PROPOSED MODIFICATION OF IMPORT CONTROL MEASURES APPLIED BY THE UNION OF SOUTH AFRICA PURSUANT TO ARTICLE XII AND ANNEX J.

There is circulated herewith the text of a secret memorandum to the Contracting Parties to the General Agreement on Tariffs and Trade concerning certain modifications which are to be introduced in the South African programme of import restrictions on the 1st January, 1951.

Copies of this memorandum were forwarded by the Government of the Union of South Africa in a letter dated 12 September 1950.
MEMORANDUM FOR THE CONTRACTING PARTIES
TO THE GENERAL AGREEMENT ON TARIFFS AND
TRADE.

Proposed Modification of Import Control Measures Applied
by The Union of South Africa Pursuant to Article XII
and Annex J.

1. The basis of the import control scheme at present in
operation in the Union of South Africa was explained in a
Memorandum submitted to the CONTRACTING PARTIES on 6th December,
1949, (document SECRET/CP/1 dated 14th December, 1949), and was
amplified in a further communication from the South African
Government dated 19th January, 1950 (document SECRET/CP/1 Add. 1

2. Under the existing scheme the total value of "universal
permits", which are available for imports from any country, is
limited to the estimated current gold production plus the
earnings of hard currency after deduction of the estimated
invisible imports from hard currency countries plus estimated
net capital receipts from hard currency countries, less such
amounts as may be necessary for the maintenance of satisfactory
reserves. The object of this arrangement was to ensure:-

(a) that the country's commitments in respect of imports
from hard currency countries would not exceed its
current gold and hard currency resources, and

(b) that the country would be able to obtain its capital
requirements from the traditional sources without
depriving the United Kingdom of a reasonable share
of the Union's gold output.

3. The operation of this scheme combined with the effects
of devaluation has brought about a substantial improvement in
South Africa's balance of payments. The increase in its monetary
reserves is shown in the following figures:-

<table>
<thead>
<tr>
<th>Gold Reserve</th>
<th>U.S.A. and Canadian Dollars</th>
<th>Sterling</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£42,800,000</td>
<td>£200,000</td>
<td>£24,500,000</td>
<td>£69,500,000</td>
</tr>
<tr>
<td>£62,800,000</td>
<td>£5,400,000</td>
<td>£85,000,000</td>
<td>£153,200,000</td>
</tr>
<tr>
<td>£63,600,000</td>
<td>£6,300,000</td>
<td>£74,700,000</td>
<td>£144,600,000</td>
</tr>
</tbody>
</table>

It will be seen from these figures that South Africa's
total monetary reserves increased by 131% within a period of nine
months. This has enabled the South African Government to make
sufficient foreign exchange available for the country's essential
requirements and to maintain a satisfactory rate of development.

4. Until the large scale developments in the field of
gold mining, and the provision of power and transport have been
completed, the country's import requirements, particularly of
capital goods, will continue to exceed its current foreign
exchange earnings by a substantial margin. This margin is
estimated at between £40 million and £60 million per annum over
the next few years and the attraction of capital from overseas
therefore remains of vital importance for the development of
the country's resources.

5. /
5. It follows therefore that, notwithstanding the improve­ment of the country's balance of payments position, the South African Government cannot at this stage abolish import control. Moreover, as long as South Africa remains dependent on the traditional soft currency sources for its capital requirements, it will not be possible to administer import control on a completely non-discriminatory basis. The South African Government considers, however, that the time has arrived to make an important step in this direction and it is therefore their intention to introduce the following changes in the import control scheme as from 1st January, 1951:

(a) Whereas the amount of "universal permits" has thus far been limited to South Africa's current gold production plus net hard currency receipts available for visible imports (see paragraph 2 above), the Government intends to issue "general permits" up to the amount of South Africa's total current external income. These "general permits", like the existing "universal permits", will be available for imports from any country.

(b) In addition "general permits" will be issued to the amount of £2 for every £1 of available untied capital receipts from hard currency countries.

(c) If, as is likely to happen, the inflow of capital from soft currency countries exceeds that from hard currency countries, "restricted permits", which will be available only for imports from soft currency countries, will be issued to the extent that the "general permits" referred to under (a) and (b) will not be sufficient to meet the country's import requirements in full.

6. The "general permits" will correspond in every way to the present "universal permits" except that they will not entitle the United Kingdom to claim gold settlement in respect of the full amount of "general permits" captured by soft currency countries. South Africa's current gold and hard currency resources will, in the first place, be used to settle with the hard currency countries in respect of the general permits captured by them and only the balance of the Union's current gold output will accrue to the United Kingdom. In other words, gold will only accrue to the United Kingdom to the extent that the amount of "general permits" captured by the soft currency countries exceed South Africa's current soft currency earnings net, after provision for soft-currency invisible payments has been made.

By "current external income" is meant the total of the current gold output available for sale abroad plus net current external earnings after provision for external invisible payments has been made.

Hard currency countries in this connection are Canada, U.S.A., the American Account countries and Switzerland until such time as the latter attains effective membership of the European Payments Union.
The scheme as outlined in paragraph 6 is based on the important assumption that the net current hard currency earnings (including current gold production) will remain at about their present level. This has an important bearing on the risks to which the South African gold reserves may be exposed, as well as on the United Kingdom's ability to earn a fair share of the South African gold output.

The advantage of the new scheme to South Africa would be that it would considerably extend the field of free competition for South Africa's import requirements. It has, therefore, been decided to discontinue the present arrangement whereunder "universal permits" are being issued only for the five commodity groups specified in paragraph 20 of Document SECRET/CP/1 dated 14th December, 1949, and to issue "general permits" for all classes of permissible imports, but with due regard, of course, to the relative essentiality and availability of particular classes of commodities and the total amount of foreign exchange against which such "general licences" may be issued during any particular licensing period. In addition, "restricted permits" will be issued to supplement the country's imports under "general permits".

The advantage of the new scheme to exporting countries would be that all could now compete for a far wider range of South African import requirements and volume of trade under general permits than is possible under the present arrangement, and this would open the South African market much wider to the hard-currency countries.

The prohibited list will be maintained, possibly in a modified form, but in order to comply with Article XII 3(c)(ii) of the General Agreement, every importer of consumer goods who, prior to the imposition of import control, regularly imported goods appearing on the prohibited list, will, after application to and upon the authority of the Director of Imports and Exports, be allowed to use a certain percentage of his allocation of "general permits" for the importation of such goods.

The South African Government is satisfied that the present improved competitive position of the soft currency countries as a result of devaluation should enable the United Kingdom to secure, on a basis of full and fair competition, its traditional share in South Africa's current gold output. The South African Reserve Bank has accordingly been authorised to sell to the Bank of England, in anticipation of the determination of the amount of gold which would accrue to the United Kingdom from time to time in terms of paragraph 6 above, 1,000,000 ounces of fine gold per quarter.

With the exception of tourist trade there are practically no restrictions on payments in respect of invisible imports and with the introduction of the new import control scheme discrimination will be confined to a relatively small sector of South Africa's total external transactions.