SUMMARY NOTES ON THE CONSULTATION WITH AUSTRALIA
UNDER ARTICLE XII:4(b)

1. The following notes represent a brief summary of the principal points that were discussed in the consultation with Australia conducted by the Working Party which was established by the Intersessional Committee. In addition to a comprehensive discussion with the Australian delegation, extending over several meetings, the Working Party had the advantage of two statements submitted in writing by the Australian Government as well as a background report by the International Monetary Fund and an oral statement by the representative of the Fund. That representative explained that the Fund had not had an opportunity before the consultation with the CONTRACTING PARTIES to conduct its own annual consultation with Australia and that it had therefore been impossible for the Fund to provide all the information that would have been desirable. The initial statements by the Australian Government (L/350 and Add.1) were supplemented by a paper submitted to the Intersessional Committee (IC/W/33) and a further statement made to the Committee (IC/W/35). These are reproduced as annexes B and C to the Working Party Report. The background paper supplied by the Fund and the oral statement referred to above are to be found in annexes D and E respectively.

Circumstances leading to the intensification

2. The Working Party initially discussed with the Australian delegation the circumstances which led to the intensification of restrictions on 1 April 1955. The Australian representative, summarizing the information in the general statements submitted by Australia and in the background paper submitted by the International Monetary Fund, pointed out that the substantial liberalization of import restrictions in Australia in the financial year 1953-1954 (i.e. the 12 months ended 30 June 1954) was followed in late 1954 by a substantial increase in imports. This coincided with a sharp drop in Australia's export earnings, brought about largely by a decline in wool prices. For the nine months ending 1 March 1955 the value of total exports was £A 68 million lower than in the same period of the previous financial year, and it then seemed probable that exports for the full year would be around £A 750 million compared with £A 830 million for the previous year. At the same time, it appeared that imports may be as high as £A 845 million for the year against £A 681 million for the previous year.

3. The deterioration in the reserve position of Australia has resulted entirely from those changes, the external balance on capital account and for invisible
remaining substantially unchanged. The Australian representative explained
that the reserve level expected by the end of June might be as low as
A$ 420 to A$ 430 million, representing a decline of some A$ 140 million
over the twelve months. While Australia did not consider that this in itself
was necessarily a dangerously low level, a continuation of the present trend
would be disturbing. In this connexion he pointed out that the average time
lag of about six months between the date of issue of import licences and the
date of importation made it necessary for Australia to act well before a
decline in reserves reaches the danger point if it is to avoid the necessity
for applying much more drastic restrictions at a later date.

4. The Working Party discussed the problem of wool prices and production
at some length with the Australian delegation. In answer to a question from
the Working Party it was pointed out that the drop in the value of wool export
in the second half of 1953-1954 could not be attributed to seasonal factors as
this was the half of the year in which wool normally enjoyed its most active
markets.

5. The Australian representative was asked whether any part of the Australian
balance-of-payments problem had been caused by the action of other countries
and whether there was any revision in the policies of other countries which
could help alleviate the problem for the future. He replied that he could
not identify any new action taken by other countries which could be directly
related to the recent balance-of-payments difficulties leading to the intensification
though it was obvious that agricultural protectionism around the world
must have some adverse effect on Australia's export business.

6. The Working Party asked for and received further information from the
Australian representative concerning the categories of imports which had
increased most rapidly and contributed to the drain on Australia's reserves.
Most consumer goods are included in category B of the Australian licensing
system, and although imports in this category remained less than 20 per cent
of total in recent months, they showed the largest percentage increase because
quotas had been reduced since 1952. More recently, however, there had been
sharp increases in imports in the No-quota Restriction category and in category
'A'. The Australian representative agreed with some members of the Working
Party that some part of these recent increases could probably be attributed to
anticipation by importers of increase restrictions.

Nature and extent of the intensification

7. The Working Party obtained from the Australian representative a description
of the application of the intensified restrictions to different classes of imports.
Some goods remain free of quota restrictions: tinned plate, books and printed
matter, seeds for sowing, etc. In practice, some other commodities, such as
petroleum products, tea and raw materials for industry are licensed in quantities
sufficient to meet the full domestic demand.
8. In the category of commodities which were licensed without quota restrictions before 1 April 1955 the intensified restrictions still provided in most cases for licensing at 100 per cent of the value of imports of the commodities concerned in the year 1954. Items in this group include: replacement parts for machinery, vehicles, etc., unmanufactured tobacco, raw coffee, iron and steel, aluminium, ball and roller bearings, portable electric hand tools, fencing posts, plate-glass, pharmaceutical preparations, unexposed film, crude rubber, paper pulp, tyre valves, crude asbestos, soda nitrate, rock phosphate, manganese ore, chromite, fibres, ferrous alloys, abrasives, etc.

9. A wide variety of articles, classified as Category "A", including certain items of food and clothing, tools and instruments, chemicals, materials for further manufacture, timber, paper and board, hides and skins, etc., are licensed to a value equal to 85 per cent of similar imports in 1950-51. Some other items, classified in a special category, for example, unassembled motor vehicles (i.e. completely knocked down) are licensed on the same basis. Most of these items were licensed without quota restriction between April and September 1954 and on the basis of 100 per cent of 1950-51 imports between October 1954 and March 1955.

10. Items in the Administrative category, mostly capital equipment or goods for further manufacture are of a kind that do not lend themselves readily to quota treatment; for example, there are various specialised machines, machine tools and equipment for which demand fluctuates considerably as between particular items. Imports in this category are controlled through allocations under a budget for each quarterly licensing period. The Australian Government's intention is to reduce imports in this category by 20 per cent, but the first quarter budget, that for the period April-June 1955, has reduced allocations by only about 7½ per cent.

11. Imports considered to be less essential to the Australian economy, for example, spirituous and non-spirituous beverages, cigars, manufactured tobacco, confectionery and certain foods, certain piece goods and other textiles, made-up clothing and furnishings, artificial flowers and fruits, various household appliances, paints and varnishes, plywood, fancy goods, jewellery, etc. are included in category B and are licensed up to a value equal to 40 per cent of imports in the base year 1950-51. Between 1 April 1954 and 31 March 1955, quotas for imports in this category were equal to 60 per cent of 1950-51 imports. The fixing of quotas for individual importers as a percentage of base year imports does not mean that total imports in the category concerned will be limited to the specified percentage of the value of base year imports. Since the base year additional or new quotas have been granted to individual importers. Moreover even though commodities such as piece goods are classified as category "B", special quotas are granted to Australian manufacturers to ensure that they will obtain the quantity of imports required to keep their factories fully productive.
12. A number of members of the Working Party enquired as to the distinction made between different countries or currency areas in the application of the intensified restrictions. The Australian representative explained that the intensification of restrictions applied entirely to non-dollar imports. With the non-dollar area Australia has no discrimination with a single exception: when Australia assimilated its licensing system covering Japanese imports into its non-dollar licensing system, it reserved a certain number of commodities, primarily textiles, to which a special licensing régime is still applied.

13. No intensification of restrictions on imports from the dollar area has taken place or is at present contemplated. It was pointed out that this situation leaves imports from the dollar area in a relatively better position than before and that the intensification of non-dollar imports, therefore, represents a decrease in the level of discrimination against such imports. In this connexion the Australian representative was asked whether the Australian Government would maintain this decrease in discrimination even if they should find it possible to remove the intensified restrictions against non-dollar goods. He replied that he hoped it would not be necessary for Australia at that time increase its discrimination. In fact, it was hoped that Australia along with other members of the Commonwealth would continue to move towards full convertibility at which time such discrimination would entirely disappear.

14. Reference was made to the fact that before intensification category "D" goods were licensed at 60 per cent of such imports in the base year 1950-51 and it was asked whether that level of imports fell far short of filling Australian demands, or whether demands had been fully satisfied at that rate. The Australian representative replied that the 60 per cent level had in general met consumer requirements for those goods.

15. Following enquiries of members of the Working Party as to whether the degree of intensification was in fact necessitated by the balance-of-payments situation, the Australian representative pointed out that the intensification of restrictions is estimated to reduce imports by something less than $100 million per year. In view of the rate at which reserves have been declining this reduction of imports was unlikely to be sufficient to prevent some further drain on the reserves during the coming financial year. He concluded therefore, that the intensification of restrictions could hardly be considered to be excessive in relation to the balance-of-payments situation.

16. In connexion with the question of discrimination a member of the Working Party asked whether the recent intensification, in bringing more products under quota control, had increased discrimination against imports from third countries because of existing bilateral commitments. In reply, the Australian representative stated that with the exception of one commitment to Belgium, which dated back twenty years, on the import of sheet glass, the Australian Government had entered into no bilateral agreements with any government which provided for quotas on which consequently involved discrimination against imports from third countries.
Effects of the restrictions on trade

17. In discussing the overall effects of the intensification on imports, the Working Party was informed by the Australian representative that the intensification had been designed to reduce non-dollar imports, from which the whole of the expected saving of approximately A£100 million was to be derived. The restrictions did not discriminate (except for a limited list of items from Japan) between any non-dollar countries. The effect of the intensification as between non-dollar countries would therefore depend on the forces of the market, that is, the relative competitiveness of imports from various sources. Consequently it was not possible to provide breakdown figures showing the effects of the intensification on imports from individual non-dollar countries.

18. The Working Party discussed the question of what steps had been taken by the Australian Government in implementing the new restrictions to avoid unnecessary damage in accordance with Article XII:3(c)(iii). The Australian representative explained that the intensification taking place in April 1955 did not involve the cancellation of any previously-issued licences. The Australian importers were aware that they had no right to anticipate licences over and above the current quota or allocation for the current quota. As no firm orders ought to have been placed by importers in excess of their entitlements, and since all licences issued by the Australian authorities were being honoured, no hardship cases of the kind which occurred in 1952 were likely. Nor did the import licensing system involve the prohibition of any imports (apart from such prohibitions as required for sanitary, health and security reasons). The interchangeability of the "B" category quotas as between commodities gave scope for the widest variety of imports from non-dollar sources. Taking the control system as a whole the Australian representative did not believe, therefore, that the provisions of paragraph 3(c)(iii) of Article XII were in any way contravened.

19. In view of the intensification the Working Party felt that the question again became a pertinent one as to what steps had been taken or would be taken to minimize the protective effects of the restrictions. In this regard the Australian representative stated that on this occasion, as on previous occasions, his Government had emphatically warned that the restrictions were intended to safeguard the balance of payments and not to be a substitute for or an adjunct to protective tariffs; the government remained firm in its intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done. Manufacturers were therefore fully aware that they could not rely on the continuance of restrictions once the balance of payments permitted their relaxation. They had had ample evidence of the force of this warning; for the Australian Government had in fact in the past relaxed restrictions progressively whenever the state of the external reserves permitted such action. Furthermore, the interchangeability of quotas as between goods in the "B" category enabled importers to concentrate on commodities capable of competing strongly with Australian products and this had made high-cost Australian producers vulnerable to concentrated competition from imports.

20. It was pointed out by one member of the Working Party that behind the severe restrictions on dollar imports the production of certain goods had expanded in spite of the repeated warnings by the Government regarding the impirmancy of
the restrictions. It might be difficult for foreign competitors to recapture the Australian market when the restrictions were eliminated. The Australian representative maintained, however, that there was little evidence that uncompetitive production had been fostered by import restrictions. Any industries which had grown up under the protection of dollar restrictions had to withstand competition from non-dollar imports. When restrictions were relaxed in past years there had been few producers approaching the Tariff Board for continued protection through tariff increases. The Tariff Board itself had repeatedly stressed that it would recommend protection only for industries that in their opinion were efficient, and it had consistently shown itself aware of the dangers to Australian exports that might arise from a high internal cost structure sustained by tariff and quota protection afforded to a wide range of secondary industries.

21. In reply to an enquiry as to why the system of allowing interchangeability between goods in the "B" category could not be equally applied to category "A" imports, the Australian representative explained that the provision of quotas for individual products in the "A" category was intended to ensure that the country received adequate supplies of essential goods. If interchangeability were allowed market forces might result in a frustration of that objective.

22. In a discussion of the effects of the restrictions on particular commodities concern was expressed over the particularly severe restrictions falling on imports in the "B" category. It was feared that exports of certain countries whose products consisted primarily of "B"-category goods might be affected to the full extent of the one-third cut. The Australian representative pointed out that the one-third cut in category "B" imports would not necessarily mean a reduction of imports from all countries to the same extent; this was true not only because the pattern of trade would naturally adjust itself in accordance with the relative competitiveness of exporting countries, but also because quotas within the category "B" were interchangeable as between different goods.

Alternative and supplementary measures to restore equilibrium

23. A discussion took place on the question of applying internal fiscal and monetary measures to preserve or to restore equilibrium, and rather extensive information was supplied by the Australian delegation on this subject. In the middle of 1954 the Government emphasized the need to keep public expenditures under firm control in the interests of economic stability. Although originally the Australian Treasurer had proposed a balanced budget for 1954-1955, it was now expected that a substantial budget surplus, of perhaps £650 million would obtain for the financial year. After deducting from this surplus some £15 million to meet the part of the need of State governments for their work programs which could not be financed by public loans, there would remain a cash surplus which would be applied to the redemption of Treasury Bills discounted by the central bank. This action would mean some contraction of central bank credit and hence of the liquidizing of the banking system. At the same time, State Budgets in the aggregate were expected to come close to balancing. It was not possible of course to say what the budget policy for 1955-56 would be until it was actually announced later in the year, but it was likely that further redemptions of Treasury Bills held by the central bank and a further contraction of central bank credit would take place in the early months of the financial year 1955-56.
24. The continuing decline expected over the next few months in Australia's external reserves would be another factor making for reduced banking liquidity which could also be very considerably influenced by central bank action under the Special Accounts procedure. Central bank policy at the moment was to allow trading banks to feel the liquidity pressure without forcing them into excessive restrictions, and in view of the tight cash position of some banks, some releases from Special Accounts might have to be made during the coming months. However, even with such releases, the liquid assets in the hands of the banks could be expected to decline substantially. Although there was likely to be a strong pressure on the banks for advances, this pressure would come at the same time as the ability of the banks to lend was being reduced. On the whole, therefore, monetary factors would be restrictive in their influence for some months ahead.

25. A member of the Working Party, referring to the rapidly expanding national income, the high rate of investment and rather excessive demand prevailing in Australia in recent years, enquired whether the reduction of capital goods imports would entail a check on the rate of investment and consequently impair the country long-term policy of expansion. On this point the Australian representative replied that as the Australian Government wished to maintain an inflow of raw materials and other producer goods to the extent necessary to maintain production, it was probable that imports of capital equipment would have to be a large part of the reduction applying to the more essential classes of imports.

26. In discussing interest rates, the Australian representative said that so far the Australian authorities had not found that there was much scope for the use of the Bank Rate. Consequently, reliance had to be put principally on the direct control of bank liquidity and the monetary base through such measures as the Special Accounts. On the other hand, however, interest rates had been raised during the 1951-52 crisis, and had not been reduced since then. The level of interest rates on long-term Government securities was at a high level compared with that of other countries. Consideration had been and was being given by the Government to the level of interest rates, but the Australian delegation was not in a position to give any indication on future policy in this field.

27. Mention was made of the heavy reliance placed in some countries on the purchase tax when dealing with excessive demand, and the Australian representative was asked about the relative position held by such indirect taxes in the Australian tax structure. The Working Party learned that taxes on commodities represented in 1953-54, for example, about 35 per cent of the total tax revenue (LA 315 million out of LA 900 million), which, although lower than the yield from income tax (58.5 per cent of total tax revenue), could be regarded as a comparatively high proportion.

28. Another question in the field of credit control discussed by the Working Party was government policy regarding the regulation of hire purchase. The Working Party was informed by the Australian representative that under the Australian Constitution the Federal Parliament had no power in this field which fell within the sphere of the residual powers left to States. Some States had acted to prohibit the practice of selling goods without a deposit. The Commonwealth and the State governments were currently discussing the matter but the results were not yet available.
29. It had been suggested by some observers that the expansion of secondary industries in Australia had been achieved at the expense of extractive industries and steel production, the output of which could have been greatly increased in the interests of the balance of payments. Invited to comment on this view, the Australian representative felt that the proportion devoted to the various secondary industries was not considered too high in the light of the overall requirements of the country, nor was the expansion of industries which would contribute to improving the balance of payments neglected. In support of this view the Australian delegation presented data on the development of certain industries which were considered to have a significant impact on the balance of payments. These are noted in the following paragraphs.

30. At present Australia's installed capacity for iron and steel production is about 500,000 ingot tons per year below demand. Imports cost about £A 30 million a year. The programme of expansion of the iron and steel industry proposed for the next six years would materially change this situation. On present estimates of demand in 1961 the completion of the programme of expansion should enable Australia to become a net exporter of steel of the order of 250,000 tons a year. On this basis the current annual debit of about £A 30 million on steel account should be transformed into a current annual credit of about £A 15 million as from 1961. Australia was currently producing about 40,000 tons of blister copper and 30,000 tons of refined copper per annum. Actual demand was of the order of 60,000 tons of refined copper. The resulting debit in the balance of payments can be broadly assessed at £A 8 million. As a result of explorations which had been proceeding intensively for the last five years, a sound basis appears to be emerging whereby over a period of five years or so, blister and refining capacity might be doubled. A new aluminium plant was almost ready to come into production. By 1957, if not earlier, Australia would be largely self-sufficient in aluminium ingot capacity, and this should result in an annual saving in imports of around £A 20 million. Australia currently had an exportable surplus of lead in excess of 200,000 tons a year. Annual earnings of overseas funds from lead exports are of the order of £A 25 million. A considerable increase in production seemed likely in the next five to ten years, in the light of the results of explorations which had taken place in the last few years or so. In terms of zinc metal, Australia had an exportable surplus of the order of 150,000 tons a year, but the bulk of this was exported in concentrate form. Proposals for increased refining capacity were under discussion.

31. Petroleum and petroleum products occasion an annual debit in the balance of payments or the order of £A 100 million. Intensive oil exploration was being undertaken in many parts of Australia as well as in the Territory of Papua. In addition to commercial drilling, a considerable amount of geophysical and geological investigation was being carried out on Government account, the results of which were made available for the guidance of the commercial prospectors. Australia was now virtually self-sufficient in refining capacity.

32. Australia exported manufactured goods in small volume at the present time, annual value varying between £A 5 million and £A 10 million. The main limitation on Australia's ability to export at the present time was that imposed by installed capacity. Apart from the iron and steel industry mentioned above,
no early marked improvement in the situation seemed likely. A possible exception, however, was the motor vehicle industry, installed capacity of which had considerably increased in the last ten years, and that increase was continuing. Exports of about 1,000 vehicles a year, worth some $A 500,000, were now being made, but in the next three to five years, the annual rate of exports might rise to 10,000 vehicles.

33. Considerable fundamental and applied research was taking place in Australia both on Government and on private account (the annual expenditure by the Government was $A 4 million, excluding research expenditure for defence purposes). Research was related to both primary and secondary industries, and interesting results were being obtained. Perhaps the most striking recent results had been those associated with the control of the rabbit pest and the scientific development of soils and pastures including the introduction of trace elements. The control of the rabbit was estimated to have resulted in the annual wool slip increasing by between 10 and 15 per cent. At present the Australian sheep population was around 130 million, with 20 million acres under pasture. Considerable annual increase was taking place in wool production, and it was expected that, given suitable marketing conditions, the next twenty-five years might see the Australian sheep population rise to 220 million, with sown pastures increasing to over 60 million acres. Capital improvements on farming and pastoral lands were encouraged by the Australian taxation system and a speedy rate of increase of primary production - particularly wool - was therefore expected to continue. As to the longer term marketing prospect for wool the Australian representative, while recognizing that synthetic fibres had invaded certain of the normal markets for wool, pointed out that most such fibres are used in mixtures including wool and that no fibre so far had been developed that had the desirable qualities of work for all uses.

Prospects for the Future

34. On the question of future prospects, the Australian representative stated that because of the time that usually elapsed between the issue of an import licence and the arrival of goods in Australia, the imports arriving in the next three months would be predominantly those licensed before the restrictions were imposed in April last. Many of those goods would have been licensed without quota restrictions and the imports might be expected to continue at a relatively high rate for some time. It was estimated that imports for 1955-56 could be as high as $A 750 million f.o.b. Exports were not likely to exceed that amount. Despite the restrictions, therefore, the current account deficit in 1955-56 could exceed $A 100 million, and even if a substantial net capital inflow was assumed, reserves could continue to run down by an amount between $A 50 and $A 100 million. An important factor of uncertainty was the unpredictable magnitude of capital inflow. In the circumstances it would be impossible for the Australian Government to give an indication of the duration of the restrictions.
General Policy Objectives

35. The Australian representative stated that the maintenance of full and productive employment and the development of industrial and other economic resources are major objectives of the Australian Government's domestic economic policy. A rapid expansion of population through immigration is an important part of the programme for economic development. The population is at present increasing at the rate of about 2.5 per cent per annum and the working population by a little less than 2 per cent per annum. The pursuit of those policies tends to raise the demand for imports and, especially because of the wide and rapid fluctuations which characterise Australia's export earnings and capital inflow, the Australian Government has been obliged to act through import restrictions to safeguard the balance of payments. It is, at the same time, a major policy aim of the Australian Government to preserve the stability of the economy. In announcing the recent intensification of import restrictions, the Acting Prime Minister of Australia said that the Government remained firm in its intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done, and its internal policies would be designed to assist toward that aim.