INTRODUCTION

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

2. The Committee had before it:

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

   (b) documents provided by the International Monetary Fund.

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

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

CONSULTATION WITH THE INTERNATIONAL MONETARY FUND

4. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with the Netherlands. As a part of the consultation between the CONTRACTING PARTIES and the Fund,
the latter transmitted the results and background material from its 1956
consultation with the Netherlands concluded on 25 July 1956, and in addition,
supplied a more recent supplementary paper. The results are reproduced in
document QRC/4.

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

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

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

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

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

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

Opening Statement by the Representative of the Netherlands

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

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

Balance-of-Payments Position and Prospects

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

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

12. The representative of Canada pointed out that the growth of the deficit with the dollar area in the past two years had resulted from internal demand and had been reflected in increased imports of raw materials consequent upon the general investment boom in Europe and to some extent in higher agricultural imports because of the poor harvest in the Netherlands. He referred to a statement in the IMF background paper to the effect that "there was no evidence of any disproportionate rise in imports of industrial consumption goods from the dollar area" and enquired whether some of the increased demand for imports from the dollar area was not therefore of a somewhat exceptional character. The representative of the Netherlands agreed that the increased imports from the dollar area had been mostly the result of larger imports of raw materials in short supply and to some extent of investment goods. The remaining restrictions against the dollar area would continue to have some value in safeguarding the payments position. He referred to rise in imports from the dollar area mentioned on page 22 of the basic document, and pointed out that quantitative restrictions in such fields could be of importance in controlling the future level of the balance of payments.

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

14. Reference was made by members of the Committee to the 87 per cent liberalization extended to imports from that area and pointed out that of the remaining 13 per cent of residual items not liberalized 11 per cent were liberally licensed and the remaining 2 per cent were licensed on a restrictive basis. Since from the balance-of-payments point of view the effect was almost the same as full liberalization, they enquired whether substantial balance-of-payments reasons existed for not having liberalized this list and further whether the Netherlands Government had made any assessment of the effects on the payments position should all restrictions on these residual items be removed. In reply the Netherlands representative stated that he did not think that a clear distinction should be drawn between the liberally licensed items and those licensed on a restricted basis. Naturally it would be difficult to predict what effects full liberalization would have on the balance-of-payments position. However, if estimates were made on the basis of the factual situation which existed at present it was felt that full liberalization would have slight and perhaps negligible effects on the payments position. In fact the remaining restrictions were more of a precautionary nature since it was difficult to foresee future trends in the prices and competitiveness of imports from the dollar area vis-à-vis imports from other sources. He referred to the example of coarse grains for which importations into the Netherlands with respect to country of origin were highly diversified. Full liberalization of this item at present would have practically no effect on total imports. However, if a situation developed similar to that which existed several years ago when United States prices fell below those prevailing on world markets full liberalization would have substantial effects on imports of the item from the dollar area. A similar situation existed with regard to fats and oils.
15. Certain representatives remarked that although they understood the need for some caution in dismantling the import control machinery it was hard to envisage a situation under Article XII in which a country maintains restrictions only against unforeseen contingencies such as relative price movements in the domestic and world markets. If such restrictions were permitted contracting parties might never achieve the kind of trading system envisaged in GATT. In addition they felt that those few residual items for which licensing policy was restrictive in the Netherlands should also be subject to liberal licensing since the effects on the balance of payments would be virtually negligible. In reply the representative of the Netherlands underlined the emphasis previously given to the statement that Article XII was being invoked to cope with the balance-of-payments problem and more particularly the absence of sufficient convertibility, and naturally, therefore, there was more reluctance to remove controls with respect to imports from the dollar area. With respect to the reference to a restrictive licensing policy for some residual items he pointed out that there was no such distinction and it existed only insofar as the degree of liberalization was more advanced for some commodities than for others. The Netherlands Government was of the opinion that the restrictive effects of their policy was very limited, but did not feel that the moment had yet come where it could proceed with further measures of liberalization.

Alternative Measures to Restore Equilibrium

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

System and Methods of the Restrictions

17. The representative of the United States sought an explanation of the basis for the distinction whereby all imports from the dollar area were subject to licensing requirements while for the bulk of commodities liberalized to the EPU area no licence or other formality was necessary.
The representative of the Netherlands stated that he was not aware of the seriousness of the reasons for the differentiation and expressed the view that eventually it might be possible to harmonize the two systems. The psychological climate was not favourable for such action at the present time. Furthermore there was a technical reason in that the Administration had thought it advisable to have a larger amount of documentation than with other countries for imports from the dollar area so as to be in a position to exert a more effective control over dollar payments.

18. Members then enquired whether, when better circumstances obtained, it might be possible to keep a record of dollar payments by alternative methods. Reference was made in this regard to a declaration procedure introduced by Belgium, and the opinion was expressed that trade interests would appreciate such a dismantling of formalities. The representative of the Netherlands stated that his Government was conscious of the fact that other systems of control were perhaps more feasible. He had taken note of the observations that had been made and the possibility of relaxing the control system, to avoid any difficulties that might arise, would be examined. However, the representative of the Netherlands pointed out that although theoretically there was more control over dollar imports the effects of that control should be not over-estimated since the administrative procedures were very flexible and did not cause many hindrances to traders.

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

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

21. The Canadian representative welcomed the abolition of State trading in the Netherlands in 1955. In view of the reference in the results of the 1956 Fund consultations to the effect that the Fund attached particular importance to the intention of the Netherlands Government to continue its efforts to reduce and eventually eliminate its reliance on the use of bilateral arrangements, the representative of the United States sought information on the extent to which the need for having recourse to such practices was diminishing and in particular an indication of when it was expected that such arrangements with OEEC countries would be terminated. The representative of the Netherlands pointed out that bilateral arrangements were confined to the non-dollar area and all possible measures were being taken in an endeavour to resume trade on a multilateral basis. In the light of the reply received, the United States representative then enquired whether liberalization of products now restricted, but subject to bilateral arrangements, would be delayed until the problem of reliance on bilateral arrangements was eventually solved. The representative of the Netherlands assured the representative of the United States that there was nothing in the system of bilateral arrangements which would postpone full liberalization.

Effects on Trade

22. The Netherlands representative took note of an observation made by a member that it would be particularly useful for trade interests to have published information on the licensing treatment afforded to individual items. Where such information was inadequate the Netherlands Authorities would endeavour to improve publicity as far as possible.
23. A member referred to the incidental protective effects of the remaining restrictions maintained for balance-of-payments reasons and enquired whether the Netherlands Government envisaged any specific problems regarding their ultimate removal when the balance-of-payments problem ceased to exist. Furthermore, if such problems were foreseen information was sought on the measures the Netherlands Government would propose to contend with them within the framework of the General Agreement. The representative of the Netherlands replied that the elimination of all balance-of-payment import controls at the present stage might create some problems, the seriousness of which, however, would be difficult to determine at this stage. Nevertheless, the full liberalization of import trade remained the stated objective of the policy of the Netherlands Government. Under the circumstances it would be difficult to estimate whether there would be any difficulties in relation to the Article of the Agreement, but he assured the Committee that the policy of the Netherlands Government was certainly to act in full conformity with the provisions of the General Agreement and in the long term would undoubtedly be prepared to eliminate all those restrictions that did not conform with those provisions.

24. In their concluding remarks several members thanked the Netherlands representative warmly for the manner in which he had responded to questions put to him. These members said they looked forward to the time when the Netherlands' balance-of-payments position would be such that the Netherlands Government would not need to have further resort to Article XII.