Attached is the draft of the section of the GATT annual report on international trade, dealing with Bilateral Trade Agreements.

Any comments on the attached draft should reach the secretariat not later than 10 July 1959.
BILATERAL TRADE AGREEMENTS

Bilateral trade agreements usually provide for the exchange of exclusive quotas or other specially favourable treatment between the partner signatories. Insofar as comparable treatment is not extended to third countries, there is likely to be a diversion of imports in deviation from the natural pattern of trade that would obtain in the absence of restrictions. Discrimination may thus be caused against countries whose exports to a bilateral agreement signatory country are restricted. In recent years when more and more goods are freed from restriction, the field in which exclusive quotas can be granted has been gradually reduced. Where bilateral arrangements are necessary, for instance, with State-trading countries, their discriminatory effects on imports from third countries is also lessened insofar as the imports in question from these third countries are no longer restricted. This is particularly true because bilateral quotas nowadays seldom are of the type which oblige the country granting them to purchase a minimum quantity of the goods in question, the obligation usually being that licences should be granted freely up to the agreed quota for imports from the partner country. More recently, many bilateral trade agreements have merely provided for indicative lists of exchangeable goods without specifying the quantity or value to be traded. In such cases, discrimination is unlikely to arise unless, of course, there are accompanying exchange arrangements which induce the partner country to supply export goods at less than normal prices, or which prevent the credit balance that may accrue to one of the partners from being used for purchases in third countries and result in a stepping-up of its imports from the other partner country by artificial stimulation or by the restriction of imports from third countries.

Among the industrial countries, the use of bilateral quota agreements is now limited to the small sector of imports which remain subject to restriction. In their trade with the State-trading countries, such agreements are relied upon as a necessary means of transaction; quotas are given in exchange for undertakings by the State-trading country to purchase specified goods. Bilateral agreements are more widely used by the underdeveloped countries, many of which have a keen desire to find new markets for the staple exports and to diversify their trade relations by establishing direct commercial contacts abroad. In some cases, trade agreements with indicative exchange lists, have been concluded with State-trading countries in conjunction with long or medium-term credit arrangements.

The bilateral trade agreements entered into or renegotiated in the past year have frequently been in the form of "goodwill agreements" which do not provide for rigid import obligations on either side. Several of these agreements contain, in addition, provisions on such matters as re-exports, shipping services and a guarantee of non-discriminatory treatment. That agreements of the "goodwill" type have become more widely used reflects to a large measure the desire of primary producing countries to find new outlets for their exports and to establish direct commercial contacts. Whereas in earlier years even agreements of this nature frequently included bilateral payments provisions, the new tendency has been to replace such provisions by arrangements to settle payments in transferable currencies. This development has been particularly noticeable in cases where a State-trading country is involved.
During 1958, before the restoration of currency external convertibility, several countries in Western Europe extended the area of transferability of their currencies to cover a larger number of non-EPU countries outside the dollar area. As a consequence, a considerable number of bilateral payments arrangements were allowed to lapse, payments being placed on a transferable currency basis. There was also a reduction in the use of bilateral trade arrangements. Some trade agreements were allowed to lapse while a large number were renegotiated and put on a more flexible basis. The revision of bilateral agreements in the past year often involved the elimination of bilateral quotas or a reduction in their number. Sometimes it was agreed to extend, on a reciprocal basis, the benefit of liberalization and non-discrimination, such as the application of OEEC free lists or "global" quotas open to a number of countries. To this extent the principle of non-discriminatory treatment for imports requiring payment in the same currency or mutually transferable currencies has been given fuller expression.

There has been in recent years a general decline in bilateral payments arrangements, and by 1958 a large proportion of such arrangements had been terminated. The progress towards convertibility and the measures taken by European and certain other countries at the end of the year to make their currencies convertible for non-residents have been described in the previous section of this report. Since that time, there has been a general tendency to reduce the discriminatory elements in import restrictions. The continued progress to non-discriminatory, multilateral trade, it is hoped, will before long, reach a stage where bilateral payments and trade arrangements will have become obsolete.

**Western Europe**

Little change was seen during 1958 in the network of bilateral trade agreements maintained by Western European countries. Most countries continued to use bilateral quota lists for those items which had not been liberalized or made subject to global quota, but the gradual relaxation of import control during 1958 in a number of countries was reflected by the deletion of a number of items from the bilateral quota lists, and so far as intra-European trade was concerned only a small proportion of imports remained covered by bilateral quota commitments.

The proportion of intra-European trade subject to bilateral quotas was further reduced at the end of 1958 when, under Article 33 of the Treaty of Rome, bilateral quotas in effect between members of the European Economic Community were converted into global quotas open, without discrimination, to all the other Member Countries. At the same time, the members of the Community offered, on a reciprocal basis, to increase for other Members of the OEEC quotas for unliberalized industrial products. On the other hand, certain trade agreements were entered into at the end of 1958 or in 1959 between certain Members of the EEC and other European countries, e.g. those between Denmark and Germany, and between France and the United Kingdom.
The Belgo-Luxemburg Economic Union and the Netherlands continued during 1958 their policy of negotiating joint Benelux agreements with other countries, with a view to facilitating a common licensing policy and to reducing some of the remaining obstacles to the free circulation of imported goods within the Union. They further decided in May 1958 to conduct this common trade policy towards Eastern European countries, and as a result, such general Benelux quotas have been opened to almost all the Eastern European countries and the USSR, to replace the previous bilateral quotas which had applied in certain cases by the individual Benelux countries.

There was little change during 1958 in the number of trade agreements in force between Western European and Eastern European countries. With the exception of Ireland, all Western European countries have agreements in force with most countries in Eastern Europe and the USSR. Most of these arrangements are inter-governmental, but in the case of Eastern Germany the agreements with certain Western European countries, including Austria, Denmark, France, Iceland, Italy and Sweden were concluded through commercial organizations. Similarly, Spain's post-war bilateral agreements with State-trading countries have been concluded between the National Banks of the countries concerned and the Spanish Foreign Exchange Institute.

An agreement providing for multilateral trade and payments arrangements, similar to those concluded between Argentina and eleven Western European countries (the Paris Club); in 1957 entered into effect in 1958 between Finland and Argentina, and payments between the two countries were to be effected in currencies convertible into any of the currencies of the countries in the Paris Club group. Earlier in 1958 a new payments agreement concluded by Austria with Brazil provided for the inclusion of the Austrian schilling as a transferable currency in the Hague multilateral payments scheme. Since the move amongst Western European countries towards external convertibility at the end of 1958 and the entry into force of the European Monetary Agreement, however, these clearing arrangements have become largely obsolete.

The gradually widening transferability of Western European currencies has enabled Yugoslavia to modify its bilateral arrangements and to adopt more flexible methods of conducting trade and settling external payments. The payments agreements providing for multilateral settlement concluded earlier with Denmark, the Federal Republic of Germany, Italy and Sweden were followed in 1958 by similar arrangements with the Benelux countries. These developments have considerably lessened Yugoslavia's need for balancing bilateral accounts and have permitted the use of bilateral trade agreements of a more flexible nature such as those in force with Austria, Sweden and Greece. On the other hand, in the first post-war trade agreement concluded between Yugoslavia and Spain in January 1958, balanced trade is still aimed at as payments are not made on the basis of transferable currency.
Eastern Europe, the USSR and Mainland China

Trade among the Eastern European countries, the USSR and mainland China is governed by extensive trade agreements often supplemented by credit and technical assistance arrangements. Practically all these agreements are strictly bilateral and although provision for settlement in cash or in gold sometimes appears in them, the actual settlement of balances, usually after the expiration of a one-year agreement, is almost invariably made by means of additional deliveries of goods. With regard to relations between this group of countries and the rest of the world, efforts in recent years to develop trade with countries in Asia and Latin America have resulted in a widening network of trade and payments agreements with these countries.

In accordance with a recommendation by the Council for Mutual Economic Assistance (Comecon) which comprises the USSR and the other Eastern European countries, the State-trading countries have in recent years been following a policy of progressively replacing the one-year trade agreements between them by longer term arrangements which are considered to be better suited to their planned economies. These agreements cover periods extending from three to five years and contain lists of commodities to be exchanged as well as targets of trade. Detailed quota lists are negotiated each year and laid down in trade protocols.

A similar trend is noticeable in the bilateral agreements which the Eastern European State-trading countries maintain with countries outside the area. The USSR, for example, concluded during 1958 three-year or five-year trade agreements with Greece, India, Norway and Sweden, having previously concluded similar long-term agreements with Austria, Finland, France, the Federal Republic of Germany and Italy. These agreements specify the commodities in which trade is to take place and set a target for the total exchange of goods; they also provide for the annual negotiation of quota lists.

Modifications to existing bilateral agreements included a modification of Eastern Germany's payments agreement with India to provide for a central clearing account so that rupees earned by East German exports could be used for the import of Indian products. A new agreement for the exchange of goods was concluded by the Czechoslovak State Bank and the Spanish Institute of Foreign Exchange, and a barter agreement on the exchange of certain consumer goods for tobacco was concluded between Czechoslovakia and Turkey. Barter agreements involving the exchange of chrome and manganese ores for steel sheets were also concluded by the USSR with the United States and Canada.

Mainland China maintains bilateral trade and payments agreements with more than thirty countries. The agreements with State-trading countries generally provide for the exchange of goods on a barter basis and are often associated with arrangements for aid and credits. New agreements concluded by China during 1958 included a three-year trade agreement with the United Arab Republic, a first trade agreement with Iraq, a five-year non-governmental barter agreement with Japan, a barter agreement with Pakistan envisaging the exchange of coal and cotton and an agreement with India, drawn up by the State-trading corporations of the two countries, on the bilateral exchange of goods.
Asia, the Middle East and North Africa

Japan has continued to reduce its reliance on bilateral arrangements in the conduct of its trade and payments. Several of the remaining bilateral arrangements, e.g. with Brazil and Egypt, which aimed at a balanced trade and involved settlement of payments through clearing accounts, were replaced by agreements providing for settlement in convertible or transferable currencies, and in the case of Egypt the arrangements were replaced in November by a trade and payments agreement with the United Arab Republic. Japan's trade agreement with New Zealand, which entered into force in September, contained reciprocal assurances of non-discriminatory licensing treatment. In May 1958 Japan concluded its first trade agreement with Morocco providing for the exchange of goods during 1958 and for mutually favourable licensing treatment.

India's bilateral agreements generally contain no commodity quotas but merely indicative lists of goods to be exchanged and as a rule they do not aim at a bilateral balance of trade. Although some of these agreements provide for payments to be made through bilateral accounts held in rupees they do not generally interfere with multilateral settlement since, in most cases, outstanding balances can, at the request of the creditor, be converted into sterling. In 1958, India concluded its first trade agreement with Ethiopia and renewed or extended a number of existing agreements such as those with Indonesia, Japan, Poland, the USSR and Yugoslavia. A four-year agreement, to facilitate the exchange of tobacco, entered into effect between India and Ceylon in September.

Most of Ceylon's bilateral agreements are in the nature of commercial treaties; their main effect is the establishment of direct trade contacts and the mutual guaranteeing of non-discrimination in import and export licensing. Ceylon's agreements with State-trading countries however generally aim at bilateral balancing of trade, as in the case of the five-year trade agreement concluded with mainland China in September 1957, under which the protocol governing trade during 1958 provided *inter alia* for the exchange of agreed quantities of Ceylonese rubber and Chinese rice. In February 1958 Ceylon concluded its first trade and payments agreement with the USSR; this agreement is also aimed at a balanced trade.

Under bilateral trade agreements concluded during 1958 with Australia, Ceylon and Malaya have undertaken, as Japan did in 1957, to import annually specified minimum amounts of Australian flour, in return for certain trading privileges affecting their exports to Australia. The agreements, which, like the 1957 agreement with Japan, are valid for three years, also provide *inter alia* for mutual protection from unfair competition and for the extension of most-favoured-nation treatment in respect of tariffs and import licensing.

Towards the end of 1958 several new barter agreements affecting trade with the Far East were announced. In August, Pakistan signed a barter agreement with Poland under which Pakistan cotton was exchanged for Polish coal, and in November, Pakistan signed a barter agreement with mainland China.
under which cotton was exchanged for Chinese coal. Japanese trading concerns
signed contracts to import tin from the USSR in exchange for wire rope and
Japanese ferro-chrome manufacturers concluded contracts with the Commodity
Credit Corporation of the United States for a barter deal involving ferro-
chrome and United States surplus raw cotton. A number of other barter
transactions were under negotiation at the end of 1958 including the barter
deal involving the exchange of Indian manganese ore and ferro-manganese for
United States wheat.

Most countries in the Middle East, continued in 1958 to resort to
bilateral arrangements, including barter and compensation deals, principally
for the purpose of securing markets for exports of cotton, fruit, tobacco
and the other important products of the area.

In 1958 Egypt concluded barter agreements with Spain and the USSR and
signed a number of one-year agreements with e.g. Japan, Italy, Poland,
Saudi Arabia and Outer Mongolia. A longer term agreement between Egypt and
Yugoslavia entered into force in May 1958 and provided inter alia for
payments to be settled through clearing accounts with a swing credit. A
compensation agreement concluded with France in August provided for the
granting of credits to Egypt for the import of French products to a value of
£22 million.

In 1958 Israel renewed a number of bilateral agreements, most of which
included quota commitments, and concluded new agreements, providing
inter alia for payments to be settled through clearing accounts, with Uruguay
and Portugal. Israel also concluded a five-year trade agreement with Ghana
providing for credit facilities and an agreement with Japan in February 1958
providing for transactions to be settled in cash or on a deferred payments
basis to replace previous barter arrangements.

Since achieving independence Morocco and Tunisia have negotiated a large
number of bilateral trade and payments agreements, particularly with countries
in Eastern and Western Europe. These agreements, many of which took the
place of agreements previously concluded by France with respect to the franc
zone were for the most part renewed or extended during 1958 and several
new agreements were concluded.

Latin America

Almost all the countries in Central America trade amongst themselves
in convertible currency. The countries in South America, with the exception
of Peru, which is virtually free of bilateral commitments, have conducted most
of their trade within the region on the basis of bilateral trade and payments
arrangements. There has been however, in recent years, a growing awareness
of the limitations which this bilateral system imposes on trade and this
led at the end of 1958 to the bankers' conference held at Rio under the
sponsorship of ECLA at which various formulae designed to liberalize inter-
Latin American trade, to simplify the existing exchange systems and to
establish a multilateral payments system for countries operating bilateral
accounts were drawn up by the participating countries - Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay. Although the Governments of participating countries had not formally approved these proposals they have been put into effect to a limited degree by Argentina, Brazil, Chile and Uruguay, thus representing a step away from the usual bilateral trade policy conducted by these countries. Further proposals for a regional payments union have also been drawn up.

In 1958 Argentina renewed or extended trade and payments arrangements with Israel, Spain, Yugoslavia and a number of Eastern European countries. These arrangements include provisions for payment through bilateral clearing accounts and, in the case of Spain, for the progressive liquidation of outstanding commercial debts. The multilateral trade and payments arrangements which Argentina has maintained since 1956 with a group of trading partners in Western Europe (the "Paris Club") was virtually wound up in December 1958 after the Argentine Government decided to abandon its former system of multiple foreign exchange rates for the peso.

Brazil's trade and payments arrangements with Western European countries (the "Hague Club") were rendered inoperative as a result of the moves towards currency convertibility undertaken at the end of the year by Western European countries, but the "Hague Club" is likely to remain as a useful forum for trade and payments discussions. An agreement concluded with Japan in October 1958 had the effect of including Japan in the limited convertibility area of the "Hague Club" as it provided that payments between the two countries could be settled in the currencies of the European members as well as in convertible currencies. Other payments agreements providing for bilateral clearing were concluded during 1958 by Brazil with Yugoslavia, Eastern Germany and Rumania.

During 1958 Cuba renewed trade agreements with Iceland, Spain, Switzerland and the United Kingdom and signed new commercial agreements with Denmark, Israel, Japan and Peru. A five-year commercial agreement and a two-year payments agreement providing for payments to be effected through clearing accounts were concluded during 1958 by Uruguay with Israel. Other agreements providing for payment through clearing accounts were signed by Uruguay with Argentina and Rumania.