IV. TRADE ASPECTS OF THE DISCRIMINATION POLICY
(Pages 10 and 11 of W.7/57)

1. A large part of the consultations described in the preceding section and of the discussions on the action taken by contracting parties under the provisions of Article XIV was devoted this year to an examination of the effect of discriminatory import restrictions on the economies of the contracting parties and on international trade generally. Attention was also given to certain requirements of Article XII:3 (c) and to the administrative methods employed by the consulting governments in conforming to them. This Article provides, among other things, that contracting parties maintaining quantitative import restrictions shall not prevent unreasonably the importation of any description of goods in minimum commercial quantities, the exclusion of which would impair regular channels of trade, and that contracting parties shall apply any such restrictions in such a way as to avoid unnecessary damage to the commercial or economic interests of any other contracting party. In the view of the CONTRACTING PARTIES, it is essential that governments should periodically review their restrictions from a commercial standpoint in order that the repercussions on international trade may be more clearly understood. It is recognized, however, that the financial considerations must remain paramount and that an examination of the repercussions on trade must in no way detract from the prime objective of each government to attain as early as possible a balance-of-payment position which will no longer require resort to the provisions of Article XIV.

2. Particular attention was paid to the effects of import restrictions on the economies of countries practising discrimination. Such restrictions by affording protection to domestic industries producing similar goods may lead to uneconomic production, the weaknesses of which would be revealed only when the restrictions are removed. It was recognized that an immediate incentive is given to the production of less essential goods by the creation of a temporary market during the period of restriction. Such new industries may be unable to compete with imports when the restrictions are removed, thus causing difficult internal adjustments. On a wider scale this situation could cause a wasteful and inefficient allocation of resources and make the countries relying on restrictions less, rather than more, capable of dealing effectively with their international payments problems. The contracting parties applying import restrictions appear to be well aware of the dangers that may result from this form of temporary protection. In some cases it is clear that controls over investment and the allocation of scarce materials have checked the expansion of industries producing less essential goods. Many governments have clearly warned producers of the temporary nature of the import restrictions and that they will be removed as soon as balance-of-payment conditions permit.

3. There was an awareness also of the effect on prices of import restriction and discrimination. In a number of instances, countries practising discrimination, by concentrating their demands on particular areas of supply, have driven prices up to exceedingly high levels. These inflated payments
have aggravated their overall balance-of-payment positions and added to their internal costs. If this tendency were widespread it could have detrimental effects on the economies of importing countries where higher priced raw materials are being bought. The purchase of raw materials at such higher prices could have an adverse effect on export, because producers through having been forced to buy the higher priced material would not be able to compete effectively with producers buying raw materials at more favourable prices. The fact that some countries practising discrimination have sometimes admitted supplies of particular products from hard-currency areas, in order to avoid the effects of over-priced imports from soft-currency areas, demonstrates a real awareness of this problem.

4. It was realized also that discrimination can have a protective effect on the economy of a supplying country which benefits from the demand of countries practising discrimination. Distortions may be set up in the economy of the country selling to a series of sheltered markets at high prices and the removal of discrimination may necessitate difficult adjustments. The use of bilateral trade agreements of some kinds are likely to encourage such developments.

5. These inherent dangers in discriminatory import restrictions were recognized by the CONTRACTING PARTIES. The consultations and discussions showed that the several governments imposing restrictions had all adopted measures of varying scope designed to minimize the harmful incidental effects of restriction and discrimination. Certain contracting parties showed that the use of the "global" type quota reduced the danger of high-priced imports. The broader the scope of this type of quota, the larger the field of competition; and countries which had found it possible to introduce quotas applicable to any source of supply on a non-discriminatory basis had experienced beneficial results by way of reduced prices. Other governments found that a sudden relaxation on the import of particular commodities whose domestic prices were uneconomically high brought about a favourable down-turn. Countries which had found it necessary to intensify their import restrictions had, in some cases, intensified restrictions on imports from the most expensive sources first, leaving the cheapest sources to the last. It was also found that where controls over investment or over scarce materials were in force, a check could be placed on the expansion of industries receiving incidental protection from import restriction.

6. These ameliorative measures coincide in many respects with those recommended by the CONTRACTING PARTIES in their 1949 report -"The Use of Quantitative Restrictions for Protective and Other Commercial Purposes". The discussions this year confirm the conclusions reached in 1949 that there are great dangers in applying discriminatory restrictions for a long period, and show that the contracting parties applying those restrictions are aware of the need to avoid conditions resulting in such undesirable long-run consequences. The action taken by governments towards minimizing the protective effects of their restrictions is of the greatest importance, but ameliorative measures cannot wholly eliminate the dangers mentioned above so long as the restrictions remain in force.
7. Discriminatory restrictions cannot be regarded as providing a satisfactory solution to balance-of-payment difficulties. At most, they can prevent a further deterioration in a country's reserves position pending the adoption of fundamental corrective action. When maintained for long periods, their effect on a country's industry and trade may even add to the balance-of-payment difficulties and perpetuate them.