DRIFT

DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS
UNDER ARTICLE XIV

A REPORT
ON
THE USE OF TRANSITIONAL PERIOD EXCEPTIONS
TO
THE RULE OF NON-DISCRIMINATION
IN
THE ADMINISTRATION OF QUANTITATIVE IMPORT RESTRICTIONS
APPLIED AS AT 1 MARCH 1950
BY CONTRACTING PARTIES TO THE GENERAL AGREEMENT
TO SAFEGUARD THEIR BALANCES OF PAYMENTS

(Report prepared by the Contracting Parties, at their
Fourth Session at Geneva, February-March 1950, in
accordance with the requirements of paragraph 1 (g) of
Article XIV of the General Agreement on Tariffs and Trade.)
DISCRIMINATORY APPLICATION OF
IMPORT RESTRICTIONS
UNDER ARTICLE XIV

CONTENTS

I Introduction

II The Authority to Discriminate

III The Purpose of Discriminatory Action

IV The Methods Employed:
   (i) Administrative Decisions
   (ii) Bilateral Agreements
   (iii) State-trading Agencies

V Group Arrangements
   (i) The Sterling Area
   (ii) Western Europe

VI The Effects of Discrimination
   (i) Distribution of Imports Among Sources of Supply
   (ii) Effects on Export Trade

ANNEX Description of the Import Restrictions applied and Discriminatory Action on 1 March 1950 by Contracting Parties replying to the Secretariat's enquiry of 7 October 1949.
GENERAL AGREEMENT ON TARIFFS AND TRADE

Report by the Contracting Parties on the Discriminatory Application of Import Restrictions under the Transitional Period Arrangements of Article XIV

(1 March 1950)

I. INTRODUCTION

1. Paragraph 1(g) of Article XIV requires the contracting parties to the General Agreement, acting jointly, to report not later than 1 March, 1950, on any action still being taken by individual contracting parties under the transitional period arrangements provided in paragraph 1 of that Article.

2. According to the latest information available, including the replies to the Secretariat's enquiry of 7 October 1949 (GATT/CP/39), 22 contracting parties are applying import restrictions under Article XII in order to safeguard their external financial position and are taking advantage of the transitional period arrangements of Article XIV for not fully observing the rule of non-discrimination. A description of the import restrictions applied and of the discriminatory methods employed by each of these contracting parties will be found in the Annex to this Report.

(1) The term "contracting parties", as used in this Report, includes the governments which will adhere to the General Agreement pursuant to the Annecy Protocol of Terms of Accession. It is understood that Belgium-Luxemburg, (including Belgian overseas territories), Cuba, Dominican Republic, Haiti, Liberia, Nicaragua, Syria-Lebanon and the United States are not taking action under Article XII. Brazil, Burma, Chile, China, India, Pakistan and Uruguay have not yet submitted replies to the Secretariat's enquiry, though India and Pakistan have advised that replies are being prepared.

(2) Seventeen of the countries taking action under Article XIV are members of the International Monetary Fund and are availing themselves of the post-war transitional period arrangements of the Articles of Agreement of the Fund. Ceylon has entered into a Special Exchange Agreement with the Contracting Parties and has availed itself of the analogous provisions of that Agreement. The other four, viz: Burma, New Zealand, Pakistan and Sweden, are expected in the near future either to join the Fund or to enter into similar agreements with the Contracting Parties.
These 22 contracting parties fall conveniently into three groups:

1. The Sterling Area -
   Australia, Burma, Ceylon, India, New Zealand, Pakistan, Southern Rhodesia, Union of South Africa and United Kingdom.

2. European Countries -
   Czechoslovakia, Denmark, Finland, France, Greece, Italy, Netherlands, Norway and Sweden.

3. The Western Hemisphere -
   in North America - Canada
   in South America - Brazil, Chile and Uruguay.

II. THE AUTHORITY TO DISCRIMINATE

The authority for contracting parties, which are applying import restrictions to safeguard their balances of payments under Article XII, to deviate from the rule of non-discrimination is contained in paragraph 1 of Article XIV. In sub-paragraph (a) the contracting parties recognize that the aftermath of the war has brought difficult problems of economic adjustment which do not permit the immediate full achievement of non-discriminatory administration of quantitative restrictions. Accordingly, transitional period arrangements are provided. Sub-paragraph (b) permits contracting parties to deviate from the rule of non-discrimination in a manner having equivalent effect to restrictions on payments and transfers for current international transactions which they are permitted to apply under the Articles of Agreement of the International Monetary Fund. (1) And sub-paragraph (c) permits a contracting party to maintain deviations from the rule of non-discrimination which were in operation on March 1, 1948, even though they would not have been authorized at that time by sub-paragraph (b), and to adapt them to changing circumstances.

(1) Article XIV, Section 2, of the Articles of Agreement of the Fund reads: "In the post-war transitional period members may maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions."
Alternatively, contracting parties which have elected to be
governed by the provisions of Annex J to the Agreement, in lieu
of the provisions of sub-paragraphs (b) and (c) described above,
may relax their restrictions in a manner which departs from the
provisions of Article XIII to the extent necessary to obtain addi-
tional imports above the maximum total of imports which they
could afford in the light of certain requirements of Article XII
if their restrictions were fully consistent with the provisions
of Article XIII.

5. In their use of exceptions to the rule of non-discrimination
eight contracting parties, in their replies to the Secretariat's
enquiry, declared that their action conformed to the provisions
of Article XIV, as follows: sub-paragraph 1(b) — France and Norway;
sub-paragraph 1(c) — Greece, Italy, New Zealand and Sweden; and
sub-paragraphs 1(b) and (c) — Australia and Finland. No declaration
was made by Czechoslovakia, Denmark or Netherlands. The contract-
ing parties which had elected to be governed by the provisions of
Annex J are Canada, Ceylon, Southern Rhodesia, the Union of South
Africa and the United Kingdom.

III. THE PURPOSE OF DISCRIMINATORY ACTION

6. The element of discrimination in the operation of restrictions
imposed under Article XII is intended to permit the continuance,
and even the increase, of importation from countries whose
currencies are available, while reducing the payments required for
imports of like products from hard-currency countries. Given that
the external financial position of a country is such that purchases
requiring payment in certain currencies must be limited by means
of quantitative restrictions while supplies of other currencies
remain adequate to meet the needs of more normal trade, it follows
that the strict observance of the rule of non-discrimination would
result in a contraction of imports from some sources beyond that
which would be necessary on financial grounds. It may therefore
be claimed that by deviating from the rule of non-discrimination
contained in Article XIII it has been possible to bring about an
increase in the total trade of countries in balance-of-payments
difficulties.

7. It is evident from a review of the information supplied in
response to the Secretariat's enquiry that the action taken under
the provisions of Article XIV stems mainly from a general shortage
of United States and Canadian dollars and of Belgian and Swiss francs. This action has been intended to reduce payments for current purchases in those currencies while exercising a less stringent control over imports from other countries. Action under Article XIV has had the inevitable effect, so far as trade among the contracting parties is concerned, that the 22 countries applying restrictions have encouraged the expansion of trade among themselves while reducing their imports from the others. In other words, the contracting parties whose balances of payments are under pressure are discriminating in the application of their import restrictions against the products of those whose balances of payments are tending to be favourable.

IV. THE METHODS EMPLOYED

8. An examination of the answers to Questions 2 and 3 of the Secretariat's enquiry, as summarized in the Annex, shows that the contracting parties have employed three methods of discriminating between sources of supply, namely, by unilateral action, through bilateral agreements and in State-trading operations.

(i) The Practice of Discrimination through Unilateral Administrative Decisions.

9. The administrative basis of all restrictions is a general prohibition of imports. To this general prohibition, some countries grant exemption for imports from some or all soft-currency sources or for certain products from all sources, but for the most part exceptions to the prohibition are regulated by the issue of licences pertaining to specific transactions.

10. Since the restrictions have been applied for balance-of-payments reasons, the fundamental consideration in the issue of licences is the actual or prospective availability of the currency in which payment is to be made. Secondly, licences are not granted for imports from hard-currency countries unless it can be shown that the goods are deserving of a high degree of priority, for example, essential foodstuffs, fuel, raw materials or essential industrial or agricultural equipment. In addition, the ordinary commercial considerations of quality, price and terms of delivery are taken into account. This method of discrimination, involving a unilateral administrative decision in respect of each application for a licence, is the most universally employed.
1. In some cases the controlling authority establishes quotas for various products and these are usually allocated among supplying countries in relation to the estimates of the amounts of the various currencies that will be earned on current transactions during the period in question. In other countries (France, Netherlands, Sweden) licences are issued in accordance with a predetermined import "plan" or "programme". Whether the control is exercised within the limits of quotas or in accordance with import programmes, import policy is not rigid: the quotas are often exceeded or suspended and the programmes are subject to frequent revision in accordance, principally, with changes in the earnings of the currencies required for payment. In some instances, however, whether or not quotas or programmes are fixed in advance, steps are taken to conform in some degree to the principles of non-discrimination by having regard to the traditional sources of supply.

(11) The Practice of Discrimination through Bilateral Arrangements.

12. A large part of the trade of contracting parties in Europe and South America is arranged bilaterally. Thus an important feature of their restrictions, and an important means by which discrimination is effected, appears in the schedules of commodities and the fixed quotas contained in their trade agreements. The agreements are negotiated mostly between soft-currency countries, though there are exceptions such as those negotiated by Belgium and Switzerland and some of the South American Republics. In this manner quotas are fixed in this manner, involving commitments to issue licences up to the limit of specified quantities or values, there may or may not be intentional discrimination, and any discrimination which exists will not necessarily be in favour of the partner to the agreement. The over-riding consideration in the negotiation of an agreement is the desire to reach a bilateral balance in trade or current payments, and in these circumstances it may seldom be possible to observe the principle of non-discrimination by allocating quotas in accordance with previous trade.

13. In the Secretariat's enquiry governments were invited to forward copies of their trade and payments agreements which have a bearing on the operation of their import restrictions. Seven countries (Czechoslovakia, Denmark, Finland, France, Netherlands, Norway and the United Kingdom) submitted copies of agreements in response to this request.
In all, copies of about 240 agreements were received. Of these nearly 100 may be classed as payments or financial agreements. Of the trade agreements, the great majority incorporate some commitments in respect of the issue of licences. These commitments vary from an estimate or target for total imports in a specified period of time, or a schedule of quotas for products for which the importing government is prepared to issue licences to an undertaking to purchase or supply fixed quantities of certain commodities.

(iii) The Practice of Discrimination through the Operations of State-Trading Agencies

14. Discrimination enters also into the operations of state-trading agencies, for decisions to purchase are governed by the availability of currencies as well as by the usual commercial considerations. In Czechoslovakia, where foreign trade is in the hands of monopoly companies, and in the United Kingdom, where about a half of total imports are purchased by State agencies, discrimination among sources of supply for balance-of-payments reasons is an important feature of import policy.

V. GROUP ARRANGEMENTS

15. Most of the 22 contracting parties taking action under Articles XII and XIV belong to one or other of two groups which have established either for the interchangeability of their currencies or in respect of payments for their mutual trade. The financial arrangements have in each case made it possible to grant exemptions from import restrictions for the members of the group while maintaining the restrictions against outside countries. The first group is the sterling area and the second comprises the members of the Organization for European Economic Co-operation;

16. Each member of the sterling area imposes a stricter control on imports from countries outside the area than from countries which are members. Imports from other sterling area countries may be free of all restrictions and formalities or may be subject to only a lenient licensing procedure. In some cases the exemptions are extended to all soft-currency countries, but for purchases in dollars and other hard-currencies the licensing control is
strictly enforced. The discrimination in favour of the members of the group is made possible by the free inter-convertibility of their currencies.

17. The control exercised by members of the sterling area is directed principally against imports from the hard-currency countries and is based upon resources and estimates of future earnings of these currencies, i.e. resources and earnings of the individual country (in the case of South Africa) or of the area as a whole. In the words of the United Kingdom reply to the Secretariat's enquiry: "The economy in imports by sterling area countries from hard-currency countries necessary to protect (their) reserves is secured by a voluntary understanding between the members of the sterling area to limit such imports so as to avoid any unjustifiable expenditure of gold/convertible currencies." The harshness of the control of imports and the degree of discrimination naturally vary enormously from product to product and from time to time. For example, in July 1949 the United Kingdom and several other members of the sterling area decided upon a further cut of 25 per cent in their dollar imports.

(ii) Western Europe. 18. Until recently the discrimination practised by the contracting parties in Western Europe in their licensing policies and negotiation of quotas was an individual matter with each of them. But, recently, through the O.E.E.C., they have endeavoured to reverse the trend towards controlled trade by extending the sector of commercial transactions that is free of all restriction. While maintaining the long-term aim of restoring a universal multilateral trading system, these countries have embarked upon a programme of trade liberalization among themselves while continuing to discriminate against imports from non-members. The quantitative restrictions upon imports of a large number of products originating in other countries of the O.E.E.C. have been removed. This removal of restrictions has been facilitated by the existence of the Intra-European Payments Scheme under which financial transfers for current transactions between member countries are balanced to a large extent without the use of gold or convertible currencies.
19. The liberalization began in December 1949 with the removal of restrictions from at least 50% of goods imported on private account from the other members of the O.E.C.D. The action taken thus far has not been uniform in its application to members of the Organization or in its extension to overseas dependent territories; generally the hard-currency countries within the O.E.C.D., and in some cases other members as well, have been excluded from the benefits of the removal of restrictions while, on the other hand, some members have extended the liberalization to soft-currency countries outside the Organization. It is expected that these divergencies will disappear in time, and meanwhile it has been agreed in principle that the liberalization will be extended further during 1950, provided a satisfactory agreement is reached on the establishment of a clearing union to replace the present Payments Scheme.

VI. THE EFFECTS OF DISCRIMINATION

20. International trade since the war has been subject to such varied and powerful influences that it is not possible to attribute any particular development or trend solely to restrictions applied under Article XII or to action taken under Article XIV. Consequently, it may be impossible to assess the full significance of the discriminatory action in which most of the contracting parties are now engaged. It appears, however, from an examination of trade statistics that the structure of world trade, looking at global totals for broad categories, has not been radically altered, but that the international exchange of many individual products has diverged sharply from pre-war and/or immediate post-war patterns.

21. The contracting parties were asked in the Secretariat's enquiry for comments and statistical data on the effects of their restrictions on trade and their answers are summarized below.

(i) Distribution of Imports

22. In Question 4 of the Secretariat's enquiry the contracting parties were asked to select 10 or more commodities, representing a cross-section of products subject to import restrictions and
at least 30 per cent of import trade, and to describe in detail
the provisions, policies and practices followed with respect
to the restriction of each. Contracting parties were asked
to supplement this description with statistical and other infor-
mation to show the effects of the restrictions upon the distri-
bution of imports among sources of supply and, if possible, to
provide comparable data on prices in alternative sources. The
replies to this question and the accompanying statistics have
been reproduced in SECRET/CP/4.

23. The hazards of drawing conclusions from the statistics
of trade and particularly to attributing the responsibility for
changes and trends to the import restrictions are emphasized
in many of the replies to Question 4. Nevertheless, an exami-
nation of the statistical data submitted reveals interesting
changes in the pattern of trade of which the following have been
selected as being the most likely to show the consequences of
discriminatory administration of import restrictions

<table>
<thead>
<tr>
<th>Imports of</th>
<th>From</th>
<th>1936-39</th>
<th>1946-47</th>
<th>1948-49</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned Fish (000 lbs).</td>
<td>United Kingdom</td>
<td>3,920</td>
<td>3,522</td>
<td>6,539</td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td>2,438</td>
<td>245</td>
<td>10,284</td>
</tr>
<tr>
<td></td>
<td>Canada</td>
<td>15,720</td>
<td>3,781</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>U.S....</td>
<td>1,672</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unmanufactured S.R. Tobacco (000 lbs).</td>
<td>U.S....</td>
<td>21,685</td>
<td>18,292</td>
<td>17,058</td>
</tr>
<tr>
<td>Traction</td>
<td>U.K.</td>
<td>1,066</td>
<td>1,853</td>
<td>13,305</td>
</tr>
<tr>
<td>Engines</td>
<td>U.S....</td>
<td>6,009</td>
<td>3,839</td>
<td>4,934</td>
</tr>
<tr>
<td>Motor</td>
<td>U.K.</td>
<td>26</td>
<td>23</td>
<td>78</td>
</tr>
<tr>
<td>Vehicle</td>
<td>U.S....</td>
<td>24</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Chassis (000's).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C.N.D.: (Percentage distribution by value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports of</td>
</tr>
<tr>
<td>Motor Vehicles and Parts</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
**DENMARK**

<table>
<thead>
<tr>
<th>Imports of</th>
<th>From</th>
<th>1938</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piece Goods</td>
<td>U.K. &amp; other sterling area.</td>
<td>54.5</td>
<td>27.4</td>
</tr>
<tr>
<td></td>
<td>Countries with which trade</td>
<td>35.8</td>
<td>81.1</td>
</tr>
<tr>
<td></td>
<td>agreements concluded.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Cars</td>
<td>U.K. &amp; other sterling area.</td>
<td>11.1</td>
<td>5.3</td>
</tr>
<tr>
<td></td>
<td>U.S....</td>
<td>17.3</td>
<td>2.8</td>
</tr>
<tr>
<td></td>
<td>Countries with which trade</td>
<td>13.4</td>
<td>8.9</td>
</tr>
<tr>
<td></td>
<td>agreements concluded.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**FINLAND**

<table>
<thead>
<tr>
<th>Imports of</th>
<th>From</th>
<th>1939 (1)</th>
<th>1949</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh apples</td>
<td>Australia</td>
<td>81</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>U.S....</td>
<td>69</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
<td>-</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Denmark</td>
<td>-</td>
<td>58</td>
</tr>
<tr>
<td>Automobiles and</td>
<td>France</td>
<td>38</td>
<td>143</td>
</tr>
<tr>
<td>chassis</td>
<td>U.K.</td>
<td>43</td>
<td>581</td>
</tr>
<tr>
<td></td>
<td>U.S....</td>
<td>1051</td>
<td>219</td>
</tr>
</tbody>
</table>

**FRANCE**

<table>
<thead>
<tr>
<th>Imports of</th>
<th>From</th>
<th>1938</th>
<th>1949</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh Sea-fish</td>
<td>U.K.</td>
<td>48</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Belgium-Lux.</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Denmark</td>
<td>-</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Iceland</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Raw Cotton</td>
<td>U.S....</td>
<td>54</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>Egypt</td>
<td>16</td>
<td>33</td>
</tr>
</tbody>
</table>

(1) In view of the devaluation of the Finnish mark, the trade values of 1939 have been multiplied by 9 to make them comparable with those of 1949.
### Imports of Goods

<table>
<thead>
<tr>
<th>Goods</th>
<th>1938</th>
<th>1947</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maizo (000 tons)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N. America</td>
<td>500</td>
<td>155</td>
<td>20</td>
</tr>
<tr>
<td>S. America</td>
<td>310</td>
<td>145</td>
<td>360</td>
</tr>
<tr>
<td>Oranges (000 tons)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td>15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Brazil</td>
<td>17</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Palestine</td>
<td>35</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Spain</td>
<td>1</td>
<td>34</td>
<td>24</td>
</tr>
<tr>
<td>Finished Textile Products (000 tons)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. &amp; Canada</td>
<td>7</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>Belgium</td>
<td>35</td>
<td>20</td>
<td>39</td>
</tr>
<tr>
<td>France</td>
<td>30</td>
<td>23</td>
<td>34</td>
</tr>
<tr>
<td>Wood and Wood Products (000 tons)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. &amp; Canada</td>
<td>18</td>
<td>75</td>
<td>31</td>
</tr>
<tr>
<td>Other West. Ham.</td>
<td>55</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>Belgium</td>
<td>23</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>Finland</td>
<td>53</td>
<td>30</td>
<td>53</td>
</tr>
</tbody>
</table>

### Imports from New Zealand

<table>
<thead>
<tr>
<th>Goods</th>
<th>1938</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British origin</td>
<td>74</td>
<td>109</td>
</tr>
<tr>
<td>Foreign origin</td>
<td>41</td>
<td>25</td>
</tr>
<tr>
<td>Artificial Silk piece goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British origin</td>
<td>308</td>
<td>3,180</td>
</tr>
<tr>
<td>Foreign</td>
<td>407</td>
<td>244</td>
</tr>
<tr>
<td>Plate Glass</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British</td>
<td>38</td>
<td>152</td>
</tr>
<tr>
<td>Foreign</td>
<td>36</td>
<td>27</td>
</tr>
<tr>
<td>Tractors and Parts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British</td>
<td>73</td>
<td>1,766</td>
</tr>
<tr>
<td>Foreign</td>
<td>733</td>
<td>1,193</td>
</tr>
<tr>
<td>Builders and Hardware</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British</td>
<td>831</td>
<td>1,863</td>
</tr>
<tr>
<td>Foreign</td>
<td>159</td>
<td>59</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>British</td>
<td>4,731</td>
<td>6,088</td>
</tr>
<tr>
<td>Foreign</td>
<td>697</td>
<td>348</td>
</tr>
</tbody>
</table>

### Southern Rhodesia

(Percentage of total imports)

<table>
<thead>
<tr>
<th>Imports from</th>
<th>1939</th>
<th>1947</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.K.</td>
<td>44.7</td>
<td>31.3</td>
<td>45.9</td>
</tr>
<tr>
<td>U.S.</td>
<td>9.5</td>
<td>17.8</td>
<td>9.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1947</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft-currency areas</td>
<td>79.2</td>
<td>66</td>
<td>82.5</td>
</tr>
<tr>
<td>Hard-currency areas</td>
<td>20.8</td>
<td>34</td>
<td>17.5</td>
</tr>
</tbody>
</table>

### United Kingdom

(Percentage of total imports)

<table>
<thead>
<tr>
<th>From</th>
<th>1938</th>
<th>1947</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Hemisphere</td>
<td>30.1</td>
<td>30.4</td>
<td>27.5</td>
</tr>
<tr>
<td>Sterling area</td>
<td>31.2</td>
<td>36.0</td>
<td>37.5</td>
</tr>
<tr>
<td>O.T.C. Countries and their Dependent Territories</td>
<td>24.7</td>
<td>20.9</td>
<td>24.1</td>
</tr>
<tr>
<td>Rest of world</td>
<td>14.0</td>
<td>12.7</td>
<td>10.9</td>
</tr>
</tbody>
</table>
(ii) Effects upon Export Trade

In Question 5 of the Secretariat's enquiry the contracting parties were asked to describe the effects which they believe the discriminatory import restrictions imposed by them or by other countries have had upon the volume and pattern of their export trade. The answers to this question are reproduced in SECRET/CP/5); they do not contain sufficient information to provide a basis for many general observations, but the following comments by the governments answering the enquiry may be noted.

25. South Africa claims to have lost several traditional markets, while for Canada the restrictions have had a "definite contracting influence", and for the United Kingdom a "substantial adverse effect", on export trade. Moreover, European countries have found that their exports of processed articles, especially luxury goods and other non-essentials, have been seriously hampered.

26. As for the effect of a country's own import restrictions, Denmark reports that the control of imports has been used as a means of promoting exports, while Sweden recognizes that the shortage of raw materials and of the means of production has reduced her export capacity.

27. France and Netherlands took the opportunity to remark on more general results of the discriminations. France recognized that goods had not always been purchased from the cheapest sources and that non-essentials had sometimes been accepted as a condition of obtaining more important materials and commodities. (In reply to another question, the United Kingdom also recognized that in some cases supplies had been purchased from soft-currency sources at prices in excess of those prevailing in hard-currency countries, and that non-essentials or luxuries had been admitted in order to make sterling available for the purchase of United Kingdom products.) The Netherlands claimed that the negotiation of bilateral quotas had resulted in "a well-balanced optimal exchange of products, both essential and non-essential".
DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS
UNDER ARTICLE XIV

ANNEX

Description of Restrictions and Discriminatory Action

This Annex contains descriptions of the import restrictions and discriminatory action applied by the following countries on 1 March 1950; these descriptions are summaries of the information contained in the replies to Questions 2 and 3 in GATT/CP/39:

Australia
Canada
Ceylon
Czechoslovakia
Denmark
Finland
France
Greece
Italy
Netherlands
New Zealand
Norway
Southern Rhodesia
Sweden
Union of South Africa
United Kingdom
AUSTRALIA
(Article XIV:1 (b) and (c))

The control of imports which was introduced in 1939 as a war-time emergency measure has been adapted to peacetime requirements. Although sterling balances have accumulated in recent years, the monetary reserves in gold and convertible currencies have remained very low and for this reason imports requiring payment in hard currencies are strictly controlled.

For the most part, imports from countries in the sterling area are exempt from the licensing requirements, and for nearly all imports from other soft-currency countries licences are issued freely. Thus for all the contracting parties, except those of the dollar and Belgian monetary areas, the licensing control is merely a formality and there are virtually no restrictions on the nature or value of goods which may be imported. For hard-currency areas, on the other hand, licences are issued only for essential commodities which are not available in adequate quantities from soft-currency sources of supply.

As a member of the sterling area, Australia restricts imports from countries whose currencies are "hard" from the point of view of the area as a whole; payments in currencies which are in short supply are limited to the availability of those currencies. In July 1949 a review of purchases from dollar countries in the light of the dollar situation in the sterling area led to the application of a stricter criterion of essentiality to the issue of licences. For similar reasons careful control has been exercised over imports from Belgium and Switzerland.

CANADA
(Annex J)

In November 1947, the Canadian Government imposed restrictions on the quantity and value of imports of many products in order to safeguard its external financial position and balance of payments. The restricted imports are divided in three Schedules, but deviations from the rule of non-discrimination occur under only one of them.

Schedule I contains a list of consumer goods of which imports from all countries are considered to be "unessential or postponable" and are therefore prohibited. The list comprises about 70 tariff items and part items. Permits for importation are issued only in cases where exceptional hardship would result from the prohibition.

Schedule II contains commodities which may be imported within the limits of fixed quotas; these are divided into five categories: (1) fruits and vegetables, (2) textiles, (3) leather, leather products and related goods, (4) miscellaneous, and (5) prepared foods. A separate quota is established for each category in respect of two classes of countries: the scheduled countries, which are those not known to be in balance-of-payment difficulties, including Cuba, Dominican Republic, Haiti and the United States, and the non-
scheduled countries. The quotas are allocated between the two classes of countries in accordance with the provisions of Article XIII:2(d): the total import quota for each category of commodity and for each class of country is a percentage of the average imports in 1937-39.

Schedule III covers articles such as motor vehicles and parts, production materials and parts, capital goods and merchandise for resale, and primary iron and steel. For these products applications to import must be considered on their merits since an arbitrary percentage of imports in a base period would be an inappropriate means of restrictions. In the administration of this control careful attention is paid to paragraph 1(a)(1) of Annex J and importers are not forced to turn to sources of supply where substantially higher prices prevail; for example, imports of capital goods are not allowed from the scheduled countries if they are readily available at "reasonably equivalent prices" elsewhere, but if delivery is slow or if prices are too high importation from the scheduled countries is authorized.

Two types of permit are employed: the "individual capital goods permit" to cover a particular shipment of an importer who has no regular and continuous patterns of importations; and the "allotment permit" to enable an importer who has a continuous and regular pattern of importations to obtain his annual requirements of a specific class of goods. For the administration of Schedule III, countries are again divided into two classes: scheduled and non-scheduled.

Roughly 90% of the imports under Schedule III are obtained in the United States and all of these are imported under the rule of non-discrimination. For the remainder there may be some discrimination in certain instances, but the proportion of Schedule III imports which are likely to fall under Annex J is not large.

In view of the improvement in the foreign exchange position since the middle of 1948, some items have been withdrawn from Schedule I and many others have been transferred to Schedule II. Further, in Schedule II the first category (fruits and vegetables) was removed from the control in October 1949 and the quota rates for the other categories have been increased.

Canada, it is claimed, has no "arrangement by which the gold or convertible currency which (Canada) currently receives directly or indirectly from its exports ... is appreciably reduced below the level if could otherwise have been reasonably expected to attain".
The importation of certain commodities available locally is prohibited; essential goods such as rice and sugar are imported only by the government, and for other imports licences are issued in accordance with estimates of foreign exchange available for expenditure on merchandise. Ceiling values are fixed for all items for which import licences are issued.

For imports from British Empire countries, other than Canada and Hong Kong, open general licences are issued, but for all other individual licences must be obtained. Licences are issued for goods "essential to the civilian life of the community", including consumer and capital goods and raw materials, from whatever source may be the cheapest, while for less essential goods importation from the sterling area and other soft-currency sources is preferred. The contracting parties in North and Central America, and also Belgium and Sweden, are classified among the hard-currency countries.

CZECHOSLOVAKIA

(Article XIV:1)

The restriction of imports for the protection of the balance of payments is effected through the Ministry of Foreign Trade which limits the aggregate foreign purchases in the light of the reserves and estimated future receipts of foreign exchange after deduction of sums required for financial payments. The control of imports by permits was abandoned in January 1949 with the formation of the 27 Export-Import Companies which are now in charge of foreign trade.

These Companies conduct their business "on a commercial basis, i.e. buy and sell as advantageously as possible". The total of their purchases, however, is governed by Czechoslovakia's earnings from exports since the balancing of payments requires a trade surplus. The Companies are permitted to purchase their requirements provided the necessary foreign exchange is available; but if the exchange reserves are insufficient, priorities are established in favour of those imports which are necessary for the fulfilment of the Economic Five-Year Plan and of contractual obligations.

DENMARK

(Article XIV:1)

Denmark maintains restrictions on part of her imports "with a view to maintaining equilibrium in the balance of payments". The imports subject to quantitative restrictions in 1948 comprised 75% of the total.
The control is based upon periodical estimates of the earnings of various currencies from expected exports and other sources. The volume of imports to be permitted is adapted to the amounts of currency expected to be available, and those imports which are subject to restrictions are curtailed to the extent by which currency earnings are expected to fall short of satisfying the import needs and other necessary expenditures. Within this plan, raw materials and semi-manufactures required for the production of exports are given preference.

For imports from countries with which Denmark has concluded bilateral agreements, licences are issued within the limits fixed by quotas. For the sterling area, the limits are fixed in relation to the annual estimates of total imports, and for the dollar area (other than imports financed under E.R.P.) decisions are made in relation to individual applications.

There has been some relaxation of the restrictions since 1948. Licences have been granted more freely, and a list of commodities which might be imported without licence was established. In December, 1949, Denmark joined in the plan to liberalize intra-European trade by establishing a regional free list comprised of goods which might be imported without licence from other O.E.E.C. countries except Belgium, Italy, Western Germany and Switzerland. It is expected that in 1950, the imports of the commodities in this list from the countries thus exempted from the licensing requirements will be more than 20% of total imports.

FINLAND
(Article XIV:1 (b) and (c))

The control of importation to safeguard the balance of payments dates from 1939.

Bilateral agreements have been concluded with nearly all of Finland's important trading partners and these are based on the establishment of a balance between import and export lists containing quotas for various products. Licences are required for importation, but applications may be refused if demands upon the currency required for payment are unexpectedly large and, on the other hand, licences may be issued in excess of the quotas if the balance of payments is developing favourably. Thus the quota system is allowed some flexibility in order to permit trade expansion to the limit of the payment possibilities. Price is also taken into account, and if it appears that the goods could be purchased more cheaply elsewhere the application may be rejected.

For imports from countries with which no bilateral agreements have been concluded, the same licensing requirements apply. In the decision on applications, consideration of essentiality, price and quality are taken into account together with the availability of the currency required for payment.

Recently an increase in the income from exports has permitted a relaxation of the restrictions and their discriminatory effects have been alleviated.
The restrictions to protect the balance of payments require that licences shall be obtained for all imports. The control is exercised in the following manner:

(a) for imports from countries with which France has not entered into commercial agreements containing lists of products to be exchanged, licences are issued within the limits of allocations in an annual import programme;

(b) for imports from countries with which France has concluded commercial agreements containing lists of products to be exchanged, licences are issued within the limits of the quotas fixed in the lists contained in the agreements, but licences will not necessarily be issued to the full amount of the quotas if the foreign exchange required for payment is not available; and

(c) for certain number of products the "Groupements" set up after the war still enjoy a monopoly of importation and, like the State monopolies and the nationalized industries, they alone receive the licences for the products in which they are interested.

Deviations from the rule of non-discrimination occur under both (a) and (b).

The restrictions were relaxed in October and December 1949 for certain products imported from countries of the O.E.E.C. and their overseas territories. This freedom of importation has been extended to more than half of the imports from these countries calculated on the 1948 statistics.

The restrictions and procedures described in the foregoing paragraphs apply to all the overseas territories of the French Union. Some of the commercial agreements provide special quotas for imports into these territories.

GREECE

(Article XIV:1(c))

Importation of a number of products is subject to State monopoly control and several items of foodstuffs, fertilizers and fuels are imported by State services. The State monopolies are intended to facilitate rationing and price control.

The restrictions on private trade are carried out mainly by the establishment of an import programme indicating the quantity of each product which may be imported and its origin, whether from the dollar or sterling area or from countries with which Greece has negotiated bilateral agreements. The price of the product is treated as an important criterion in the issue of licences. Licences are sometimes issued for non-programmed imports and private barter deals are allowed.

Under the recent liberalization of trade introduced through the O.E.E.C., quantitative restrictions have been removed from 57% of the imports from member countries.
The Italian restrictions to protect the balance of payments, dating from 1935, have been maintained because of the persistent disequilibrium.

There are two methods of control: one for imports from countries with which Italy has trade agreements containing import quotas, and the second for other countries. In the first, an attempt is made to negotiate quotas large enough to cover the demand, and whenever possible the licensing requirement is withdrawn so that the product may be imported without restriction from the country party to the agreement. If the agreed rate of exchange proves an obstacle to trade, barter deals are encouraged. The restrictions on imports from countries with which no such agreements have been concluded, mostly hard-currency countries, are more strict; licences are granted on "purely commercial grounds" and some barter deals are allowed.

Under the O.E.E.C. plan for liberalization, Italy has freed 50 per cent of imports from member countries on the basis of 1948 statistics.

The prohibition of imports except under licence is maintained because of "the prevailing balance-of-payment difficulties and the inconvertibility of currencies". The control is intended to ensure that the available foreign exchange will be devoted to the importation of goods which are "essential to the supply of the country and the rehabilitation of the Netherlands economy". Licences are granted in accordance with the availability of the currency required for payment; for the countries with which no conventional commitments exist - mainly the dollar and sterling areas - elastic import programmes are drawn up, and otherwise licensing policy is predetermined by the quotas laid down in bilateral agreements. In the fixation of quotas, the "volume and selection of exports" and the balance of payments with each country are taken into account.

The control over imports of agricultural products and foodstuffs, which has been in effect since 1930, still has at its purpose the stabilization of agricultural prices.

Exemption from the quantitative restrictions was provided in October 1949 for imports of certain products, from countries participating in the O.E.E.C. and their overseas territories, other than Switzerland and Western Germany, "on the assumption that balance-of-payment difficulties will be met".

The General Agreement applies to Netherlands' dependent territories: Surinam exercises a control of foreign exchange to safeguard the balance of payments; the Antilles are not applying restrictions at the present time.
New Zealand's import control, to safeguard the monetary and foreign exchange reserves, was first established in 1938. Importation is prohibited except under licence.

The issue of licences for importation is based upon estimates of future earnings of overseas funds and of future expenditure on the servicing of overseas debt, etc. Priority is accorded to essential needs, such as food, chemicals and industrial materials, while goods which can be supplied satisfactorily by domestic producers may be excluded.

Since the United Kingdom has been the principal source of supply, "basic allocations" for many of the goods imported from that country have been arranged. When allocations are provided, the issue of licences is not necessarily limited to the amounts thus allocated, nor will applications for licences for other countries necessarily be refused. In some cases the allocations are applicable to all countries except those which are regarded as hard-currency areas in relation to sterling.

Applications for imports from the hard-currency countries are considered in relation to essentiality, availability from other sources and in the light of the official estimate of the overseas funds to be received during the licensing period.

Licences are valid for one year, except that for imports from Canada and the United States their validity is limited to 6 months in order to afford a closer control over dollar expenditure.

Norway

(Article XIV:1(b))

The general system of import restrictions was introduced in December 1946. All imports are banned, but licences are issued for goods considered "necessary to meet the country's needs and to carry out its foreign trade".

The licensing policy is determined by the earnings of currencies. Consequently the restrictions are applied more stringently to imports from some countries than from others. Funds available in hard currencies are used for the purchase of goods which have high priority and are unobtainable from other currency areas.

The distribution of licences among supplying countries is determined by price and quality, terms of delivery and the marketability of Norwegian exports in addition to the availability of the currencies concerned. When the conditions of purchase are the same in hard- and soft-currency areas, importers are generally referred to the latter sources of supply. To some extent the importation of low-priority goods has been dependent upon the sale of Norwegian exports
of the same category, and in order to facilitate such exchange bilateral agreements have been concluded with a number of countries; for the same purpose certain barter and reciprocity arrangements have been made.

In November 1949 arrangements were made for some products to be exempt from the restrictions when imported from certain countries participating in the O.E.E.C.

SOUTHERN RHODESIA

(Annex J)

Restrictions on imports for balance-of-payments reasons were introduced in September 1947. No restrictions were placed on goods imported from many (soft-currency) countries, since capital investment from the sterling area more than offset any deficit in payments, but permits have been required for imports from "specified" (hard-currency) countries which include all the contracting parties in the Western Hemisphere (except Chile and Uruguay) and Belgium and Sweden.

The control is based upon the limitation of the value of imports to the available amounts of the currencies concerned. Permits are issued for goods which are considered to be "essential to the life of the community" provided that the aggregate value does not exceed an amount considered to be detrimental to financial stability in relation to external balances. The "circumstances of particular cases, alternative sources of supply, conditions of delivery and effects on local industry and employment" are also taken into consideration.

The list of prohibited goods, issued in connection with the control, merely served as a guide rather than as a schedule of prohibitions requiring rigid adherence. This "prohibited" list was replaced in 1949 by a list of "permissibles".

SWEDEN

(Article XIV:1(c))

In March, 1947, the Government of Sweden introduced a general system of import licences in order to prevent the depletion of the reserves of foreign funds and especially of hard currencies.

Licences are issued in accordance with quotas fixed in bilateral trade agreements and, in the absence of such quotas, within the limits of an "import plan". In drawing up the "plan", traditional sources of imports and the availability of the currencies involved are taken into account. Owing to the scarcity of some currencies, imports from certain countries have been limited mainly to articles of special importance.

A few commodities are exempt from the licensing requirements, and as from January 1, 1950, more than 50% of imports from other countries participating in the O.E.E.C. have been freed from the restrictions.
A deficit in external payments in 1948 led the Government to impose new restrictions in order to stop the decline in its monetary reserves. Importation from all sources of certain luxury and non-essential articles, and of goods similar to articles produced in sufficient quantities in South Africa, was prohibited except under special permit.

Since 1 January 1950, the control has been based on a distinction between hard and soft currencies. The list of hard-currency countries includes all the contracting parties in North and Central America and Belgium and Luxemburg.

The control is exercised by the issue of two kinds of permits for goods not included in the prohibited list:

(a) Universal permits, for imports from any country, are issued to an amount equivalent to the estimated current gold production (less amounts required for maintenance of reserves) plus the earnings of hard currency minus the estimated invisible imports from hard-currency countries.

(b) Restricted permits, for imports from soft-currency countries, are issued to an amount equivalent to the estimated soft-currency income (less amounts required for reserves) minus estimated invisible imports from soft-currency countries.

It is the opinion of the South African Government that the discrimination involved in the system of universal and restricted permits is specially authorized by Annex J; it is expected that this system will enable South Africa to obtain additional imports above the maximum total it could otherwise afford.

The restriction of imports to safeguard the balance of payments is based upon a distinction between hard and soft currencies. For imports from the dollar area and other hard-currency countries, a detailed programme is drawn up in the light of the essentiality of products and their availability from other sources. This programme governs the procurement arrangements for imports on government account and also for the licensing of imports on private account. The programming of imports from soft-currency countries is more flexible and may not be more than an estimate of availability or of the quantities of goods which soft-currency countries are likely to sell in the United Kingdom. Bilateral arrangements have been made with a number of countries regarding the licensing of imports but generally formal commitments to purchase specified goods have been avoided.
An extensive range of commodities, a "large proportion" of foodstuffs and a "substantial proportion" of raw materials, are imported only on public account. This system of centralized purchase is maintained for commodities which are in short supply, either for balance-of-payments reasons or because of world shortages, and is intended to facilitate the procurement of adequate quantities at reasonable prices or to facilitate rationing and price stabilization. Purchasing is guided by "commercial considerations", such as cost, quality, availability and continuity of supply, but the quantities imported may be restricted on balance-of-payments grounds. Public account purchases amount to about one half of total imports.

Importation on private account is authorized by Open General Licences, Open Individual Licences and Individual Licences. Goods placed under O.G.L. may be imported without limit of quantity, but usually from soft-currency countries only. The O.I.L.'s permit the importation of specified classes of goods from specified countries in any quantity; they serve to restrict imports to certain types of a product, to facilitate internal controls of distribution, or to limit imports to certain categories of traders. The I.L.'s are allocated by an ad hoc consideration of applications, for example, many types of machinery judged by end-use, or by a pre-arranged distribution among importers or exporters. The soft-currency O.G.L.'s covered about 20% of total imports in 1948, and individual licences about 30%.

Further there are two special types of licensing procedure. Applications for the importation of goods to be re-exported or to be further processed or incorporated in goods being manufactured for export are dealt with in the light of balance-of-payments considerations. And, secondly, the scheme of token imports, of interest mainly to hard-currency countries, permits the importation of certain quantities of branded products which would otherwise be totally excluded by the import prohibitions.

The dependent territories of the United Kingdom form part of the sterling area. Their import control systems are not identical but the general principles followed are common to all. Generally, the sole purpose of import restriction is to prevent unnecessary expenditure on imports from countries with which the area is in balance-of-payments difficulty. Imports from soft-currency sources are licensed on a liberal basis.

The liberalization of trade brought about by the O.E.E.C. in December 1949 has resulted, for the United Kingdom, in the removal of restrictions on 86% of food and feeding stuffs, 89% of raw materials and 84% of manufactured goods imported on private account from member countries other than Switzerland, Belgium-Luxembourg, Belgian Congo and Western Germany. These imports are now subject only to O.G.L.'s and the liberalization has been extended to the sterling area and to most foreign countries outside the dollar area.

The United Kingdom Government state that their deviations from the provisions of Article XIII are pursuant to the provisions of Annex J and/or paragraph 3 of Article XIV and are "to a considerable extent covered both by Annex J and also by Article XIV:3".