the balance-of-payments position, but could not by themselves be expected to solve the total problem. As a country which depended heavily on exports it was essential for New Zealand to have access to expanding markets for its main export commodities. New Zealand was very concerned about the present trends in external markets for agricultural products. If those trends continued New Zealand's balance-of-payments situation might become such that it would not be possible to remove restrictions on imports.

20. The representative of New Zealand was invited to comment on a suggestion that GATT had not helped agricultural exporting countries to solve their problem because it had been weakened by the practice of granting of waivers to industrial countries enabling them to maintain restrictions on imports of agricultural products. The representative of New Zealand said that while his Government were unhappy about the position, and at times doubted whether membership of GATT
was any value to them. They were of the opinion that, on balance, the existence of GATT had led governments to adopt less restrictive policies as far as this was possible within the limits of their economic, social and political problems.

Systems of Methods of Restriction

21. The representative of a country in the dollar area pointed out that the system of basic allocations had been applied in New Zealand for a number of years to imports from non-dollar countries only and enquired whether it would be possible for New Zealand to extend the system to imports from the dollar area also. The representative of New Zealand explained that in licensing imports from the dollar area the New Zealand authorities observed certain criteria including the essentiality of the goods and the availability of similar products from non-dollar sources, a factor which varies from time to time. Therefore, the basic allocation were provided throughout the field of commodities subject to licensing when imported from the dollar area, the New Zealand authorities would be unable to apply the criteria regarding availability from non-dollar sources. There were, however, certain items for which basic allocations for imports from the dollar area had been established and lists of such items were made known to the commercial community in New Zealand.

22. The representative of a dollar area country expressed satisfaction that the New Zealand global exemption list applied globally in the true sense of the word, and enquired as to the rate of progress in adding items to that list. The New Zealand representative stated that the list had been introduced in 1953 with twenty-one items and had been added to each year; the number of items had risen to 159 in 1957 and would be extended to 170 in 1958.

Effects of the Restrictions

23. A member of the Working Party called attention to the description in the basic document of the Import Control Regulations 1938 which provided the legal basis for the use of import restrictions in New Zealand. He referred to the provision in the Regulations that restrictions could be applied, inter alia, "to assist in promoting and maintaining the economic and social welfare", and suggested that this did not correspond with the criteria in Article XII of the General Agreement permitting the application of import restrictions for balance-of-payments reasons. He also drew attention to certain passages in the annual report for 1956-57 of the New Zealand Department of Industries and Commerce which indicated that further substantial relaxation of import restrictions could not be proceeded with because New Zealand industries receiving incidental protection through the operation of import licensing controls would have difficulty in meeting competition from imports under the existing New Zealand tariffs.

24. The representative of New Zealand explained that when the Regulations in question were introduced in 1938, New Zealand faced a serious crisis in its balance of payments and the Government decided to introduce import controls to deal with the problem. He submitted that it would be generally recognized that
a serious deficit in a country's balance of payments or a substantial decline in the level of its external monetary reserves constituted a threat to the economic and social welfare of that country. Such recognition was in fact implicit in Article XII of the General Agreement. As it was still necessary for New Zealand to maintain restrictions on imports for balance-of-payments reasons the restrictions were operated under the authority of the 1938 Regulations. Over the years, however, the import control policy of New Zealand had undergone some change. Consistently with the improvement in the balance-of-payments position and with New Zealand's obligations under the General Agreement, the use of quantitative restrictions had been reduced.

25. With regard to the departmental report referred to above, the New Zealand representative pointed out that it was made by officials and did not necessarily represent the views of the Government and in any case it should be read in the light of the Government's declared policy which was to replace import controls by tariffs as soon as that was practicable. Quantitative restrictions had been in force in New Zealand since 1938 and during the war years New Zealand had to develop industries to supply its requirements of many goods which could not be secured from other countries and some of the shortages had continued for several years in the post-war period. Even if it were accepted that the establishment of some of these industries would not in normal circumstances have been economic, they could not be closed down suddenly. It was the policy of the Government to deal with the problem gradually. In 1949 the Government had set up a Board of Trade to carry out tariff reviews and to advise it on the application of import licensing controls. The Board has undertaken a complete review of the New Zealand customs tariff which has been substantially unaltered since 1934, and is unsuited to present-day conditions. It was expected that a completely revised tariff would shortly be submitted to the Government and with the introduction of the new tariff some further items might be removed from import licensing control, but there could be no certainty of this in view of present trends in the balance-of-payments position.

26. The New Zealand representative said that the departmental report referred to indicated that New Zealand might eventually have a "hard core" problem but that it was a rather hypothetical point at this stage because the balance-of-payments prospects were not such as to give any hope that New Zealand would cease to have recourse to Article XII in the near future. He pointed out that any "hard core" problem New Zealand might have would be very small in terms of the total volume of trade. New Zealand had liberalized 89 per cent of its trade with non-dollar sources and the remaining 11 per cent contained very little potential "hard core" element.

27. The representative of Canada, while expressing appreciation of the steps taken by New Zealand to liberalize imports from the dollar area, noted that the existing restrictions precluded the access of certain Canadian products to the New Zealand market, and he hoped that the New Zealand authorities would give sympathetic consideration to making some provisions for imports of those products. The representative of New Zealand confirmed that it was the policy of his Government that such requests should be given due attention.
II. Consultation under the Waiver on Article XV:6

28. The Working Party also conducted the consultation with New Zealand under the Decision of 20 January 1955. Pursuant to Article XV:2 the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation. During the discussion the representative of the Fund stated that the Fund had had available for this purpose a considerable amount of factual data on the current situation of New Zealand and that the authorities of New Zealand had co-operated in making information available and ensuring its accuracy.

29. The Working Party also took note of a statement by the representative of the Fund that the Fund, after examining the information, had found nothing to cause it to comment on the question as to whether New Zealand's action in exchange matters was consistent with the Fund's principles.
ANNEX I

INTRODUCTORY STATEMENT BY NEW ZEALAND REPRESENTATIVE

Preliminary

The information contained in the three documents described by the Chairman is, we hope, adequate to carry out our consultations under Articles XII:4(b) and XIV:1(g). I therefore propose to confine my introductory remarks to two matters. Firstly, it may be of interest to the members of the Working Party to get a thumbnail sketch of economic conditions, prospects and policies in New Zealand. Secondly, I would like to give the Working Party some recent information on balance-of-payments developments and prospects which has come to hand since the various background papers were prepared.

New Zealand Economic Conditions

New Zealand’s economy is vitally dependent upon overseas trade. Our external trade per head of population is among the highest in the world, and the value of our exports represents about one-third of our national income. A corresponding proportion of national expenditure is devoted to goods and services imported from other countries. For its export income New Zealand is dependent on the sale of a very limited range of agricultural products. In 1956 the four major products – butter, cheese, meat and wool accounted for 85 per cent of our total export receipts. We are able to produce these commodities efficiently and competitively and in increasing quantities.

I hope to show that it is essential for us to be given freer access for these commodities, particularly dairy products and meat, to the markets of many countries which are now restricted if we are to find the most economic employment for our rapidly rising population.

Between the 1951 and 1956 censuses the average increase in population was at the very high rate of 2.3 per cent a year. Our present population is about 2½ million. Immigration has contributed substantially to the increase in population. In the past ten years the country has absorbed more than 100,000 immigrants. To maintain this rate of population increase demands a very high level of investment. Between 1951 and 1956 the average level of gross capital formation (excluding changes in the value of stocks) was about 22 per cent of gross national product. In other words, we have devoted nearly one-quarter of our gross national product to the creation of new capital assets. Over 40 per cent of this large amount of capital investment has been in the public sector on such projects as hydro-electric schemes, land settlement, schools, railways, harbours, roads and telecommunications needed to provide a firm foundation on which the private sector can expand. Such projects require long-term planning and it is difficult to reduce expenditure on them in response to short-term fluctuations in other sectors of the economy. Moreover, in view of our rising population, our long-term plans have to make allowances for a fairly substantial increase in expenditure each year. To finance such increased expenditures without inflation, continuous expansion in our overseas trade is necessary.
We also need to build up our reserves of overseas exchange. They stood at only £93 million in September 1957, and have not been adequate for many years and at times have been dangerously low. In 1953 our reserves had fallen to such an extent that we found it necessary to introduce a system of exchange allocations for all imports. This contributed to a temporary fall in imports and a consequent rise in overseas reserves, but when the scheme was abandoned imports again began to increase. Despite relatively high export receipts and some overseas borrowing, substantial deficits in the balance of payments occurred.

By December 1955 our overseas reserves had fallen to £65 million, an amount equivalent to less than four months' overseas payments in 1955. This was a serious situation and could not continue without gravely endangering our ability to safeguard ourselves against the worst effects of any possible recession in trade. It may appear on the face of it that a level of reserves equivalent to four months' imports would not be unreasonable. However, such a judgment would ignore completely our distance from the markets of many supplying countries, and our dependence on export earnings from commodities whose prices are liable to fluctuate violently. Because of the long shipping haul to New Zealand, importers have to order many months ahead and we have found by experience that even drastic restrictions of imports do not lead to a reduction in payments for about six months. In other words, if we were, for example, to intensify our restrictions now we could not expect any effect until about May of next year. Yet our earnings of overseas exchange can fall extremely rapidly. On two occasions our receipts from wool have been more than halved from one year to the next. In the last three years our wool income has been between £90 million and £100 million. We cannot rule out the possibility of a drop in prices which would reduce our wool receipts by, say, £40 million to £50 million, and this would of course be reflected in our overseas reserves. We have found that in the past dairy produce and meat prices have usually fallen at the same time as wool prices. A simple piece of arithmetic would therefore show that the reserve level of £65 million required immediate and strong action.

Basically, we had two ways of meeting the problem. We could have intensified our control of imports - and such an intensification would have been consistent with Article XII of GATT - or we could have taken monetary and fiscal measures to curb our rising internal demand. In the event we have so far relied entirely on the latter measures.

In the field of monetary policy, the first step was to put pressure on the rising volume of trading bank advances. This was done by increasing the minimum cash deposits which the trading banks are required to hold at the Reserve Bank and by increasing the rate of interest at which the Reserve Bank lent to the trading banks. Then early in 1956 control over the maximum and minimum rates of interest chargeable on bank overdrafts was abolished and the banks were given greater freedom to use higher interest rates to discourage marginal borrowing. However, the average rate of interest charged on trading bank advances may still not exceed 5 per cent. Later in 1956 a new reserve ratio system was introduced under which the trading banks may be obliged to borrow from the Reserve Bank, at 7 per cent interest, an amount which is related to the extent to which their
advances exceed the level considered desirable by the Reserve Bank. In other words, it was made unprofitable for the trading banks to lend in excess of what the Reserve Bank regarded as a desirable total level of advances. The trading banks responded well to this new form of control.

Interest rates generally were also allowed to move up, including those on small savings, in Post Office Savings banks and National Savings, and the Trustee Savings banks. This led to a substantial increase in the amount of small savings.

In the field of fiscal policy, the Government so arranged taxation that there was an increase each year in the total yield. In addition, both current and capital expenditure by the Government were strictly limited and increases were only approved in the most exceptional circumstances.

The policy of monetary and fiscal restraint was reinforced by some reliance on direct controls. Hire purchase regulations were introduced for the first time in 1955 and existing controls over capital issues and building construction were tightened. This year, however, it has been possible to remove building control and to relax somewhat the controls on capital issues and hire purchase.

Although the measures described above have been successful and have led to some improvement in the balance of payments, they cannot by themselves be relied upon to maintain a balanced economy.

To support its growing population and to achieve greater stability in its balance of payments, New Zealand must seek access to expanding markets for its increasing output of farm products. Under normal conditions of trading New Zealand could meet competition on the basis of comparative costs of production. In recent years, however, we have been faced with increasing difficulties in securing access to satisfactory markets and even in retaining those we have because of the high level of agricultural protectionism throughout the world. The stimulation of farm production by various support measures has resulted in:

(a) restriction on imports of agricultural products as in North America and Europe,

(b) an expanded output in countries which are our main markets, resulting in price falls sometimes to uneconomic levels,

(c) disposals at less than production cost and below world prices of surpluses resulting from price support schemes.

The result has been that the terms of trade for some of our main exports, notably dairy products, have declined substantially. Also, despite rising wool prices the over-all terms of trade have moved against us.

I have shown that we have taken internal action to curb demand and that we are facing difficulties in gaining access to a number of markets for our highly competitive exports. It remains for me to mention briefly our record as far as import policy is concerned. Perhaps the outstanding fact is that despite our
difficulties which I have tried to describe we have been able to continue liberalizing imports during the last few years. This liberalization has been directed not only to reducing the number of items subject to control from non-dollar sources, but also to eliminating discriminations against the dollar area as quickly as possible. A table which has been distributed this morning shows that between 1953 and 1957 — that is in the last five years — the overall percentage of liberalized private imports has risen from 74 to 86 per cent. The change in liberalized imports from the dollar area has been even greater where there has been a rise from 9 per cent in the year ended June 1953 to 65 per cent in the year ended June 1957.

I should mention parenthetically that in two of the basic documents before the Committee our level of overall liberalization is stated at 90 per cent. This is a round figure and the precise figure as shown in the table distributed today is 86 per cent.

I think, Mr. Chairman, that the above figures are adequate proof of the statement made repeatedly in this Working Party by the New Zealand representative that our policy is directed to the attainment of a liberal trading position and that it is our objective to remove all quantitative restrictions on imports as soon as that is practicable.

**Balance-of-payments position - recent developments**

New Zealand's position under this heading is adequately covered in the various background papers at least until March 1957, and as far as the overall balance of payments is concerned, until June 1957. We have now obtained figures by currency areas up to June 1957, and the second table in the paper circulated this morning sets out New Zealand's exchange transactions with the dollar area for the last three June years. The Working Party will note that we still have a deficit with the dollar area which, in itself, justifies continued discrimination. In addition, we have to have regard to our obligations as a member of the sterling area.

As far as prospects are concerned, it is not easy to form an adequate judgment. However, from such indications as we can get, an improvement in our balance of payments in the foreseeable future cannot be expected. Wool prices have shown some decline in recent weeks in comparison with last year's prices. At the same time there is a tendency for our import payments to increase. In July and August of this year import payments were substantially higher than those of the same months last year. Moreover, preliminary estimates indicate a fairly substantial increase in import payments for 1957 compared with 1956. As no corresponding increase in export receipts is expected, it is not unlikely that our overall surplus of £9 million in 1956 will be converted into a significant deficit in 1957.
ANNEX II

STATISTICS SUPPLIED BY THE NEW ZEALAND DELEGATION

1. Percentage of Liberalized Private Imports

<table>
<thead>
<tr>
<th>Years ended June</th>
<th>From All Sources</th>
<th>From Dollar Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>74</td>
<td>9</td>
</tr>
<tr>
<td>1954</td>
<td>79</td>
<td>18</td>
</tr>
<tr>
<td>1955</td>
<td>77</td>
<td>29</td>
</tr>
<tr>
<td>1956</td>
<td>84</td>
<td>59</td>
</tr>
<tr>
<td>1957</td>
<td>86</td>
<td>65</td>
</tr>
</tbody>
</table>

2. New Zealand Exchange Transactions with Dollar Area

£ N.Z. millions

<table>
<thead>
<tr>
<th>Years ended June</th>
<th>1955</th>
<th>1956</th>
<th>1957</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>19.6</td>
<td>26.6</td>
<td>23.7</td>
</tr>
<tr>
<td>Other</td>
<td>2.5</td>
<td>6.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>22.1</td>
<td>33.5</td>
<td>26.7</td>
</tr>
</tbody>
</table>

| Payments         |      |      |      |
| Imports          | 30.9 | 29.5 | 27.2 |
| Other            | 5.0  | 6.3  | 7.4  |
| Total Payments   | 35.9 | 35.8 | 34.6 |
| Balance          | -13.8| -2.3 | -7.9 |
L. THE CONSULTATIONS WITH FRANCE

1. In accordance with the Decision taken at the Plenary Meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party on Balance of Payments has conducted the consultation with France under paragraph 4(b) of Article XII.

2. In accordance with the recommendation of the Working Party on the Consultation with France, which had been set up by the Intersessional Committee and met in Paris on 16 and 17 July 1957, the Working Party on Balance of Payments has also conducted the consultation with France under paragraph 4(b) of Article XII concerning the intensification of import restrictions which occurred in France in June 1957.

3. The Working Party had before it:

(a) a basic document (MGT/51/57, of 28 May 1957) prepared by the secretariat in collaboration with the French authorities, describing the system and methods of the balance-of-payments import restrictions in operation in France. The document also contained a statement under Part II - "Effects on Trade" - submitted by the French authorities;

(b) the interim report of the Working Party on the Consultation with France (L/657 of 8 August 1957), concerning the modifications introduced by the French Government on 17 June 1957 in the field of import restrictions;

(c) a supplementary basic document (MGT/51/57/Add.1 of 21 October 1957) prepared by the secretariat in collaboration with the French authorities, bringing up to date the basic document mentioned under paragraph (a) above;

(d) a communication from the French Government concerning the uniform charge of 20 per cent (L/742 of 8 November 1957); and

(e) documents provided by the International Monetary Fund.

All these documents should be regarded as supplementary material to be annexed to this report.
4. In conducting the consultation, the Working Party followed the plan recommended by the CONTRACTING PARTIES for this series of consultations, and the plan previously adopted by the CONTRACTING PARTIES for consultations with countries which intensified their restrictions substantially. This report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

5. 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 France.

6. As 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 France, concluded on 11 October 1957, and in addition provided two supplementary papers dated 19 August 1957 and 7 October 1957, respectively. The results of the Fund's consultation with France are reproduced in document QRG/17/Add.1 of 24 October 1957.

7. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement concerning the situation of France, supplementing the Fund's documentation. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with France under Article XIV of the Fund Agreement, which consultation was concluded on October 11, 1957. The background material, of course, does not reflect the changes which the Government of France introduced on October 28, 1957.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of restrictions of France 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 Working Party is drawn to the results of the last Fund consultation with France. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of France

8. The representative of France opened the discussion by a general statement. He recalled that it was difficult at present, considering that France was without a Government, to give the Working Party precise indications concerning the financial and commercial policy which the country would follow in future or to make any forecasts as regards the future balance of payments. Any statement by the French delegation was therefore bound to be strictly technical. After introducing to the Working Party the three experts who had come from Paris for the express
purpose of participating in the consultation, the representative of France
called that there were at present three main international undertakings by
which his country was committed to revert as soon as possible to trade liberal-
ization. Those were:

(a) the General Agreement on Tariffs and Trade;
(b) the OEEC Convention; and
(c) the Rome Treaty.

He also made it clear that in the framing of its commercial policy the French
Government would always bear in mind the provisions of these three international
instruments.

Balance-of-Payments Position and Prospects

9. In connexion with this first part of the plan for consultation the
representative of France submitted a very detailed statement to the Working Party. He
recalled that precise data concerning balance-of-payments developments in 1956
and, in particular, of the heavy deficit recorded in 1956, had already been
submitted to the Working Party in July. That was the reason why, in the course
of the present consultation he was giving only indications relating to recent
developments which had occurred since 1 January 1957. He stated, however, that
the French authorities concerned were preparing the documentation relating to the
first half of 1957. As the final report had not yet been published, he drew
attention to the fact that the figures which were going to be mentioned should
be treated with some reserve. Although the total figure for the deficit for the
first six months of 1957 was correct, the breakdown was only estimated and might,
therefore, have to be corrected upon publication of the final data.

10. The balance of payments of Metropolitan France alone showed a deficit of
$900 million for the first six months of 1957, as against $892 million for the
whole of 1956. In order to emphasize the development and gradual increase of this
deficit, the representative of France provided the following breakdown:

- for the first six months of 1956, the deficit amounted to $251 million
- for the second half of 1956 " " " $641 million
- for the first half of 1957 " " " $900 million

11. A more thorough examination of the various balance-of-payments items had
shown that the deficit was mainly attributable to the trade balance proper. The
trade deficit had been as follows:

- for the first half of 1956: $277 million
- for the second half of 1956: $532 million
- for the first half of 1957: $760 million

1 These figures do not apply, therefore, to the whole of the French Franc
area.
In order to secure better understanding of the underlying reasons for the deficit in the balance of trade, the French representative then gave the following indications concerning export and import development. Exports had remained fairly stable with a rate of $1,650 million per half year. The corresponding figure for the first half of 1957 indicated, however, a slight decline. The final figures for the first six months of 1957 were not yet available, but if the June figures were extrapolated, the figure of $1,600 million could be suggested. On the other hand, imports had been increasing and the relevant evolution had been as follows:

- first half of 1956: $1,935 million
- second half of 1956: $2,152 million
- third half of 1957: $2,325 million

12. The representative of France gave the following information concerning other elements in the balance of payments which had also helped to increase the total deficit in respect of invisible exports; instead of the surplus of $123 million in 1956, there had been a deficit of $30 million in the first half of 1957. The movement in that sector had been as follows:

- first half of 1956: $130 million surplus
- second half of 1956: $ 7 million deficit
- first half of 1957: $30 million deficit

13. As regards tourism, the French Franc area had for many years recorded a surplus which had been transformed into a deficit of $78 million in 1956. While this item had been in balance during the first six months of 1956, it had showed a deficit for the second half of 1956 and the first half of 1957. The French delegation were of the opinion that this was an abnormal situation.

14. As regards transportation and shipping the situation had been as follows:

- first half of 1956: $1,01 million deficit
- second half of 1956: $135 million deficit
- first half of 1957: $265 million deficit

15. Lastly, as regards government expenditure and income, the existing surplus had been declining. This was attributable in particular to a reduction in off-shore purchases and American Forces expenditure which constituted the main source of income in this sector.

The situation had been as follows:

- first half of 1956: $207 million surplus
- second half of 1956: $183 million surplus
- first half of 1957: $125 million surplus
16. The French representative stated that these balance-of-payments figures referred only to Metropolitan France. The additional deficit in respect of the other parts of the French Franc area were of the order of $40 to $50 million. In this respect, the situation for the first half of 1957 was roughly the same as the situation existing during the second half of 1956. In the whole of 1956 the total deficit had reached $107 million.

17. As regards the deficit in the balance of payments for the third quarter of 1957, the French delegation stated that it was in the nature of — or rather, slightly more than — $300 million. The deficit for that quarter was, however, less than that for the previous quarters. The deficit of $960 million for the first half-yearly period of 1957 was constituted as follows:

- First quarter of 1957: $425 million
- Second quarter of 1957: $475 million

18. In respect of the effect of the balance-of-payments position on the state of the reserve, the delegate of France gave the following figures: for the year 1956, indebtedness to the European Payments Union rose to $120 million and the decrease in the reserves amounted to a total of $730 million. For the first half-yearly period of 1957, there was indebtedness to the EPU amounting to $123 million, utilization of the right to draw on the IMF to the extent of $262.5 million under a standby arrangement and a reduction in the reserves of some $280-300 million. For the third quarter of 1957, the deficit of $300 million was covered by a decrease in the reserves of some $240 million and indebtedness to the EPU of $50 million. As a result of that situation, France's entitlement to draw on the EPU and the funds available under the standby arrangement with the IMF were now totally exhausted. Thus, public reserves had fallen by $1,000 million from 1 January 1956 to 30 June 1957, i.e. in eighteen months, while there had been for that period a supplementary public indebtedness of $245 million in respect of the EPU and of $262.5 million in respect of the IMF, making a total of some $1,500 million. For the period of twenty-one months from 1 January 1956 to 30 September 1957, that total rose to over $1,800 million.

19. The delegate of France subsequently related the above figures to those of the external trade statistics. In that connexion he stated that the monthly average of imports during the year 1956 was $360 million. For the first six months of 1957 that average had risen to $440 million. There was, however, a slight decrease for the months of the third quarter of 1957, for which the figures were as follows:

- July 1957: $420 million
- August 1957: $360 million
- September 1957: $350 million
For exports, the figures were as follows:

Monthly average for 1956:

- The first six months of 1957: £263 million
- July 1957: £285
- August 1957: £300
- September 1957: £263

20. The delegate of France did not give any details of the deficit for the whole franc area in relation to the EPU, but mentioned that the monthly averages of that deficit had been as follows:

For the first quarter of 1956:

- Second: £36
- Third: £73
- Fourth: £70
- First: £84
- Second: £98
- July 1957: £133
- The period from 1-10 August 1957: £120
- The whole of August 1957: £48
- September 1957: £30

The figures for the month of October 1957 were not yet known, but from the estimates it was likely that they would be higher than those for the month of September.

21. With regard to future prospects, the delegate of France said that he could of course not be so precise. Imports during the last two months of the year would probably be less than previously but there would still be a deficit. The latter would probably be less, and therefore the pressure on reserves would be a little less strong. The French authorities were endeavouring to restore the balance by increasing exports but the steps taken in that sphere would have a greater effect on a medium - and long - term basis. That is why the French Government was bound primarily to take action to reduce imports. The French authorities also considered that outgoings and receipts in respect of shipping freights and tourism should show good results. Results from tourism normally showed more favourable results during the fourth quarter of the year as compared with those of the two previous quarters. In any case, it did not appear possible to show for the whole balance of payments a surplus in the fourth quarter. The deficit for the whole of the year 1957 would thus be greater than that shown for the nine first months of the year. On a longer term basis, i.e. for the year 1958, it appeared very difficult to make forecasts at the present time. It was, however, very probable that the year 1958 would close with a deficit of which the extent could not be assessed. The French authorities hoped, however, to improve the present position.
22. The French representative concluded by stating that at first sight it might be disquieting to envisage a deficit in the balance of payments for the year 1968. In his view, however, such a deficit would constitute an important factor which should allow his country to promote and speed up a return to a more liberal import policy. The French authorities were convinced that the best means of restoring the balance was to increase exports. In view of the fact that measures adopted in that sphere should make their effects felt later, it was not possible for the French Government to stop investments completely because that might jeopardize the expansion of exports. That position might appear strange, but it was reasonable to recognize that by continuing a policy of investment, particularly in respect of the industries working for export, it would be possible to make better progress towards the final goal — which was the liberation of imports — than if imports in those sectors had been checked and the deficit in the balance of payments got rid of in that way.

23. A member of the Working Party began the consultation by recalling that France had to confront a very serious problem of trade policy which affected not only the country itself but also its position in relation to the international institutions with which it was linked. He recognized the fact that the French delegation could not furnish many indications as to the future, but he nevertheless considered that it would be useful for the Working Party to make its views concerning the problem known, in order that the French authorities might take account of them when France's trade policy was being formulated. The consultations with the French delegation should also enable members of the Working Party to bring their information about the situation in France up-to-date. In this connexion, he asked the French delegation if it could give some indication of the effects of the measure recently adopted (on 28 October 1957) — the measure extending to all imports the system of a 20 per cent surcharge — on the internal and external position of France. The French representative replied that the decisions of 28 October 1957 simply put an end to the waivers which had come into effect when the measures adopted on 10 August 1957 had been applied. The August decree had applied to only 60 per cent of external trade, whereas the recent measures had made the system generally applicable. As regards the expected effects, these were the same as those hoped for from the application of the measures of 10 August, but they should now be felt in respect of all imports and exports. The French representative added that the general application of the surcharge was in conformity with the wishes expressed by the IMF. On the latter point, the representative of the IMF referred the members of the Working Party to the results of the last consultations of the Fund with France, which were concluded on 11 October 1957, in particular to paragraph 5 as reproduced in document QPC/17/Add.1 of 24 October, which stated in part that "on 11 August, the effective exchange rate of the franc for over one-half of French trade and for all other transactions was changed from 350 to 420 francs per United States dollar by introducing a 20 per cent surcharge on payments and premium on receipts. At the same time, the special temporary compensation tax on imports was abolished, and most of the rebates to exporters of social and fiscal charges were eliminated. The Fund did not object to these changes on a temporary basis, and looks forward to further steps leading to the unification of the exchange system." The representative of the IMF added that in another more recent decision which had been taken; the Fund had approved the changes made on 28 October, as being in line with its previous decisions taken with respect to the French exchange system.
24. One member of the Working Party noting the existing difficult balance-of-payments position, recognized that it was not easy to see when France would be able to revert to a policy of trade liberalization. France had been going through a period of economic crisis, and had had to adopt certain measures. Exports had not, however, yet felt the effects of those measures, whereas the pressure of imports remained strong in spite of the restrictive measures which had been taken. Demand remained very great, and was due in particular to the considerable internal expansion. It was clear that the balance-of-payments crisis was of internal origin and did not originate in the field of foreign trade. In his view, there had been a tendency in France to try to do more than available resources could permit including what France could get in the way of external loans. This member of the Working Party went on to recall that in the course of the July discussion the French delegation had stated that the bad harvest in 1956 had been one of the factors, although not the most important, adversely affecting the balance-of-payments position. In that connexion, he wished to be informed of the present position and asked the French delegation whether the effect of that factor had now passed. Also, he wished to know whether the French delegation could give some indication of the trend of regional balances of payments in recent months (e.g. with the dollar area, the EPU area, and that of the countries which had concluded bilateral agreements). In his reply to the first question, the representative of France recalled that the rate of the deficit in the balance of payments for the first half of 1957 was definitely higher than that of the third quarter. A comparison of the figures showed an appreciable improvement and the French authorities hoped that a still greater improvement would take place in the fourth quarter. That favourable trend was due to several factors, one of which was the state of the stocks. During the first half of 1957, imports of raw materials had been at a rate greater than that necessary for the normal functioning of the economy. It was owing to the existence of those considerable stocks that it had been possible to reduce imports during the second half of 1957. The French delegate also mentioned that the frosts in the winter of 1955-56 had cost France $300 million. The position had, however, improved, and there had been a decrease in the amount of cereals imported in the second half of 1957. As regards the third quarter, it could be said that the deficit due to the bad harvest had ceased to have an effect, and it was hoped that the fourth quarter would show a resumption of exports of cereals as a result in particular of a return to a normal level of production. As regards the second question, the French delegate said that it was difficult to give details at present because the risk of error was too great owing to the fact that the final figures were not yet known. He nevertheless gave the following indications. As regards exports, those to the EPU area during the first half of 1957 remained approximately equal to those of the corresponding half of 1956. On the other hand, in respect of the dollar area, there had been in the first half of 1957 a decrease in receipts of $40 million as compared with the first half of 1956. Consequently, the decline in exports in 1957 appeared to be due entirely to a decrease in exports to the dollar area. As regards imports, there had been an increase both from the EPU area and from the dollar area. However, as the figures showed, the increase had been greater in the case of imports from the dollar area. In the first half of 1957, imports from the EPU area amounted to $1,500 million as compared with $1,250 million for the corresponding half of 1956. For the dollar area, the figures were $630 million in 1957 as compared with $430 million in 1956. One of the reasons for this increase had been the purchase in the Western Hemisphere of
oil products payable in dollars towards the end of 1956 and the beginning of 1957. For countries other than those included in the EPU area or the dollar area, the French delegate gave the following comparative figures:

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<tr>
<th></th>
<th>First half of 1956</th>
<th>First half of 1957</th>
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</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$209 million</td>
<td>$174 million</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$250 million</td>
<td>$185 million</td>
</tr>
</tbody>
</table>

Those figures showed that the 1956 deficit of some $40 million had given place to a more or less balanced position in 1957.

25. A member of the Working Party emphasized the high degree of dollar element in a very wide sector of French payments. Having noted that France was at present paying its deficits to the EPU in gold, he pointed out that the burden of dollar payments in relation to the EPU area on the one hand and that of those to the dollar area on the other were in fact almost identical and that there appeared to be no financial motive for discrimination. On the subject of French exports, he drew attention to the fact that there had recently been a change. As could be seen from Table No. 18 on page 31 of the background paper of the IMF dated 11 August 1957, French exports, after falling in 1956, had risen again in 1957. He wished to know whether that trend was due to special circumstances. He also recalled that in the course of the consultation reference had been made to the need to increase investments in order to expand exports. On that point, he asked whether the measures adopted to promote investments took account of the need to direct them towards those sectors which were working more particularly for the export trade. As regards the first question, the delegate of France replied that in the course of the first half of 1957 there had been an increase in French exports to other countries of the franc area. In particular he recalled that France was exporting cereals to the overseas territories. Thus, when the production of cereals was poor, as had been the case in 1956, exports of cereals to the overseas territories decreased. He also mentioned the fact that France was making efforts to develop those territories, and that that had led to an increase in the demand for capital goods. That trend would naturally increase, but that did not mean that all the requirements of those territories would be met by France. On the question of investments, the French delegate stated that in France the heads of concerns were free to place investments where they wished. However, with a system of quantitative restrictions, government action in that field became possible. The French authorities, in granting licences, considered whether certain imports were such as to be beneficial to the economy. It was therefore possible in that way to check certain imports of capital goods and to encourage others which would increase the export potential. He also mentioned certain measures which had a psychological rather than a legal effect. They included a system for giving advice to exporters. Certain of these had been selected and received advice from the authorities with a view to promoting exports. By this system, it was also possible to promote investment in export undertakings which had proved that they were sound.
26. With reference to paragraph 5 of document QRO/17/Add.1 of 24 October 1957, giving the results of the last consultations of the IMF with France, and which has already been mentioned in paragraph 23 of this report, a member of the Working Party noted that the special compensation tax on imports had been abolished together with most of the rebates to exporters of social and fiscal charges. He wished to know which measures still remained in force. The French representative replied that, following the measures adopted by the Decree of 10 August 1957 concerning the payment of a 20 per cent premium to exporters, the latter had been given the option of choosing between the new measures and the old system. That option was, however, provisional, and was only valid up to 31 December 1957. The same problem had arisen when, by the measures adopted on 28 October 1957, the Government had extended to all products the system of the 20 per cent payment. Certain products such as textiles, which before 28 October had not benefited by those measures, were nevertheless placed under a special system which was brought into being by the Decree of 10 August; in that case too, the French authorities had provided for a transitional period during which exporters would be able to opt between the new measures and the old system.

27. Another member of the Working Party asked whether the French delegation could indicate the extent to which France's balance of payments had been affected by a change in the terms of trade. He asked whether the deficit might not have been still greater if the trend had been different from what had actually been the case. In his reply, the delegate of France indicated that there were two aspects of the question. First of all, he emphasized the fact that France was an importer of raw materials and that the present general downward trend was likely to ease the balance-of-payments position. At the same time, he pointed out that the structure of exports was developing and they contained an increasingly large proportion of finished products. That being so, the part played by raw materials and semi-finished products was growing less and less. Seen from that angle, therefore, the position was favourable. He thought it was necessary in this connexion, however, to make a distinction between France and the remainder of the franc area.

As regards changes in the terms of trade, he quoted the cases of copper and wool, of which the prices had fallen. On the other hand, there had been certain compensation phenomena, particularly in the case of the f.o.b. oil prices in the Middle East. He also mentioned the appreciable rises in freight rates during the first half of 1957, and their fall during the third quarter. In such circumstance it seemed to him very difficult to make an estimate in that field, in view of the fact that rises and falls had occurred during the same period. On the whole, nevertheless, he considered that there had been a general easing of the balance-of-payments position as a result of the general fall in the quotations for raw materials.

**Alternative measures to restore equilibrium**

28. On the subject of this second part of the plan of consultations, a member of the French delegation made a general statement. He recalled that at the last consultation with France in July, the French delegation had given the Working Party information concerning the budgetary, fiscal and monetary measures which had been adopted. During the present consultation the delegate of France gave certain complementary explanations, indicated in the following paragraphs.
29. Since July 1957, extremely few new measures had been adopted; the most important had been the raising of the re-discount rate of the Banque de France. In the budgetary and fiscal fields, the measures adopted showed a certain recovery as compared with 1956 and as compared with the budgetary estimates for 1957. That situation was due, in particular, to a serious effort in fiscal matters. Revenue from taxation showed an increase of more than 320,000 million francs, as compared with the 1957 estimates, and of more than 500,000 million francs, as compared with 1956. The year 1958 would probably show a further improvement, and it was estimated that receipts would increase in that year by some 150 to 200,000 million francs. Taking 1925 as the basic reference year, the index for taxation revenue was 128, for budgetary expenditure 125, and for the gross national product, 121. The French delegate also drew attention to the fact that the rate of the tax on private firms and corporations was 45.6 per cent.

30. Another proof of the improvement in the situation was the decrease in treasury liability in 1957. This had amounted to 880,000 million francs, whereas the estimated figure had been 1,050,000 million francs. In 1956, the treasury liability had reached a total of 1,000,000 million francs. He pointed out, however, that these sums did not only cover regular budgetary expenditure. The French treasury followed a policy of short-term borrowing in order to make long-term loans to certain important sectors of the economy. If the proportion corresponding to the part played by the treasury as a banker were deducted from the total figures, the deficit became less and the figures were as follows:

430,000 million francs in 1957
695,000 " according to the estimates for 1957
593,000 " in 1956

31. The fiscal measures thus adopted must be judged in relation to their point of impact. The attention of the French authorities was directed particularly to the sectors where the inflationary tension was most dangerous. In respect of industry, the following measures were adopted:

(1) taxation of the reserves of those industries;
(2) abolition of tax exemption for a portion of the stocks;
(3) taxation of excess profits.

One of the results of those measures would be to reduce the liquid assets of private undertakings by approximately 60 to 70,000 million francs a year. As far as consumers were concerned, the authorities had tried to direct internal demand towards the most favourable sectors. In particular, they abolished indirect subsidies resulting from a system of tax exemption for wine, gas and electricity. They had also done away with the subsidies for the postal and railway services. Finally, in the public sector efforts had been made to affect economies in administration. Those measures were resulting, in particular, in a reduction in the numbers of those engaged in military service, which would undoubtedly ease the strain in the field of manpower. The French authorities had also decreed reductions in non-paying administrative investments, such as the construction of buildings for the civil service, the improvement of administrative equipment, and improvement of the highways system. These measures had resulted in a reduction of over 12 per cent in such investments as compared with 1956.
32. In order to strengthen their fiscal policy, the French authorities had also followed a very strict credit policy. For that purpose, they had used every available weapon. (a) Quantitative control: the banks had been obliged to use a certain percentage of their assets for the purpose of public securities. That measure had frozen a proportion of the assets, the percentage having risen from 21 per cent to 25 per cent. The banks' resources had also been reduced as a result of the limits set to their re-discount possibilities. The ceiling of the margin which could form the subject of a re-discount had been reduced by 20 per cent. (b) The changes in the discount rate had raised it first to 4 per cent, and recently to 5 per cent. (c) The French authorities had also resumed the policy of credit selection. Under the former provisions, all credits in excess of 500 million francs had to have special authorization from the Credit Council. Under the new measures, such credits had been reviewed and to some extent decreased. All such credit measures would have an effect on the assets of undertakings and would be in addition to the fiscal action mentioned in paragraph 31 of this report. They would make it more difficult for undertakings to maintain speculative stocks and would obligie them to reduce their non-essential general expenditure. In the building sector, the authorities hoped that the raising of the interest rate and the reduction of credits would put a check on useless building and speed up such building as was essential or had already been begun.

The French delegate recalled that in 1957 investments in housing had amounted to 800,000 million francs.

33. The French delegate further drew the attention of the members of the Working Party to the fact that the whole of the measures which he had just described represented a severe and solid effort for 1957. He also added that it would have been dangerous to go further for the reasons given below. If the French authorities had pushed their efforts too far they would have come up against certain limits. In the first place, too brutal a checking of production would have entailed the risk of causing a rise in prices and a complete stoppage of the system. He recalled that there was no direct relationship between the level of production and that of income. Some incomes were influenced by trends originating in trade union policy; others were governed by social changes independent of the level of production. That being so, if production had been checked too brutally a situation would have arisen in which there would have been decreasing production with increasing incomes. That disparity would have had very serious consequences as regards prices which, according to estimates which had been made, would have risen by 10 to 25 per cent. That would have been a considerable risk to take. Moreover, the effects of such a policy on the balance-of-payments situation would have been relatively slight. That situation, therefore, made direct action applying to the whole field of production impossible. Secondly, the French authorities had considered that it was preferable to achieve economic equilibrium by an increase in exports rather than by a reduction of imports. Too brutal a readjustment of imports would have had the same effects as those just mentioned. The French Government therefore decided to follow a dynamic investment policy in the most competitive sectors. Of those sectors the most important were the following: power, in which investments had increased by 24 per cent in 1957, as compared with 1956; machinery, particularly machine-tools and automobiles, in which the increase in investments had been about 10 per cent; and chemicals. The French delegate further stated that the narrow limits to which he had referred would make it impossible to achieve equilibrium in 1958. The French authorities were, however, persuaded that considerable efforts had been made in 1957, and that it would have been possible to achieve equilibrium by the end of 1958, but for certain exceptional circumstances.
34. Referring to the measures adopted on 28 October 1957, concerning the payment and the levy of 20 per cent, a member of the Working Party pointed out that in France the former exchange rates in relation to the various currencies had been maintained, whereas most other countries had made a proportionate adjustment in their exchange rates for the French franc. The consequence was that, on the one hand, French exporters had an increase of 20 per cent on their receipts as a result of the change in the rate of exchange, and an additional increase corresponding to the payment; while, on the other hand, French importers had to pay a 20 per cent higher rate on imports, as well as a 20 per cent levy on imports, which made a total of 40 per cent. This member of the Working Party having asked the French delegation whether his interpretation was correct, the representative of France replied that it was based on a misunderstanding. He recalled that the payment of 20 per cent on exports was not in addition to the measures for subsidizing exports but, on the contrary, took the place of the former export subsidies. He mentioned that when the measures concerning the levy and the payment had been taken, the foreign importers had asked the French exporters to reduce their prices. The latter, however, had not had the means to do so as they were being given, in a new form, assistance which they had already been receiving. The French representative also recalled that in certain cases French exporters had the possibility, up to the end of 1957, of opting between the two systems. In some rare cases, one system might be more advantageous than the other, but in any case the possibility of opting was a temporary measure.

35. A member recognized that in a case such as that before the Working Party, the government of the country concerned was in the best position to judge what could or could not be done by domestic measures to remedy the situation. He wondered, however, whether the internal measures adopted by the French authorities had gone far enough or whether there were not other steps which might have been taken in that sphere. In particular, he observed that liquidity in the French economy seemed to be such that it would be possible to deal to some extent with the income side without such a policy seriously affecting production. He also recalled that in the results of its consultation with France, the IMF had emphasised the need for that country to adopt other measures of wider scope with a view to achieving equilibrium in respect of internal demand.
System and Methods of the Restrictions

36. With reference to this third part of the plan for consultations, the delegate of France made a statement concerning the strengthening of the quantitative restrictions and the effects of the latter on trade. That statement was intended mainly to complete the documentation prepared by the secretariat and the information given in the interim report in July.

37. In his statement he recalled that the French authorities' objective was to reduce imports for the second half of 1957 to a figure of 700,000 million francs (c.i.f.), which represented a reduction of about 11 per cent as compared with the second half of 1956. In view of the uncertainty existing on the subject of the exact level of stocks and also regarding the total value of the licences issued before 17 June 1957, the French authorities had decided to limit the granting of licences during the third quarter of 1957 to a level lower than that corresponding to the figure for half the second half-yearly period.

38. The French delegate subsequently furnished information concerning the extent to which the programme for the second half of 1957 had been carried out. In that connexion he made a distinction between the customs results on the one hand, and, on the other, the expenditure commitments (i.e. the authorizations issued by the Exchange Control Office).

39. As regards customs results, the absolute figure, taking into account the 20 per cent levy, amounted to 396,000 million francs for the third quarter of 1957. The correct figure, that is to say, imports calculated on the basis of £1 = 350 francs, amounted to 384,000 million francs. The break-down of this latter figure was as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>148,000</td>
</tr>
<tr>
<td>August</td>
<td>124,000</td>
</tr>
<tr>
<td>September</td>
<td>112,000</td>
</tr>
</tbody>
</table>

These figures showed that the results for the third quarter represented approximately 55 per cent of the estimates for the second half-yearly period. Account must, however, be taken of the fact that the total imports for July and part of those for August were covered by licences which were granted before 17 June 1957. It was really only during September that the restrictive measures adopted by the Government made their effects felt. The figures for the latter month showed a reduction of imports of 10 per cent as compared with the month of August and of 30 per cent as compared with the month of July.

40. As regards authorizations issued by the Exchange Office, the delegate of France gave the Working Party the following information. From 27 June to 25 September, that is to say for one quarter, the amount of the authorizations issued was 265,000 million francs (f.o.b.). That amount was distributed as follows:
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206,000 million francs for Programme A
15,000 " " " B
44,000 " " " C

41. In respect of Programme A, comparison between the estimates and the execution of the programme should take into account fuel products on the one hand, and other products on the other. As regards fuel products, import estimates on a c.i.f. basis were 204,000 million francs for the second half of 1957. The expense commitments, i.e. the authorizations issued by the Exchange Office during the third quarter of 1957, amounted to 70,000 million francs on a f.o.b. basis. These figures, however, required readjustment on the basis of the returns for the months of July, August and September. It would then be found that these fuel imports had kept within the programme. As regards products other than fuel, the estimates for the second half-yearly period amounted to 343,000 million francs (c.i.f.). Since 25 June 1957, licences had been granted up to a total of 143,000 million francs (f.o.b.). If account were taken of the charge represented by freight, this figure calculated on a f.o.b. basis became 143,000 million francs on a c.i.f. basis. The result was that expense commitments on 25 September 1957, namely after one quarter, were actually 41 per cent of the estimates for the whole half-yearly period. It would thus be seen that the French authorities had followed a very cautious policy which had been facilitated by the downward trend in world prices of certain raw materials, even though in the case of other products the estimates were exceeded by the actual results. The rate of issue of licences would doubtless be a little more rapid during the fourth quarter of 1957, in view of the fact that the existing rate was not great enough to meet the normal requirements of the French economy. In any case, commitments would remain within the limit of the 343,000 million francs ceiling envisaged for non-fuel products in Programme A. The delegate of France said in conclusion that the objective fixed by the Government in respect of customs results, taking into account the position at the beginning of October, should be attained in the normal course at the end of the half-yearly period.

42. As regards medium-term prospects, the delegate of France stated that it was very difficult to venture any forecast concerning the possibility of easing present restrictions. A return to a more liberal policy could only occur if the acute crisis were overcome and the monetary reserves were brought up to a reasonable level. The main problem to be solved was still how to expand exports. In that field, it was very difficult to judge the effects of the 20 per cent payment on the total volume of exports. The results for September had, however, not been very satisfactory. The level of exports during the month had amounted to 92,000 million francs compared with a monthly average of 99,000 million francs for the first eight months of the year. Those figures, however, called for the following comments:

(1) For seasonal reasons, in particular as a result of the paid holidays, the level of exports in the month of September was traditionally low. Exports in September 1956, for instance, had been 15 per cent lower than the monthly average for the last three months of 1956.
(2) The French delegate also mentioned that there had been some vacillation noticeable, as a result of the measures adopted in August last, in relations between French exporters and their customers. (See paragraph 34.)

43. The French delegation nevertheless remained convinced that the measures adopted on 10 August 1957 would have a beneficent effect, and the results of the first fifteen days of October were encouraging. As regards the more recent measures adopted on 28 October 1957, the French representative felt that it was more difficult to forecast the effects of these on exports. However, he drew the Working Party's attention to the following two factors:
(a) the export of products which had hitherto been excluded from the 20 per cent payment would be encouraged - that applied in particular to steel;
(b) the application of the 20 per cent levy on raw materials hitherto exempt would be reflected by an additional burden on the working costs for the finished products manufactured from those raw materials.

44. In the case of the import estimates for 1958, studies had been undertaken, but it was not yet possible to give precise information about them. The delegate of France, however, said that it was expected that the year would show some improvement. In particular, the rate of supply of raw materials should be greater than it had been during the second half of 1957, in view of the fact that at the end of 1957 stocks would have returned to a normal level corresponding to that existing at the end of 1956.

45. A member of the Working Party recalled that in the supplementary basic document prepared by the secretariat, it was stated that in granting import licences for products coming under Programme A, account had been taken of the level of existing stocks in France. As they were very large, the rate at which licences had been granted had been relatively slow. In that connexion he asked the French delegation for information concerning the present state of stocks. In his reply the French representative recalled that during the first half-yearly period of 1957, and more particularly at the end of that period, the rate of imports of raw materials had been higher than that necessary for the level of French economic activity. At the time when the French Government had abolished liberalization measures, it had been very difficult for the French authorities to have an exact knowledge of the stock position. The problem, however, was easier as regards such raw materials as had not yet undergone a primary processing. It was, however, very difficult to solve for the other raw materials. Furthermore, the French authorities did not know the volume of potential imports, that is to say those for which the licences had been issued before the liberalization measures had been withdrawn but had not yet been used. That situation had made the French authorities cautious and the opening of credit accounts had been limited to a rate lower than the monthly average envisaged for the second half-yearly period. The French authorities had studied the situation in the light of what had happened in 1956, and of what was known of 1957, including the trend of imports during the months from July to September 1957. That had made it possible gradually to acquire a more accurate knowledge of the position and to proceed with the necessary adjustments for the fourth quarter of 1957 for each category of product.
46. Two members of the Working Party asked the French delegation for further information about the import system applicable to countries of the sterling area other than those which were members of the OEEC. On that subject they pointed out that (a) many countries of the OEEC extended their liberalization measures to the sterling area, and that that did not appear to be the case with France, but that (b) in her import system France was envisaging purchasing plans for the dollar area and purchasing plans for the sterling area (see sections (c) and (d), on pages 3 and 4 of document MST/51/57/Add.1). They wished to know the reasons for discrimination against the overseas sterling area and also asked whether the French system would not have the effect of giving the sterling area a less favourable treatment than even the dollar area. They further pointed out that (c) in the case of "other" countries (see section 6 on page 15 of document MGT/51/57), imports generally took place within the framework of the bilateral quota arrangements. In that connexion they asked what system was applied to soft currency countries outside the OEEC and transferable franc areas which did not wish to conclude such bilateral agreements. They also mentioned (d) that in the case of imports effected under the system of special procedures, they had the impression that there was discrimination between certain countries. In his reply the French delegate explained that as far as members of the EPU were concerned, France had always limited the benefit of liberalization measures to those countries which were also members of the OEEC. He then gave the following explanations concerning the import system applicable to the sterling area.

47. In respect of raw materials under Programme A, the French authorities were applying a system of global quotas. In the case of products of which the importation had previously been liberalized as far as the OEEC and the dollar area were concerned, those global quotas applied to the widest geographical area, namely the dollar area, the EPU area and that of the so-called "transferable franc" countries. For products in that category, the importation of which had not previously been liberalized except for the OEEC, the present global quotas applied to a geographical area covering the OEEC countries, the countries which were members of the EPU which were not members of the OEEC, and the so-called "transferable franc" countries. As a result, in respect of those products and within the framework of the relevant geographical area, French importers enjoyed complete freedom as to the choice of the country of origin. The French delegate pointed out that under such conditions there was no more discrimination now than previously. Under the old system the liberalizations applying to countries of the OEEC did not apply to the other countries of the EPU. That distinction was, however, more juridical than real, because France in point of fact applied a very liberal system of imports of such products from countries of the sterling area. That was all the more the case because the currency of settlement was the same as for imports from the United Kingdom, for instance, and some of those products from the sterling area were sometimes sold at more advantageous prices. As for the existing system, that was in no way discriminatory, as the countries of the overseas sterling area and those of the OEEC were placed on a footing of strict equality in respect of the previously liberalized products. In reply to the second observation, the French delegate explained that in respect of raw materials the importation of which had not been liberalized for the dollar area, the French authorities continued, as in
the past, to establish separate purchasing plans and the import licences then issued were valid solely for the area in question. Similarly, for certain raw materials such as coal and oil, the importation of which was not liberalized in respect of the OEEC countries nor those of the dollar area, the French authorities continued to import within the framework of purchasing plans applicable either to the sterling area or to the dollar area, according to the currency used for payment and not according to the origin of the products. He added that the sterling supply programme mentioned earlier applied almost solely to coal and oil. With reference to the third observation, the delegate for France explained that in her relations with other countries which were not members of the EPU area and did not belong to the dollar area, France continued to import within the framework of the list agreements she had concluded with those countries. In respect of other countries, namely those which did not wish to conclude bilateral agreements with France, the French authorities had unilateral purchase plans. That was the case with regard to Egypt, Jordan, Syria, the Yemen and Uruguay. The French delegate stated also that, with regard to imports of all commodities, members of the sterling area were in practice treated on the same basis as the EPU countries, other than OEEC members, even if licences were issued on a single-country basis.

48. In respect of the importation of products under Programme B, the delegate of France recalled that the quotas opened were reserved solely for countries which had previously benefited by the liberalization measures. In other terms, those quotas applied to countries which were members of the OEEC, and to their dependent territories, which thus excluded the other countries of the Commonwealth. He added that products under Programme B were not all essential, and that in the case of a crisis as severe as that which France was now undergoing, some of those products should actually not be imported. However, when departing from those measures of liberalization, France had wished to take account of the commitments she had undertaken within the framework of the OEEC, and import quotas for those products had been opened to allow for some trade, and in particular out of deference to the traditional interests of France's trade partners. He further said that he was unaware whether concrete and difficult cases arose in connexion with Programme B, but that in any case the countries concerned always had the possibility of examining such problems with the French authorities. On this latter point, a member of the Working Party said that it was very difficult for a country which followed a policy of non-discrimination in imports to attempt to develop its exports to France through bilateral agreements. Finally, this delegate pointed out that under the GATT, France would not be justified in discriminating in its licensing system against any country except on balance-of-payments grounds.

49. Having recalled that the French system for dealing with foreign trade was particularly complex, and expressing the hope that in the future the French authorities would endeavour, as other countries had already done, to simplify the system, a member of the Working Party drew attention to two points: (a) He noted that within the framework of Programme C, which provided for imports during the second half of 1957 up to a total of 82,000 million French francs, there was a provision excluding raw materials from the Programme. That meant that within the framework of Programme A there was a certain amount
of means of payment reserved for the purchase of raw materials within the framework of bilateral agreements. In view of the fact that, on the one hand, certain of those raw materials were supplied by his country, and that, on the other, he had noted an increase in imports into France of those raw materials from certain countries in the East, he expressed the hope that in implementing Programme A, the French authorities would not try to encourage certain bilateral imports. (b) With regard to discrimination by areas and by countries, he pointed out that even within the framework of Programme A the use of the term "global quotas" was not entirely justified. In view of the fact that France had exhausted her possibilities as far as the EPU and the IMF standby arrangements were concerned, and that all imports were therefore in practice paid for in gold or in dollars, he expressed the hope that when the French Government finally decided its foreign trade policy it would endeavour to give it a less discriminatory aspect.

50. In his reply the French representative confirmed that in the case of raw materials imported within the framework of contractual commitments, estimates had been established and incorporated in Programme A. He recalled that it had appeared fair to the French Government not to let the burden of the new restrictions fall on countries which had not previously benefited by the liberalization measures, as those countries could not be held responsible for the difficulties which France was at present experiencing in connexion with her balance of payments. That was why the French authorities had maintained, although without increasing them, the imports which were to be effected within the framework of the bilateral quotas. On the subject of the problem of discrimination, the delegate of France recalled that there was no more discrimination today than there had been previously, and that once one reverted to a procedure with licences and quotas, it was natural to revert to a system differing according to areas. He emphasized that in view of the fact that France was paying for all her imports in gold and in dollars, considerations of a commercial nature prevailed at present.

51. Another member of the Working Party asked what had been the measures adopted by the French Government with a view to avoiding the unnecessary prejudicing of the commercial and economic interests of the other contracting parties. In particular he asked for information about the procedure followed in relation to existing contracts. The French representative recalled that at the time when the liberalization measures were abandoned, the French Government had taken certain steps of a temporary nature. One of them had been to allow the importation of products which were already on their way, even if the import licence had not yet been granted. The French authorities had also decided to approve, up to 50 per cent of the value and, when possible, import applications which had been made before the date on which the liberalization measures had been abolished, in so far as such applications had not yet received a reply. As regards existing contracts, he drew a distinction between (a) raw materials, and (b) capital and consumer goods. With regard to the first category, all existing contracts not covered by a licence had been carried out, during the period immediately following 17 June 1957. The problem was more difficult to solve in the case of products in the second category. By means of a notice published in the Journal Officiel, importers had been invited to inform the
Exchange Office of the contracts which had been concluded before 18 June 1957 (50,000 applications had been lodged). The French services concerned were at present proceeding with the allocation of the licences and the work was still going on. If it were found that the amount of the applications came to more than the total estimated for the purpose, the fulfilment of existing contracts would have to be in part deferred. If on the contrary the volume of applications appeared normal, taking the relevant criteria into account, the licences for those imports would be granted and they would be given a priority.

52. A member of the Working Party also asked for additional information concerning the methods adopted by the French authorities in relation to the allocation of quotas. In particular he wished to know the bases on which were determined the products to which a quota would apply, how the amount of quota was fixed, and what were the criteria by which the authorities were guided. While mentioning that the reply to these questions would raise a large number of technical problems, the French delegate explained that when his country's authorities had to fix the level of an import quota, they considered France's resources, including those of the overseas territories, and import requirements, taking into account the position in respect of existing stocks. The requirements were then allocated as between two or more import plans. For imports from the widest geographical area (EPU area, dollar and "transferable franc" countries), the global quotas fixed generally corresponded to the total requirements, and importers had free choice as regards their supplies. The system was, however, different for products for which the quotas were distributed over several purchase plans. In particular, that was the case with certain raw materials which formed the subject of two purchasing plans, one for the dollar area and the other for that of the European Payments Union and "transferable franc" countries. The allocation as between those two areas took account of possibilities of obtaining supplies in one or the other, and of certain commercial considerations, such as the existence of any long-term contracts which might have been concluded. Account was similarly taken of the proportion of imports which should be effected within the framework of the bilateral agreements. That proportion was deducted from the requirements and the remainder was divided between two or more purchasing plans. As for the choice of products, the annexes to the complementary document prepared by the secretariat (MGT/51/57/Add.1) showed the break-down of the products by main groups; important raw materials were taken separately, and secondary items were included under the designation "Other".

53. With reference to compensation and equalization arrangements, a member of the Working Party said that exporters in his country were not well-informed about the kind of transactions which were authorized, nor about existing possibilities in that field. The delegate of France recalled the main special procedures (compensation arrangements, IMEX and EXIM transactions, equipment procedure and EFAC procedure) which had been described in the basic document prepared by the secretariat. In particular, such procedures made it possible to import certain consumer goods for which France could not afford to open credits. The purpose, however, was not so much to allow of such supplementary imports, but primarily to promote the export of certain French products which would otherwise sell with difficulty. An inter-ministerial committee examined
applications made to it, and considered each case individually on its merits. That committee systematically refused to approve any transactions relating to exports which could have been effected in the normal way. The member of the Working Party who had raised the question recalled that any system based on a study of separate individual cases represented an element of uncertainty. He therefore urged that the greatest possible amount of information be supplied to importers concerning such procedures.

54. A member of the Working Party stressed the important part prices on agricultural products played in the calculation of the French consumer price index. Taking into account that wages are linked to this index high prices on foodstuffs therefore would affect the international competitiveness of French production. In this connexion he recalled that there were in France various organizations called "import and distribution groups" and "national purchase groups" to which the Government had granted privileges for the importation of several agricultural products. In view of the fact that the basis for such imports was essentially related to internal needs and to the level of production of such products in territories of the franc area, this member asked whether that meant that as soon as domestic production was able to satisfy demand at the price level prevailing in France, no further importation of those products would be envisaged. In his reply, the French delegate said that it was necessary to draw a distinction. (a) In the case of agricultural products forming the subject of contractual commitments, imports were effected within the framework of the provisions of those agreements. In the case of a deficit in domestic production, the authorities arranged for supplementary imports. (b) For agricultural products forming the subject of purchase plans initiated unilaterally by the Government, credits were only opened if imperative supply requirements arose. He recalled that that had been the case in 1956 with wheat imports. The representative of France further explained that as regards the groups to which the French Government had granted an import monopoly or quasi-monopoly, the abandonment of the liberalization measures had not changed the system. He nevertheless emphasized that government trading did not always have the effect of restraining imports, but was also sometimes aimed at encouraging them. That had been so in France in a number of cases when quantities of butter had been purchased in order to prevent a rise in internal prices which would have had an unfavourable effect on the price index. The hope was expressed by the member of the Working Party that the French authorities in their own interest would contemplate allowing larger imports of agricultural products. Another delegate commented on the amount of uncertainty arising out of such situations and suggested more publicity by the French Government on its control system.

Effects on Trade

55. On the subject of France's case, a member of the Working Party made certain general observations. He recognized the serious nature of the problems which France had to face and hoped she could solve them successfully. He recognized that in present conditions all that could be hoped for was a gradual improvement in the flexibility of quantitative restrictions. He expressed the hope, however, that in its future policy the French Government would take into consideration the advisability and considerable advantage for France of as rapid a
reduction as possible of the quantitative restrictions in force. In particular he emphasized that, in view of the fact that reserves of foreign currency were low, the most adequate arrangements possible should be envisaged to enable French importers to buy on the most favourable terms. He again expressed the hope that the French authorities would take that fact into account and adopt a non-discriminatory policy, which would offer advantages not only for France but also for the other contracting parties. He also recalled that the present system was very complicated, and he hoped that in the very near future it would be simplified and freed from all its discriminatory effects, direct and indirect. The complicated nature of the system appeared to him to be due to the existence of the network of bilateral agreements and other discriminatory practices. He recalled that France's trade with the dollar area was very important and had even increased recently in respect of certain goods of primary necessity. However, in spite of the fact that the United States had found it possible to sell their products under one or other of the systems, it nevertheless remained true that American exports to France encountered difficulties and that American exporters were in fact only residual suppliers (for instance, in the case of cotton). In conclusion, this member of the Working Party again stressed the need to simplify the system - such simplification being in his opinion closely linked with the question of discrimination.

56. Replying to these comments, the French representative recalled that it was very difficult to make forecasts for 1958. He said, however, that if the system were maintained, it was very likely that the intensity of the quantitative restrictions in respect of raw materials would be less during the first half of 1958 than it had been in the second half of 1957. He also said that the French authorities were convinced of the need to be able to buy on the best terms, and the procurement of raw materials was governed by strictly commercial policy considerations. He emphasized that the discrimination which appeared to exist in the French system was juridical rather than real. He pointed out, however, that as regards trade with the dollar area, the figures were very eloquent; and the growth of the disequilibrium in the balance of payments was relatively greater with the dollar area than with the others. With reference to bilateral agreements, in particular as regards cotton, he said his country had to try to make the fullest possible use of opportunities for obtaining supplies from the countries with less strong currencies in cases where, from the technical and price aspects, the difference was very slight. He added, however, that while making use of opportunities for obtaining supplies of cotton in countries with weak currencies, the French authorities had continued to open important credit accounts for that product in both the EPU and the dollar area.

57. In concluding the consultations with France, the Chairman of the Working Party thanked the French delegation for the spirit of co-operation which it had shown; and for the information it had kindly furnished concerning matters which were sometimes difficult and delicate in present circumstances.

58. The representative of France thanked the Chairman and members of the Working Party for the great courtesy they had shown during the consultations. He said that the French delegation would see to it that all that had been said in the course of the discussions was brought to the notice of the French Government.
M. THE CONSULTATION WITH BRAZIL

1. When the Plan for the 1957 consultations was drawn up at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, Brazil agreed to be included in the programme on a provisional basis; whether and when the consultation should be held was to depend on the developments in its current plans for tariff and foreign exchange reform. The Brazilian Government confirmed last summer that it would be prepared to participate in the consultations programme for 1957. The Working Party has conducted the consultation with Brazil under paragraph 4(b) of Article XII.

The Working Party had before it:

(a) a basic document dated 26 October 1957 prepared by the secretariat in collaboration with the Brazilian authorities, describing the system and methods of the balance-of-payments import restrictions in operation in Brazil, and a corrigendum dated 26 October 1957;

(b) a document provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

2. In conducting the consultations the Working Party followed the plan recommended by the CONTRACTING PARTIES for this series of consultations. This report summarizes the main points of the discussion during the consultations.

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 these consultations with Brazil. As part of the consultation between the CONTRACTING PARTIES and the Fund the latter transmitted a background paper entitled "Brazil: Economic Developments and the Restrictive System", dated 21 October 1957. In accordance with the agreed
procedure, the representative of the Fund was invited to make a statement concerning the situation of Brazil supplementing the Fund’s documentation. The statement made was as follows:

"With respect to Section I of the Plan for Consultations, relating to balance of payments position and prospects, as the CONTRACTING PARTIES are aware, Brazil recently introduced significant changes in its import auction system. These changes are described in the background paper, dated October 21, 1957, supplied by the Fund for use in connection with this consultation. The Fund is following closely developments under the new arrangements, and the Fund’s 1957 consultation with Brazil will be begun soon. It is expected that the results of this consultation will be transmitted to the CONTRACTING PARTIES."

Opening statement by the representative of Brazil

4. The Working Party heard a statement from the representative of Brazil, in which he called attention to certain salient facts which were not fully reflected in the documents before the Working Party, and expressed his views on the principal problems faced by Brazil, notably the "structural disequilibrium" and the manner in which this was aggravated by the process of chronic inflation. He concluded that the Government of Brazil, while unable to dispose of the measures which enabled it to select imports to meet essential needs, had been, and would be, introducing new methods of control of an increasingly automatic nature, thus progressing in the direction of complete liberalization. The text of the statement by the Brazilian representative is given in Annex I to this report.

Various members of the Committee thanked the representative of Brazil for his useful statement, which threw light on important aspects of the economy and foreign trade of his country, as well as on the measures which the authorities there have been adopting with regard to problems of disequilibrium in the balance of payments. One member expressed satisfaction that the rate of economic development in Brazil was generally greater than that of the growth of population.

Balance-of-payments situation and prospects

5. Several delegates referred to the statement of the Brazilian representative that an increase in exchange receipts resulting from Brazilian exports, and thus in large measure its capacity for external payments, depended significantly on the international price level as well as on the volume exported. With special reference to coffee, they observed that in their judgment the problems were similar in the case of other foodstuffs and raw materials the exportation of which provided certain producing countries with their main external receipts. In the opinion of those representatives, the factors having the greatest influence on the level of prices were not only the growth of income in the purchasing centres, or the factors inherent in the interplay of forces in the international market; an important part was also played by the respective policies of producer countries, since price movements were generally affected by the extent of the supply available.
6. Another member of the Working Party drew attention to the fact that if the price fell by a certain proportion and that gave rise to a corresponding increase in demand, there might be no benefit to the exporting country's balance of payments, but there might be for other elements in the national income, and remarked that Brazil and other producing countries should consider the magnitude of existing demand in the development of their investment policies, stressing "We must produce what we can sell." New foreign investments in the production of exportable items which were already feeling the effects of such a limitation of demand - coffee, for instance - might be of temporary benefit to the balance of payments, as there would be an influx of capital; but on the medium and long-term basis it might add to the seriousness of the general problems of a producer country. In that connexion the representative of Brazil recalled that from 1929 up to the present time the contribution of foreign capital had been low in his country, and the effect as regards the production of coffee was confined to the improvement of quality.

7. Continuing his inquiries on this general subject, the same delegation asked a number of questions which may be summarized as follows:

(a) Has opportunity for employment in Brazil been increasing at a rate similar to that of the growth in population?

(b) Does the volume of its imports depend primarily on the price of its main export products?

(c) Does the policy followed in respect of foreign trade have an appreciable effect on the composition of imports? Are investments definitely directed towards the replacement by national production of goods which Brazil is at present importing, or is the idea not to have a large-scale effect on the structure of imports, but preferably to secure that the increase in exports should allow for the development of a balanced trade?

8. The substance of the replies given by the Brazilian representative was as follows:

(a) Growth in opportunities for employment is basically linked with the rate of investment. Here to the trends of such opportunity of employment and of the growth in population could be regarded as parallel, as productive employment has duly been given to the manpower available, including that resulting from immigration. For reasons connected with the structure of its economy, Brazil has certain problems of its own in that field connected with specialization and occupations, arising from the internal flow of migration from the poorer areas of the north-east to the national centres with greater industrial development.

(b) The reply is in the affirmative, it is only necessary to refer to the figures given in the statement made by the Brazilian representative at the beginning of the meeting.
(c) In order to provide an answer, it should be recalled that the divergent trends of Brazil's economic development and its external payments capacity are closely connected with the limited demand for its main exports in the world market. These circumstances do not give grounds for hoping, at any rate on a short- or medium-term view, that a substantial increase in income would cause the abandonment of the policy of selection and replacement of imports. It was repeated that in the field of internal production, whether in connexion with consumer goods, capital goods or undertakings to diversify exports, there was freedom of enterprise. Thus, in the replacement of imports, the Government had to act by means of indirect incentives. Foreign immigration - which was very important - played an appreciable part in the choice of new branches of activity, as it was natural that people should produce goods which they were accustomed to consuming. In certain branches of activity which for one reason or another did not attract private enterprise, or which gave rise to financial or technical problems which went beyond available possibilities, the Government brought to bear direct forms of incentive or even itself undertook the task of organizing certain undertakings.

To sum up, with an inadequacy of foreign exchange, the general policy has to be one of adapting the composition of imports to the requirements of economic development. The latest reforms are aimed at the achievement of that object on a basis of caution, adjusted in the greatest measure possible to that of freedom of trade.

The Brazilian representative emphasized that the policy described did not reduce imports - as Brazil maintained them to the extent allowed by its balance of payments - but, as already mentioned, recognized the need to make certain changes in their composition.

9. A member of the Working Party, noting the efforts made by Brazil to encourage the inflow of foreign capital, inquired as to how the general results obtained might be assessed. The Brazilian representative replied that the effects of the policy followed, measures by the net figures of capital movement, were less than those hoped for, in spite of the incentives used. While in absolute terms the contribution received in this was considerable, in relative terms its contribution to equilibrium in the balance of payments was small.

10. The Brazilian delegation recalled that in Brazil capital contributions could be brought into the country in the form of capital goods, the price of which for the investor was calculated in dollars in the free market; this resulted in a considerable advantage in relation to the price of the same imports which they were paid for by Brazilian investors with foreign currency obtained by auction. The facility was one granted only to foreign investors, and was not available to Brazilians. In other words, the system to promote new external investments involved discrimination affecting the country's own nationals.
11. In view of the insufficient influx of private capital of foreign origin, the Government had found itself obliged to play a more active part in the field of investment, having recourse to international collaboration and allocating the resources in cruzeiros forming the working capital of the favoured concerns. This intervention in the economic process necessarily led to involved State control of certain commercial activities. By the force of circumstances, this might be reflected in situations which were not in conformity with the free trade policy of the countries from which the major share of the capital came. Brazil was in favour of freedom in the economic field; but certain facts resulting from existing circumstances must be recognized.

12. One delegation, while recognizing present balance-of-payments difficulties in Brazil, expressed the hope that in its own interest Brazil would soon be able by measures available to the Government to establish monetary stability internally and, thus, a climate in which to assure orderly developments, and to progress further toward the objective of a non-discriminatory import system. He inquired as to the plans and intentions of the Brazilian Government in this respect.

13. The delegate of Brazil replied that non-discrimination is an objective, and that this might be reached more rapidly if other countries would assure a consistently rising level of income, and hence higher prices for such commodities as coffee. It was agreed, however, that while each country may desire and would hope to achieve a rising income, the consumption of coffee by each individual is subject to factors other than income changes, and that continued action by Brazil to expand and diversify its exports would be required.

Alternative measures to restore equilibrium

14. One delegation referred to the repercussions of the inflationary process which undoubtedly led to an increase in the tendency to import, and a consequent fall in exchange reserves. Mention was made of the figures given by the Fund in its document dated 21 October 1957 which showed that assets had notably fallen during the year. It was asked how the level of those assets might tend to move in the future.

15. The delegation of Brazil, for its part, showed that circumstances did not hold out any prospect of a substantial improvement as regards reserves or the general balance-of-payments position in the immediate future. As indicated in its initial statement, a joint study by the Bank for Development of Brazil and the Economic Commission for Latin America had led to the conclusion, based on the analysis of the possible trend of certain basic factors, that it would not be unjustified to expect a structural improvement as from 1962.

16. A member of the Committee suggested that Brazil would have difficulty in overcoming its balance-of-payments problems until internal inflationary pressures had been brought under control. So long as adequate measures were
not taken to deal with domestic inflation, exchange resources would remain under pressure and special measures to control imports would presumably continue to be necessary. Moreover, unless greater stability was achieved, foreign investors would be cautious about investment in Brazil and the external resources needed to finance sound development projects would not be forthcoming in adequate measure. It seemed to this delegation that greater progress in dealing with inflation was central to the resolution of Brazil's economic difficulties. The representative of Brazil agreed that the most pressing problem facing Brazil was that of internal inflation. The Brazilian authorities were endeavouring to cope with the situation but there were limits to what could be accomplished in a country like Brazil with an expanding population and urgent development needs.

17. One delegation observed that the purpose of the discussions was to apply the joint efforts of the contracting parties to the elucidation of the causes of restrictions on imports, so as to ascertain how they could be reduced or eliminated. That task necessarily led to the subject of the possible prevention of the causes, which in turn led to questions such as those of price and production policy, investment control and other equally pithy problems. Although their study was not included in the Committee's terms of reference, it was worth mentioning them in the minutes.

System and methods of the restrictions

18. One delegation inquired as to existing rates of exchanges at the auctions under the new systems. The Brazilian representative stated that the level reached by premiums in the coming months would throw light on the question of what the real rates might be. It would, however, be rash to predict the subsequent evolution of the system, particularly as factors were involved such as those resulting from the inflationary process and the trend of exports in the immediate future. He expressed regret that recent figures were not available, and stated that when such figures are obtained they will be added to this report.

19. Various members of the Committee referred to the new provisions introduced by Law 3,244 for the purpose of consolidating the former categories of imports so that instead of five there were now two: the general category, and the special category. One delegate expressed concern that shifts of products from the general to the special category would provide increased protection and at least on the basis of preliminary thinking would have something like the same economic effect as imposition of a quantitative restriction.

20. The Brazilian representative gave assurances that it was not the intention to shift items from the general to the special category as a protective device. He added that the transfer of products from the general to the special category would in future require a decision of the Customs Policy Council, and transfers were to be approved solely for reasons connected with the balance of payments and not on other grounds, as the said law put actual protective measures in the customs tariff. At present, he said, Brazil is studying the possibility of shifting products from the special to the general category.
21. One delegation inquired whether the new system made allowance for imports of minimal commercial quantities. The reply was that there was no need for a special provision to that effect in Law 3,244, since no import was prohibited. It was thus possible to import any item from any source by means of purchasing by auction the necessary foreign exchange to pay for it.

22. In response to a question about the role of the National Industrial Council in the administration of import policy, the representative of Brazil specified that the intervention of the National Industrial Confederation in the permits for certain imports was at present limited to products classified in the special category. Those in the general category remained exempt from the requirement of a licence and thus from any other limitation.

23. One delegation expressed its satisfaction at the disappearance of the requirement of a licence for imports in the general category and expressed the hope that in the near future the licensing requirement would also be abolished for imports under the special category. He referred to the establishment of minimum agios for other than convertible and limited convertibility currencies as an important step in reducing the discriminatory aspects of the previously existing system which had effectively precluded a number of important and traditional items in the trade of his country with Brazil. He hoped that these minimum agios would be administered in such a way as to ensure the resumption of the trade in these traditional items.

24. A delegation referred to the ad_hoc auctions (outside the general and special category auctions) for imports of such items as dried and fresh fruits and holiday items. He stated that these appear clearly to discriminate against dollar imports. On the one hand, he said, dollar imports are excluded from these particular auctions with no opportunity for direct competition in the bidding. On the other hand, he added, even if the same items may be imported under one of the two regular auction categories, importers from the areas excluded from ad_hoc auctions would be under disadvantage, as rates for the commodity in question would be abnormally low in the ad_hoc auctions for the very reason that competitive bidding was restricted. The Brazilian representative replied that only small amounts of foreign exchange are allocated to ad_hoc auctions, which are primarily designed to carry out bilateral obligations.

**Effects on trade**

25. A member asked whether changes in the existing composition of imports would result from the system instituted by Law 3,244 and the revision of the auction system? The Brazilian representative emphatically replied in the negative. In his country the present import control system dated from the last war. It had therefore been possible to accumulate experience which was useful now in drawing up the general and special categories. Moreover - as the delegation had previously stated - the prevailing system did not envisage prohibitions in respect of any import.
26. The Brazilian delegation replying to questions, explained that imports with preferential exchange rates are made in accordance with laws relating to supplies for the press, and for reasons connected with economic development and others. He stated that these imports are made under the auctioning regime. He added that foreign exchange for these imports is not allocated by country or currency area, and that there are no discriminatory elements involved in this programme. Furthermore, there was no departure from the competitive auction of private trade. One fact must be acknowledged: the importation of some of the items benefiting from preferential exchange rates was subject to agreements between importers. That fact, and other circumstances which had nothing to do with the Brazilian authorities, in practice limited the demand for this foreign exchange in such a manner as to assure that low "agio" rates prevail.

27. One delegation noted with satisfaction the statement to the effect that all the imports with preferential rates of exchange were not assigned in advance to specific producer countries, but were open to free competition. He assumed that this was the case for wheat which was one of the more important items imported under the preferential system.

28. One delegation referred to the system of foreign exchange auctions in so far as they provided resources for subsidizing exports. It mentioned, in effect, that according to information available under the system prevailing before Law, 3,244 there had been equilibrium between receipts resulting from the auctions, and withdrawals under the head of aid to exports. Under the new system - as the Brazilian authorities appeared to think - receipts would fall, as a certain proportion of them would be received by the Government through the new customs duties and would be used for fiscal purposes. There would thus be a drainage in the resources in cruzeiros so far directed towards the facilitation of exports. Would this, in fact, occur as far as could at present be foreseen, or would it in fact be avoided with a rise in premiums?

29. The representative of Brazil stated that his Government proposed to act with a view to preventing, as far as possible, a rise in the price of foreign merchandise for the importer, in terms of cruzeiros. The new system, according to reasonable assumptions, should not in general cause a rise. It was to be hoped that in future the sum of the premium and the customs duty would represent for the importer a charge similar, on the average, to that resulting from the premium before Law, 3,244. Thus, the increase in the duty would be more or less compensated by the decrease in the level of the premiums. In that connexion he recalled that under Law 3,244, a minimum could only be fixed for the premiums when it was a question of inconvertible currencies, basing them on the average exchange rate for imports paid for in convertible currencies. The provision in question was designed to reduce discrimination, and implicitly ensured that there would be no obstacles - from the legal point of view - to neutralizing the recent increase in the tariff charge by means of a corresponding decrease in the premiums. On the other hand, there would be nothing extraordinary in the inflationary process gradually causing, as had occurred in the past, a certain rising trend in the cruzeiro import price. Hitherto there had been a balance
between receipts and withdrawals from the fund for subsidizing exports; and that balance would continue, because Law 3,244 provided that no imports could be effected at a price lower than the exchange buying rate for the Government. That rate consisted of the parity rate, plus the average export bonus.

30. One delegation commenting on discriminatory elements in the system stated that frequently the price of currencies for importing from areas with convertible currencies was greater than the price paid by the merchant when buying equivalent goods with inconvertible currencies.

31. That situation, said the representative of Brazil, was not the result of the authorities’ wishes, but a consequence of certain peculiarities of the previous exchange system. Owing to the scarcity of convertible currencies and the preference for importing goods from countries with convertible currencies, the price for these currencies in the auctions was constantly higher than that of inconvertible currencies. The latest reform would alleviate that state of affairs. The need to eliminate an illicit triangular operation and the resulting damage to the economy of Brazil, was one of the main causes for the new measure. In the future, as a result of Article 53 of Law 3,244, something closer to orderly cross rates would prevail, as the inconvertible currencies would be auctioned on the basis of a minimum of not less than the average price paid for freely convertible and transferable currencies. In that way, the disadvantages of the situation mentioned would be reduced in respect of the competitive capacity in the Brazilian market of goods from countries such as the United States, Canada and Switzerland.

General Comments

32. A member of the Committee stated that there had been cases of exports from Brazil which had been invoiced at prices higher than that charged by the vendor. In the country of destination, the purchaser deposited in the bank the whole of the price declared, and that was remitted to the exporter, who returned to the purchaser, through the free exchange market, the difference between the real price and that declared on the trade invoice. Clearly, by such a fraud, the exporter got an additional profit, equal to the difference between the dollar rate on the free market in Brazil and the higher official price allotted by the Brazilian authorities to currencies resulting from exports.

33. The Brazilian delegate expressed his thanks for the information. It had long been a preoccupation of the authorities of his country to reduce the drainage of official assets resulting from transactions like that mentioned. Experience showed that they were difficult to avoid when there was a system of differential exchange rates. In Brazil, as in other countries, such operations were effected by means of over- and under-invoicing, according to the characteristics of the exchange system and the relation existing at a given moment between the official quotations and those on the free or parallel market. The need to exercise control over the price of imports explained why Brazil had maintained the requirement of a consular visa.
34. One delegation pointed out that secretariat document MGT/90/57 contained, for information, various data concerning the Brazilian reforms — data relating to matters which were not included among those covered by consultations under Article XII:4(b) of the General Agreement. It was thought advisable — and there was agreement on this point — that it should be noted that the Committee did not formulate any comment or view or conclusions on aspects of the Brazilian import system outside its terms of reference.

35. The same delegation, and one other, noted that the new provisions of Law 3,244 raised questions of interest both to the present consultations and to discussions which would be taking place in the TNC for Brazil. It was agreed that the present discussion would not preclude raising the same or similar questions in the TNC for Brazil.

36. One delegation asked that note should be taken — and it was so agreed — of the fact that the views expressed during the meeting with regard to consultations under Article XII:4(b) should not be taken as a view, one way or another, as to whether the new Brazilian tariff law may be consistent with the obligations of the GATT in general and, in particular, with the waiver granted to Brazil last November.

37. Various delegations thanked the Brazilian representative for the frank and full way in which he had explained the relevant features and the significance of the import control system. There had been a further confirmation — as one delegation said — of the value of the system of consultations for a better understanding among the contracting parties.
ANNEX I

STATEMENT BY THE REPRESENTATIVE OF BRAZIL

With respect to the plan for consultations under Article XII:4(b), it is our opinion that, generally speaking, the documents prepared by the secretariat of GATT and the International Monetary Fund cover the various points, and reflect the situation correctly. Nevertheless, for a better understanding of all the factors affecting the balance of payments of Brazil, it is necessary to take into account the following considerations:

(a) Between 1925 and 1956 the population of Brazil increased by more than 100 per cent, from 30.2 million to 60.6 million. In 1957 it will reach 63 million.

(b) During this period (1925 to 1956) gross investment, based on 1950 prices, rose from 9.0 billion to 45.9 billion cruzeiros.

(c) In the same period gross national product, also based on 1950 prices, changed from 96.0 billion to 308.9 billion cruzeiros. Thus the gross national product and the gross investment rose during this period at an average rate of 3.9 per cent per annum (5.4 and 3.7 per cent respectively), which were sufficient to maintain improvement in the real per capita income, taking the rate of demographic increase at 2.3 per cent per year.

(d) The dynamic element in this process of development - the investments - nevertheless depends on a variable factor, namely the Brazilian capacity to import. At present this capacity is in the order of 30 per cent of national output, and it (taking account of the net contribution of capital movements, which may be negative or negligible) depends, ultimately, upon the exchange resources produced by the Brazilian exports.

The Brazilian exports, which during the aforementioned period changed from 19.0 to 29 billion cruzeiros - due more to the increase in international prices than in the physical quantities exported - consist principally of coffee, cocoa and cotton. Coffee accounts for about 61.5 per cent of the total exports, while the combination of coffee, cocoa and cotton represents 76 per cent of the total.

The country's dependence for its external earnings on the export of such a combination of primary products, and the price behaviour of such products, especially that of coffee, makes it easy to understand why there should have been such a progressive worsening of the country's balance of payments and such a growing shortage of foreign exchange, that is in relation to the import payment requirements of the whole of Brazil's developing economy.
This situation of handicap and disequilibrium requires the application of a practical system aiming at the allocation of the limited supply of foreign exchange for import payment in such a way that we can obtain the maximum amount of essential machinery and equipment needed by industries, and less of consumer goods. Among consumer goods, priority is given to those of general demand rather than those specialties of interest to only a restricted section of the population.

The structural disequilibrium which I am referring to is aggravated by a chronic inflationary process. To give an idea of the magnitude of this pressure, I may point out that within such a short period as between 1950-1956, the gross national product at current prices rose from 253 to 796 billion cruzeiros, and that the same calculation based on 1950 prices would show a change from 253 to 308.9 billion cruzeiros.

The solution of this problem is twofold: first, to combat and to stop the inflationary process and secondly (as a longer term proposition and depending upon the evolution of our economy), to promote some diversification of our exports together with a gradual substitution of certain imports.

As regards the inflationary process that the Brazil Government is trying to fight and to stop, it is important to understand that it must be brought under control without impairing the rhythm of growth of our economic activity and the normal level of employment. If you consider the long duration of the inflation problem, its wide ramifications in the past and the rapid growth of our population you will see that this is a very delicate and complex task. Furthermore, we have to remember that, for a considerable period of time in the past, we were compelled to appeal to several inflationary expedients, when the normal ways and means were found outside of our capabilities.

In conclusion, the prospects for an improvement in the conditions of our economy and in the balance-of-payments situation unhappily are not optimistic. According to studies made by a mixed group of experts of the Economic Commission for Latin America and Bank of Development of Brazil, the situation should not be expected to improve before 1962.

Under these circumstances, up to 1962 at least, Brazil certainly will not be able to do away with the mechanism for selecting imports according to their essentiality to the economy and the exigencies of our economic development. Nevertheless, as the new trade mechanism to be set up following the approval of the new tariff law clearly indicates, the Brazilian Government has continuously endeavoured progressively to introduce measures which give greater play to the market forces and the automatic functioning of the trade mechanism, evolving in the direction of complete liberalization.