Attached is the draft of the section of the GATT annual report on international trade, dealing with Quantitative Restrictions.

Any comments on the attached draft should reach the secretariat not later than 17 July 1959.
Apart from customs tariffs, international trade has in recent decades been hampered by administrative barriers, notably quantitative restrictions, which affect the free flow of goods. During the nineteen-thirties the great depression and instability in international payments created problems for many countries that could not be met by the traditional types of commercial policy measures such as the customs tariff. The restriction of external payments and of imports by value or quantity, was tried out and found useful. After the last war the persistent unbalance in international payments and the lack of foreign exchange reserves led many governments to retain the restrictions which had been introduced before or during the war. Generally speaking, most of the restrictions applied in the earlier post war years were justifiable on balance-of-payments grounds. In the last few years, the international payments situation has improved substantially and a number of countries have accumulated large amounts of reserves and have to a varying extent emerged from payments difficulties. The possibility of further reductions or elimination of the remaining restrictions has been the subject of daily consideration both by governments and in international organizations, such as GATT.

Previous reports in this series, have given an account of the gradual improvement after 1953 in the international payments situation. A growing supply of dollars through transactions with the United States has increased the total gold and dollar holdings of the rest of the world. Between 1953 and 1956, the aggregate reserves of these countries increased by some $6700 thousand million. Particularly the industrial countries of Western Europe, which had started with exceedingly low levels of reserves at the end of the war, had by 1956 reached a reserve position which, in some cases, could no longer be considered inadequate in relation to their payments requirements. It was the primary exporting and under-developed countries which remained in difficulties, arising from the low levels of reserves they possessed and the higher requirements owing to the wider fluctuations in their export earnings and development requirements. During these years, greater progress was, therefore, made by the industrial countries in the dismantling of import restrictions.

The process of improvement was temporarily halted in 1957 when payments by the rest of the world to the dollar area rose sharply on account of various abnormal factors, such as the effects of the Suez crisis, sharply increased demand for wheat, cotton and other agricultural products of dollar origin and excessive inflationary tendencies in certain countries. In spite of this reversal, there was no recrudescence of the use of restrictions; on the contrary, the industrial countries continued to explore ways and means of reducing the coverage and the incidence of their restrictions.
That the balance-of-payments surplus recorded by the United States in 1957 did not represent a basic reversal of the previous trend but a temporary interruption of its deficit position, is indicated by the even greater deficit that it incurred in 1958. During the year, the total reserves of the rest of the world, increased by some $4,100 million, of which about $3,300 million was earned through transactions with the United States, a record which was only exceeded by the exceptional rate of accumulation of 1950 under the impetus of the Korean war and the currency devaluation of the preceding year. The general apprehension of 1957 that the United States recession might lead to a severe world payments crisis therefore did not materialize. On the other hand, it may be noted that the large surplus of the rest of the world with the United States was partly due to certain special factors, such as the reduced level of economic activity in Western Europe and recessions in certain non-dollar countries, notably Japan.

In 1958, as in the preceding years, the increase in reserves was concentrated in industrial countries, particularly those in Western Europe, while for primary producing and under-developed countries as a whole, there was a decline in their total holdings. The strong financial position that was attained by Western European countries in 1958 reflected their strong economic position which had been built up in the preceding years and which was now being consolidated. Apart from the cessation of economic expansion, and the lessening of inflationary pressures in these countries, an important contributing factor in their improved payments position has been the marked improvement in their terms of trade vis-à-vis the primary producing countries; the fall in commodity prices contributed substantially to a marking down of their import bills.

These developments in 1958 made possible the realization of a long-cherished step in the direction of freer, multilateral payments and trade. At the end of 1958 and early in 1959, most countries of Western Europe established external or non-resident convertibility for their currencies. In general, current earnings of these currencies by non-residents may henceforth be converted at official rates of exchange into dollars or any other currency. Convertible and transferable accounts were either unified or were made inter-transferable among non-resident account holders. Similar steps were taken by certain other countries, mainly members of the sterling and franc areas. Subsequently, the Federal Republic of Germany made its currency convertible for residents as well as for non-residents. In the last few years some of the European currencies had already been freely convertible for non-residents in exchange markets on a de facto basis, usually at a slight discount, and a number of countries had taken steps to increase the transferability, and in some cases the effective convertibility, for their currencies. Nevertheless, the moves made at the end of 1958 in introducing legal and formal external convertibility represent a substantial advance towards the restoration of a sound international monetary system.
Although currency convertibility by itself does not necessarily eliminate the need for countries to apply restrictions, it does reflect a change in the financial environment and has brought about a new outlook. In fact, the move to convertibility at the end of 1958 was accompanied by important steps of trade liberalization and was followed by further important steps in the same direction. Since the end of 1958, the balance-of-payments and reserve position of most Western European countries has improved further, which seems to indicate a rather imminent possibility of all balance-of-payments difficulties being overcome in Western European and other industrial countries, and of the elimination of import restrictions to meet such difficulties.

In spite of the decrease or disappearance of the financial need for the maintenance of import restrictions in certain countries, there remains a substantial area of restrictions applied by contracting parties for reasons which are not associated with their balance-of-payments situation. Certain countries which have ceased to claim the right to use restrictions for financial reasons have, nevertheless, retained restrictions on a large number of imports, many of which are in the agricultural sector. Restrictions are also applied in certain cases in connection with internal price income support measures or for protective reasons. Many of these remaining restrictions are the result of the incidental protection of balance-of-payments restrictions maintained over a period of years.

With the restoration of external convertibility, earnings in one currency can be freely converted into any other currency, including dollars. Any currency advantage that a country may derive from making purchases from some sources rather than from other sources has thus disappeared. From the purely financial point of view, there is therefore no ground left for the continued application of discriminatory restrictions against imports from certain currency areas. As will be seen in the following paragraphs, following the restoration of convertibility, the pace at which discriminatory restrictions are removed has been quickened, and further steps are likely to be taken in the near future by some countries. As distinct from the reduction of the level of restrictions, such action relating to discrimination can be shared by primary producing or under-developed countries as well as industrial countries.

As regards the balance-of-payments monetary reserve position of the primary producing and under-developed countries, the trend that had become manifest in the preceding years continued in 1958. Their reserves on balance declined further and many of them continued to be faced with problems of inflation. World prices for primary commodities had been declining through 1957 and the decline had been particularly sharp for industrial materials. It has been estimated that the decline in prices, combined with certain declines in the volume of exports, reduced total export receipts of primary producing
countries as a whole by some six per cent of the level of 1956/57. Throughout 1958, commodity prices remained weak and relief was not seen until towards the end of the year. While their terms of trade deteriorated, import demand arising from development requirements remained high and in some cases the servicing of foreign debt also placed an additional burden on the balance of payments. In general, countries with insufficient foreign exchange resources to enable them to cope with the temporary pressures until internal monetary and fiscal measures had had time to take effect, tightened their restrictions or, in certain cases, allowed free exchange rates to depreciate.

The Sterling Area

Several countries in the sterling area made further progress in the past year in the removal of restrictions and in reducing discrimination while others, despite adverse developments in their balances of payments, maintained the degree of liberalization which had been achieved up to 1957. In July 1958 the United Kingdom removed the control on dollar chemicals and allied products used in industry, and merged the dollar and non-dollar quotas for apples. In August 1958, a quota for fruit from the dollar area was instituted. At a conference held among the Commonwealth countries in Montreal in September 1958, participating countries generally reaffirmed the objective of achieving freer and multilateral trade by freeing imports from restrictions, particularly discriminatory restrictions, and the United Kingdom announced measures of liberalization for a substantial proportion of dollar imports; almost all restrictions were removed on United Kingdom's dollar imports of industrial, agricultural and office machinery and newsprint. Canned salmon was freed from the import control with the exception of that coming from countries in Eastern Europe and mainland China. As from 8 June 1959, controls were removed on imports of many consumer goods from the dollar area, dollar area quotas were opened for certain goods and certain existing dollar quotas were increased.

In response to the call made at the Commonwealth Conference, similar measures have been taken by many of the United Kingdom dependent overseas territories. Relaxation of dollar restrictions came into effect at the beginning of 1959, among others, in the West Indies, British Guiana, Nigeria, Gambia, Sierra Leone, Cyprus, Mauritius, British North Borneo, Sarawak and Fiji. As a consequence, many of these territories now have dollar or world-wide free lists.

In 1957 Australia had taken several steps to free imports from restriction and the policy was continued in 1958 and 1959. In April 1958, a number of basic materials previously subject to a regime of liberal licensing were freed from licensing control. In August, some sixteen further items, mainly metals, were similarly decontrolled,
and quotas were increased for a number of other items. Discrimination against imports from the dollar area was reduced at the same time; some thirty industrial materials and other products were transferred to the world licensing list in April and further items of capital equipment, electrical apparatus and parts, etc., were similarly transferred in August and in December. On 1 April 1959, along with other measures of relaxation of restrictions, some 330 import items were added to the world licensing list.

Since 1953, the import restrictions applied by the Union of South Africa have been of non-discriminatory nature; as a result of the successive steps taken up to 1957, the restrictions cover only a small proportion of total imports. The proportion was only slightly changed when in May 1958, certain goods which had been freely licenced under the stock replacement system were reclassified for licensing on an ad hoc or quota basis, while other goods were freed from licensing control. The general level of liberalization was maintained despite the less favourable payments situation.

The liberal import control system of Ceylon was also maintained in 1958. Goods were added or taken off the restricted list from time to time in the light of local supply and other conditions. Of considerable significance has been the action taken in November 1958 to eliminate the restrictions on four items of dollar origin; with this action the Ceylon Government announced that it no longer applied any restrictions of a discriminatory nature.

The import restrictions of the Federation of Malaya applied mostly to dollar imports. As from 1 January 1959 the Federation removed restrictions on the import of twenty-three items from the dollar area, thus greatly reducing the scope of its restrictive system.

No substantial change took place in the past year in the restrictions in India or Pakistan. Certain minor adjustments were made in the successive import programmes of India, and there was a slight increase in the total allocations for the period October 1958-March 1959. On the whole discrimination against dollar imports was reduced, through such action as increases in the proportion of "soft" import licences that may be used for imports from the dollar area. In Pakistan, apart from certain special arrangements for imports from the French franc area, the import licensing system continued to operate on a no-country distinction basis. Certain additional import facilities were introduced in August 1958 for textile machinery and equipment, etc., in connexion with an export promotion scheme for certain varieties of cotton. The restrictions were tightened for the first half of 1959; the number of import items that could be licensed was reduced, although some of the deleted items could be imported under a special export bonus scheme which was introduced in January to replace the previous system of quota entitlement for industries.
Under the new system, importers may use 20 to 40 per cent of their earnings for import from a list of 219 otherwise restricted items.

Faced with a serious decline in its external reserves, New Zealand substantially intensified its restriction at the beginning of 1958. All exemptions from import controls were revoked and all licences previously issued were cancelled. Most imports were made subject to quota control. In March 1958, the Government announced that for a wide range of goods, licences for imports from North America would be issued on the same basis as from other areas. Beginning January 1959, the category "A" imports for which licences were issued to the full amount applied for was withdrawn, the items being transferred to the other categories subject to quota or other restriction. Discrimination was, however, significantly reduced as, under the new policy, except for some 72 import items, licences could be used for imports from any source. In April 1959, after reviewing applications, the Government increased basic allocations for any commodities by 25 per cent while for other goods, including some raw materials, licences would be issued more freely to enable increased imports.

Western Europe

Among the western European countries, Belgium-Luxemburg, the Kingdom of the Netherlands, the Federal Republic of Germany, and Switzerland do not apply restrictions on imports for reasons of the balance-of-payments or monetary reserves. The restrictions they do apply are maintained for reasons other than for their balance of payments position. The Netherlands' decision not to apply import restriction for financial protection was taken recently. In the case of Germany, some restrictions were removed in January 1958 and January 1959 and further liberalization measures will be adopted during the coming months, but these measures will not affect products covered by the marketing laws and some other products on which restrictions will continue to be maintained.

In 1957, France had suspended all trade liberalization and placed all imports under quota restriction. At the beginning of 1959, with a reduction in the official rate of exchange, import restrictions were withdrawn for most imports from Europe and a large proportion of dollar imports; about 90 per cent of its private imports from OEEC countries and their overseas territories (on the basis of 1948 trade) and about 37 per cent of imports from Canada and the United States (on the basis of 1953 trade) were freed from restriction. The quotas for certain products remaining under restriction were increased by 20 per cent. Further, quotas for imports from the European Economic Community countries were increased by 20 per cent or to 3 per cent of national production. Quotas on the same products for the other OEEC countries were increased by 10 per cent, with the possibility of increasing by another 10 per cent through bilateral negotiation.
In January 1958, Norway added some 72 items to its OEEC free list and about 130 items to the dollar free list, thereby raising the respective percentages of freed imports to 81.4 (1948 basis) and 86.6 (1953 basis). In January 1959, the dollar free list was expanded to include all goods that were on the OEEC free list and dollar liberalization was raised to 90.9 per cent.

In February 1958, Denmark removed restrictions on a number of imports from the dollar area. The goods thus transferred from the Regional to the General Free List included certain important exports of the United States and the percentage of dollar liberalization was thereby raised from 55 to 66 per cent (on the basis of 1953 trade). Early in 1959, the Danish dollar list was widened to include all goods that were freely imported from the OEEC countries, and dollar liberalization percentage reached 80.

A substantial liberalization of dollar imports was undertaken by Austria in September 1958, when a long list of goods was freed from restriction for the United States and Canada. As far as industrial goods are concerned, the level of liberalization of imports from these dollar countries and from OEEC countries have been brought to the same level.

Through the extension of a multilateral trade and payments protocol which it had concluded with 12 Western European countries Finland, in April 1958, further liberalized its imports from those countries in exchange for "OEEC treatment" by the latter. At about the same time, the list of goods which were automatically licensed for imports from the dollar area was expanded.

The general tendency in western Europe in the past year, as may be seen from the preceding paragraphs, has been one of progressive relaxation of import restriction, embracing major advances towards non-discrimination. There has been, however, one case in which new restrictions were imposed; from 1 April 1959, Greece imposed severe controls on the import of a number of products from the former EPU countries, the United States and Canada, with a view to diverting trade in the interest of bilateral clearing account countries.

South America

In the post-war years the external payments and trade of South American countries have been characterized by the rather extensive reliance on multiple exchange rates and other measures of exchange restriction which are often applied side by side with quantitative restrictions on imports. In the last two years, considerable efforts have been made by a number of these countries to meet their urgent problems and to simplify their trading systems. Some of them have adopted comprehensive stabilization programmes which in most cases include measures beneficial to trade. Adjustments in exchange
arrangements have, in certain cases, enabled the country to reduce or eliminate the use of quantitative import restrictions. Some countries have resorted to new but less direct methods of restriction such as advance deposits or reduced the number of categories into which goods are classified for exchange rate or levy purposes. There has also been a growing tendency to place reliance on free exchange markets and fluctuating rates.

In 1958 various changes were made in the import and exchange system of Argentina, including variations in prior deposit requirements, and changes in effective rates of exchange for different categories of imports. At the beginning of 1959, the whole restrictive system was modified with the adoption of a comprehensive stabilization programme; imports were freed from licensing requirement, and exchange required for payment was to be obtained from the unified free market. Certain groups of goods were made subject to surcharges or prior deposits.

The Brazilian system of import control and exchange auction was simplified in 1957; the number of categories into which goods were classified for the purpose of exchange auction was reduced from five to two. Only certain goods were subject to licensing restrictions. In June and October 1958, there were certain increases in the fixed surcharges on imports, and exchange allocations were reduced in September. On the other hand, the distinction between United States dollars and the ACL (Hague Club) dollars previously required for payment to European countries, was eliminated in January 1959, when these currencies were combined at auctions.

In Chile, several changes were made in the classification of products for purposes of the prior deposit requirement and in the rates of deposits. In February 1958, for instance, the deposit ratios were increased for certain types of machinery, tools, equipment and many other items. The whole system was revised in June, and the new system provided for deposits up to 5,000 per cent of import value. The rates for certain items were further raised in October. Other changes during the year included variations in the period during which the deposits were to be held by the authorities and the currency in which they could be made.

Changes in prior deposits were also made in Colombia. The period of retention was lengthened and special additional deposits were imposed in February 1958. In April and June, several changes were made in the allocation of goods among the three categories of free, licensable and prohibited imports.

Other South American countries which at present operate prior deposit systems include Bolivia and Paraguay. Bolivia's system covers only certain types of vehicles and was introduced in December 1958. Paraguay, during the year, increased the incidence of the deposit requirement for certain imports.
In Uruguay, the emergency regime of import control introduced in November 1957 was extended by decree, first to 30 June 1958 and then quarter by quarter, and is at present in force until 30 June 1959. Under this system, separate exchange quotas are established for a special group of countries and for all other countries. The special group include Brazil, Finland, France, Greece, Israel, Italy, Paraguay, Spain, Switzerland, Yugoslavia and seven Eastern European countries.

The Dollar Area

In general, countries in the dollar area apply no import restrictions on foreign exchange grounds. Certain import restrictions are maintained by the United States and Canada for reasons other than the balance of payments, notably those applied under Section 22 of the United States Agricultural Adjustment Act of 1932. These restrictions affect certain agricultural and dairy products. On 1 October 1958, the United States introduced restrictions on the import of lead and zinc, setting an annual quota equivalent in amount to 80 per cent of average annual commercial imports during the period 1953-1957. In March 1959 licensing requirement and quota restrictions were imposed on the import of crude oil and petroleum products, including residual oil. These restrictions on oil were applied on the ground of national security, and replace the previous voluntary import restraint programme. Subsequently, oil imports from Canada were exempted from these restrictions.

In February 1959, the Cuban Government introduced licensing requirements on a wide range of imports, mostly in the non-essential category; the more important items are motor cars, electrical appliances, radio and television receivers, perfumes, soaps, fruits and juices, beer and wine, and tobacco. In announcing the measure, the Cuban authorities referred to the substantial decline in national reserves and the adverse balance-of-payments situation, indicating that imports would not be affected unless there should be a rush to buy these goods. Emphasis was placed on internal measures, such as a balanced budget, as the chief means of redressing the situation.

Other Countries

Faced with a serious decline in reserves, Japan made certain adjustments in its import controls in 1957. In April 1958, certain items were deleted from the automatic approval list. As from May, however, reductions were made in the amount of collateral to be deposited by importers when applying for licences; cash deposits were now required only for luxuries and non-essentials and the rates were lowered to those prevailing in June 1957. In January 1959, in view of the moves to currency convertibility, the Government, considering
that there was no need to make a distinction between dollar and other imports, decided that, except for 13 items, the automatic approval system would be applied without currency distinction. Compared with the previous system, under which 231 out of the 617 items under automatic approval could be so imported only when settlement was made in currencies other than the United States dollar, the new system represents an important advance towards non-discrimination.

*Indonesia* continued the system of exchange and import control adopted in June 1957, as described in last year's report. The advance deposit requirement was substantially raised in February 1958, from 20 to 100 per cent of the c.i.f. value of import calculated at the official rate. This was again raised by a third in January 1959.