WORKING PARTY 8 ON BALANCE OF PAYMENTS IMPORT RESTRICTIONS

Draft Report to the CONTRACTING PARTIES

1. The Working Party was asked: (a) to conduct consultations under Articles XII:4(b) and XIV:1(g); (b) to prepare a report under Article XIV:1(g) on the discriminatory application of import restrictions; and (c) to recommend procedures for the preparation of the report and consultations under Article XIV:1(g) in 1954. The present report is divided into three sections each dealing with one of these three matters. There is also an Annex containing more detailed notes on the individual consultations to supplement the general report in Section A.¹

A. CONSULTATIONS UNDER ARTICLES XII:4(b) and XIV:1(g)

2. The Working Party noted that seven contracting parties had initiated consultations in accordance with the provisions of Article XIV:1(g) on the further retention of the discriminatory measures applied under the provisions of paragraph 1(c) of that Article or those of Annex J. These were Australia, Ceylon, Italy, New Zealand, Southern Rhodesia, the Union of South Africa and the United Kingdom. In addition, three similar consultations initiated in 1952, with New Zealand, Southern Rhodesia and the Union of South Africa, had been deferred at the Seventh Session and had not yet been completed. The consultations which had been initiated pursuant to the provisions of Article XII:4(b) were with Brazil, Chile, Finland, Netherlands, New Zealand, Pakistan, Southern Rhodesia, Sweden and the Union of South Africa.

3. Pursuant to the provisions of Article XV the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them regarding these consultations and in each case the Fund had accepted to consult. In view of the fact that certain consultations had been postponed at the Seventh Session and in anticipation of the possibility of similar occurrences this year, the CONTRACTING PARTIES, before referring these consultations to the Working Party had decided with

¹ The Working Party recommends that this Annex should not be made public along with the main part of the report upon the "derestriction" of the latter.
respect to all the consultations referred to above that if it should prove impossible to carry out any of them at the Eighth Session, for the same reason that led to its postponement in 1952, the obligation on the part of the contracting party concerned to consult should be regarded as having been fulfilled. The Working Party was therefore asked to conduct only those of the consultations initiated regarding which the International Monetary Fund would be ready to consult with the CONTRACTING PARTIES pursuant to Article XV.

4. The Working Party considered that the relaxation of dollar import restrictions announced by the Netherlands Government at the plenary meeting of the CONTRACTING PARTIES had changed the situation, and had made a consultation with that Government less necessary than warranted by the conditions obtaining at the time of the initiation of the consultation. After a discussion, the Working Party agreed to recommend to the CONTRACTING PARTIES that the consultation be discontinued, and consequently did not proceed with that consultation.

5. The representative of the Fund informed the Working Party that the Fund did not expect to complete its own consultation with the Government of the Union of South Africa, and that it was not in a position to submit data relating to New Zealand, before the end of the Eighth Session. Consequently, the Working Party only proceeded with the following consultations:

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<th>Under Article XII:4(b):</th>
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<tr>
<td>Brazil</td>
<td>Australia</td>
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<td>Chile</td>
<td>Ceylon</td>
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<td>Finland</td>
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<td>Pakistan</td>
<td>United Kingdom</td>
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<td>Sweden</td>
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Under both Provisions:

Southern Rhodesia

6. The representative of the Fund participated in all the consultations conducted by the Working Party. The Working Party in each case took into account the results of the Fund's Article XIV consultations with the Government concerned and referred to the background material prepared in connection with
the Fund's consultation. In most cases extensive use was made of these data supplied by the Fund.

7. As in last year's consultations, the representative of each of these consulting governments were willing to discuss the entire range and impact of its import restrictions, in spite of the varying provisions of the Agreement pursuant to which the consultation was initiated. The representatives of the consulting governments amplified in the course of the consultations the information furnished concerning the restrictions and their discriminatory application. Questions were put by members of the Working Party on the administrative details of the restrictions, their effects on internal prices and domestic production, their impact on imports, etc. In each case the consulting government's representative showed the utmost readiness, within the limits of the information at his disposal, to answer these questions and provide additional data. Further, the representatives of the governments whose restrictions were the subject of the consultations indicated that they had taken full note of the views expressed by the representatives of other contracting parties and that these views, in some cases including specific requests and recommendations, would be conveyed to their respective governments for sympathetic consideration. Generally, there was a full and frank discussion on all questions on which members of the Working Party showed an interest. A detailed note on the consultations with each of the ten governments is given in the Annex, and these notes contain certain information which is considered necessary to be regarded as "restricted" or confidential.

8. In conducting these consultations, the Working Party has arrived at certain general conclusions which are indeed relevant to all discriminatory restrictions applied pursuant to the provisions of the Agreement and which may be briefly stated. The lessening of inflationary pressures in many countries, as had been pointed out by representatives at the plenary meeting, had lessened the high demand for imports. The supply situation of many goods had been eased owing to the increased production in the non-dollar world, where improved productivity and more stabilized costs in many countries made their products more competitive with those from dollar sources. These developments, coupled with the sustained high level of economic activity in the dollar area, had resulted in a great amelioration...
of the world dollar situation in the past eighteen months. The improvement was attributable mainly, if not exclusively, to these fundamental readjustments rather than such transient factors such as the United States military expenditure abroad or the import restrictions applied by non-dollar countries and gave promise to be permanent. They should therefore be taken as an opportunity for the non-dollar countries to begin dismantling the structure of discriminatory restrictions built up since the war. The falling of non-dollar prices into line with dollar prices should help to lessen the risks of moving towards the non-discriminatory application of restrictions. On the other hand, if the goal of world trade on a fully balanced and self-sustaining basis was to be achieved, both creditor and debtor countries would have to pursue appropriate policies. It is gratifying to note that serious consideration is being given by the governments of certain important countries to the formulation of consistent policies in this field.

9. The Working Party found that an encouraging feature of the past years had been the endeavours by many contracting parties to reduce their restrictions and discrimination almost to the fullest extent permitted by any improvements in their balance-of-payments position, and the undertaking now given by contracting parties that more relaxations would be made as soon as further improvements render them feasible. However, this is not to say that there are no further steps that could be taken by many of the governments applying restrictions to reduce the harmful effects of the restrictions. A complete prohibition is still maintained by many countries on the import of certain "non-essential" goods, especially from the hard-currency countries, and, in spite of the obligation undertaken by the contracting parties "not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities, the exclusion of which would impair regular channels of trade", the token import method is by no means used by all governments applying restrictions involving prohibition.

10. The 1952 report on the discriminatory application of restrictions had given considerable attention to the ineffectiveness of restrictive measures alone as a means of redressing disequilibrium and to the relationship between internal monetary and fiscal policies pursued by governments and their balance-of-payments
position. In several cases, substantial improvements in the external financial position had been noted consequent upon the introduction of anti-inflationary policies. The Working Party was gratified to note that these conclusions had been further confirmed by developments in an increasing number of countries. It is no accident that those countries which have moved most courageously in the direction of controlling inflation should have made the greatest progress in overcoming their domestic and external economic problems. Last year’s report also stressed the undesirable effects of import restrictions and the inherent dangers of discrimination. The Working Party was of the impression that in the past year economic health and viability were more often attained by countries pursuing policies of liberalization, and increasing difficulties or relative stagnation generally coincided with the disinclination to eschew practices of autarky and control.

11. The Working Party hereby reports that the consultations under Articles XII and XIV entrusted to it by paragraphs 1 and 4 of its terms of reference, as enumerated in paragraph 5 above, have been concluded.

B. REPORT UNDER ARTICLE XIV:1(g) ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

12. Under paragraph 1(g) on Article XIV, the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of the Agreement allowing the discriminatory application of import restrictions maintained for balance-of-payments reasons. The Working Party was instructed, in paragraph 2 of its terms of reference, to draw up the report on behalf of the CONTRACTING PARTIES. The present section of the Working Party’s report has been drafted on the assumption that, upon approval by the CONTRACTING PARTIES, it will constitute their 1953 report required by Article XIV:1(g).

13. At the time of writing this report, in October 1953, 22 of the 33 contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balances of payments and are exercising some degree of discrimination between sources of supply as permitted under paragraph 1(b)
and/or 1(c) of Article XIV or under Annex J; these are:

- Australia
- Austria
- Brazil
- Burma
- Ceylon
- Chile
- Denmark
- Finland
- France
- Germany
- Greece
- India
- Italy
- Netherlands
- New Zealand
- Norway
- Pakistan
- Southern Rhodesia
- Sweden
- Turkey
- Union of South Africa

14. This section is based on material supplied by the International Monetary Fund, statements received from the governments applying discrimination and data gathered from other sources, as well as on discussions with the delegations attending the Eighth Session of the CONTRACTING PARTIES in October 1953. Another source of information has been the consultations taking place between the CONTRACTING PARTIES and individual governments during the Eighth Session pursuant to certain provisions of the Agreement, at which the purposes and policies of the discriminatory restrictions applied by certain governments were elucidated, and the information submitted in writing was amplified or clarified. In order to avoid a repetition of what has been said on this subject on three previous occasions, the section is devoted principally to an examination of the changes that have taken place in the discriminatory practices of governments since the writing of the last report in October 1952.

15. When the third report was drawn up in October 1952, the CONTRACTING PARTIES found that the general trend had been the intensification of import restrictions and that in the process the policy and degree of discrimination had been modified by many countries with the result that the earlier sharp distinction between hard and soft currency imports had become less defined; as the intensifications principally affected imports from non-dollar countries, the degree of discrimination against dollar goods had been reduced and, in addition, certain countries modified their discrimination policy in favour of dollar imports.

16. In the period covered by the present report, however, the general tendency of intensifying import restrictions was first arrested, and then reversed. Many of the countries which had intensified their import restrictions in the
previous year to meet the contingencies of a crisis brought into effect various measures to reduce the more sharply felt incidence of the restrictions. As the year went by, definite steps of relaxation were taken by many countries in view of the improved balance-of-payments situation. The only cases of exception to this general trend have been the extension of import control by Pakistan and the suspension of liberalization measures by Turkey.

17. In the sterling area, the United Kingdom began a process of relaxation with the announcement of the quotas for licensed imports from soft-currency countries for the first half of 1953 and a further step in this direction was taken in March 1953 when imports from Western Europe were further liberalized, and later on increased quotas were provided for the second half of 1953. In taking these measures, the United Kingdom Government had particularly in mind the importance of the traditional trade with Western European countries and the need to relieve the difficulties then experienced by France and Italy partly as a consequence of the United Kingdom restrictions. In the case of Australia, measures to alleviate hardships were taken in the last month of 1952 and at the beginning of 1953. Definite steps of relaxation were first taken in April 1953 when the percentage of permitted imports were increased. Further increases of the same nature took effect in July and in September. In the case of New Zealand although the restriction of imports through the allocation of foreign exchange were slightly more severe in 1953 compared with the previous year, relaxations were foreshadowed in the announced import policy for 1954. In Western Europe the story continued in the direction of liberalization of soft-currency imports. Most countries were able to maintain the level of liberalization previously reached and in certain cases, increased percentages of liberalization imports were announced. The latest instance was the measures taken by France in September 1953 whereby a number of essential products were for the first time since the beginning of 1952 permitted to be imported from OEEC countries without restriction. These were regarded as a first step towards more marked liberalization.

18. The relaxations mentioned above related almost exclusively to imports from countries outside the dollar area. With the improvement in the general dollar payments position the administrative control of imports from the dollar area no
doubt has been applied with less severity and conditions for the granting of licences must have been less stringent. But public announcements of a change in the dollar import policy have not been made by many governments. Greece was able to dispense completely with licensing restrictions on imports irrespective of origin, and Belgium and the Netherlands decided in February and September 1953 respectively to relax their restrictions on dollar imports, although the restrictions of the former are not considered strictly as a balance-of-payments measure. The United Kingdom continued its policy of applying restrictions as non-discriminatorily as possible and extended the system under which certain important commodities such as softwood, wood pulp, and hog casings, had been licensed to be imported freely from any source, to cover a wide range of products including aluminium, copper, lead, zinc and nickel. A similar policy was introduced for some foodstuffs; for example the trade in cereals was returned to private hands to be imported under non-discriminatory open licenses. The proportion of cotton imports from the dollar area was increased, and most other raw materials were licensed more freely than before. Furthermore, the reopening of certain international commodity markets, including the copper market and the commodities covered by the London Metal Exchange, has enabled unhampered trade irrespective of sources of supply or destination.

19. Thus, while the relaxation by many countries of their restrictions on soft-currency imports, in reversing the trend of intensification described in the last Report, seems to suggest an increased discrimination against dollar imports, the more significant operations by an important trading nation point to the other direction. On balance it would seem that, although discrimination against dollar goods has been slightly on the increase consequent upon the relaxation measures being concentrated on non-dollar imports, it has not reached the level of clear and definite discrimination against hard currency goods prevailing prior to the boom conditions produced by the Korean War in 1950.

C. ARRANGEMENTS FOR THE PREPARATION OF THE REPORT AND CONSULTATIONS UNDER ARTICLE XIV:1(g) IN 1954

20. Pursuant to paragraph 3 of its Terms of Reference, the Working Party considered the appropriate procedures which should be adopted by the CONTRACTING PARTIES for the conduct of consultations, and for the preparation of the Fifth Annual Report on Discrimination, under Article XIV:1(g) in 1954.
21. The Working Party considers that the arrangements made for the preparation of the fourth annual report in 1953 has worked satisfactorily, and that similar arrangements should be made in 1954. For the preparation of the 1953 report, governments applying discriminatory restrictions were asked to provide a comprehensive reply to the questionnaire drawn up at the Seventh Session. For the report of 1954, the Working Party considers that it will be sufficient if these governments will provide a supplementary statement at the appropriate time to bring up to date the information they supplied in 1953. The Working Party therefore recommends that the contracting parties continuing to apply restrictions in a discriminatory manner be asked to submit a statement three months prior to the opening date of the Ninth Session on any changes and developments which may have taken place since the submission of their replies to the questionnaire of 1953.

22. Governments continuing to take action under the provisions of Article XIV:1(c) or of Annex J beyond March 1954, will be required to consult with the CONTRACTING PARTIES pursuant to Article XIV:1(g). It is proposed that the CONTRACTING PARTIES adopt for the conduct of any such consultation which may be initiated in March 1954 the same procedures that were used in 1952 and 1953. Such governments should initiate their 1954 consultations in the same manner as in previous years by the submission in March 1954 of a statement giving details of the measures of discriminatory import restriction involved and the purpose and policy of their application.

23. The Executive Secretary should be instructed to inform the contracting parties and the International Monetary Fund at the end of March 1954 of the governments which initiated consultations and to invite the Fund to consult with the CONTRACTING PARTIES in connection with these consultations pursuant to Article XV. It is again considered that these consultations could be more effectively carried out if, before the opening of the Ninth Session, the Fund would make available to the CONTRACTING PARTIES the results of its own 1954 consultations with the same governments, together with the background papers prepared in the Fund in connection therewith.