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Working Party 4 on Balance-of-Payments
Import Restrictions

Drafting Group

DRAFT OF
THE FIFTH ANNUAL REPORT UNDER ARTICLE XIV:1(g)
ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

(Preliminary Revision for consideration by the Drafting Group)

1. Under paragraph 1(g) of Article XIV the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of the Agreement allowing the discriminatory application of import restrictions to be maintained for balance-of-payments reasons. The present report is drawn up by the CONTRACTING PARTIES pursuant to these provisions at their Ninth Session which took place between October 1954 and January 1955, and is based on statements supplied by governments applying restrictions and on data gathered from other sources including information supplied or published by the International Monetary Fund. The report is devoted principally to an examination of the important changes that have taken place in the discriminatory practices of governments since the writing of the fourth annual report in October 1953. In the Annex a brief description is given of the discriminatory restrictive system in each of the contracting parties concerned, and of the more important modifications introduced in the past year.

2. In statements submitted in 1954 at the request of the CONTRACTING PARTIES or in other communications twenty-two of the thirty-four contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balance of payments and are exercising some degree of discrimination as between sources of supply as permitted under paragraphs 1(b) and/or 1(c) of Article XIV, or under Annex J; these are:

- Australia
- Austria
- Brazil
- Burma
- Ceylon
- Chile
- Denmark
- Finland
- France
- Germany
- Greece
- India
- Italy
- Netherlands
- New Zealand
- Norway
- Pakistan
- Rhodesia and Nyasaland
- Sweden
- Turkey
- United Kingdom
- Uruguay

The Government of Japan, whose commercial relations with most contracting parties are based upon the Agreement, has stated that it resorts to the provisions of paragraph 1(b) of Article XIV.
3. The Governments of Czechoslovakia, Indonesia and the Union of South Africa have stated that they are not acting under any of the provisions of Article XIV. Nine contracting parties, namely Belgium, Canada, Cuba, Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States of America, have reported that they do not restrict imports for balance-of-payments reasons.

4. At the Eighth Session in October 1953, when the last report was drawn up, the CONTRACTING PARTIES noted that there had been a marked improvement in the world dollar situation in the preceding year and that serious endeavours had been made by certain contracting parties whose payments position had improved, to reduce restrictions and discrimination. The CONTRACTING PARTIES' report on consultations in 1953 mentioned certain fortuitous and temporary, as well as certain fundamental factors, to which the general improvements in 1953 might be attributed. On the one hand the improvement had been helped by the continued restrictions against imports from the dollar area and the heavy volume of United States off-shore purchases and military and other expenditure abroad. Further, the sustained high level of economic activity in the dollar area had the effect of maintaining and expanding the level of imports from the rest of the world. But on the other hand, more basically, the improvement reflected the increased strength of the economies of countries outside the dollar area. The disinflationary internal policies that had been introduced by governments in previous years, through eliminating or reducing excessive demand and through abating the rising tendency of prices, had by 1953 considerably restored the balance between countries. The efforts of the postwar years in reconstruction and development had by then laid a firm foundation for production in Europe and elsewhere on an economic basis capable of competing in the world market, and the increased production of certain agricultural and industrial commodities in non-dollar countries had made them less dependent on dollar imports. The approach of a more balanced situation was reflected in the levelling up between dollar and non-dollar prices.

5. In the period now under review the improvement in the international payments situation has generally continued, although, as will be discussed later, there remain a few countries for which the difficulties of preceding years have persisted or have even been aggravated. The easing of the postwar balance-of-payments disequilibrium has progressed at an even pace, and there have been further increases in gold and dollar reserves outside the United States. For certain commodities, whose production has been developed in non-dollar countries, the demand for imports has abated to such an extent that the volume shipped from the dollar area tended to fall even when there is considerable reduction in discriminatory restrictions on such imports from that area. This continuation of the general satisfactory situation in 1954 seems to reflect the strength of the underlying trend toward a better equilibrium which began in 1953, and against this general background, a number of the more important trading countries have continued to introduce greater freedom in their international transactions and to reduce the degree of restrictions previously imposed on imports. In contrast to the liberalization measures taken by governments prior to 1953, many of the measures recently taken have been more directly related to imports from the dollar area.

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1 Basic Instruments and Selected Documents, Second Supplement, page 36
6. In the past year the United Kingdom has continued to pursue its policy of reducing discrimination in addition to relaxing import restrictions generally. Most of the measures are understood to have been taken consciously in the interests of reducing internal costs and prices, including those of export goods, and to have been based on the Government’s intention to allow the purchase of primary products to revert to private trade. In the restrictions field, while some of the measures of relaxation related to non-dollar imports, dollar imports have been significantly liberalized. As a result, a large number of items may now be imported from all sources, including the dollar area, without an individual licence. In the field of state trading, a large number of items previously purchased on government account, mainly foodstuffs and industrial materials, have been returned to private trade. More commodity markets have been re-opened, including those for such important dollar commodities as grain, copper and cotton; and the existing market in new fur skins has been put on a more regular trading basis by the removal of all quantitative restrictions.

7. Among other sterling area countries, New Zealand has liberalized its control on imports from the dollar area. More items are permitted to be imported from that source, and quotas have been increased for a larger number of products. These measures have been taken with a view to providing more scope for primary producers and manufacturers to obtain their essential requirements from North America. Furthermore, a more liberal policy has been adopted in 1955 for licensing essential imports from that area. In Australia, discrimination against imports from Japan has been greatly reduced; since November 1954 imports from Japan have been, for licensing purposes, practically accorded the same treatment as those from other non-dollar countries.

8. By February 1954, the German Federal Republic had freed 40 per cent of its dollar imports from control; the current list contains some two thousand such free items. In August 1954, Italy published an enlarged list of commodities which could be imported from the dollar area without licence. The Netherlands began to ease its restrictions on dollar imports in October 1953 with the publication of a free list covering a wide range of raw materials and semi-finished products. Since the end of May 1954, more than 1,200 items have been free from quota restrictions when imported from the dollar area.

9. Denmark has introduced relaxations in the issue of licences for imports from the dollar area. Towards the end of 1954, the Government decided to extend in a limited way the regional liberalization to imports from the dollar area; 38 per cent of its dollar imports, on the basis of 1953 trade, are now included in a general free list. Sweden has relaxed its restrictions on dollar imports in a similar manner, and since October 1954 an extensive list of products has been free from restrictions and may be imported from all countries.

10. The Union of South Africa eliminated all discrimination in the application of its import restrictions as from 1 January 1954. Consequently, the relaxations introduced in 1954 have covered dollar imports as well as those from other countries. Similarly, Pakistan has abolished, effective from the beginning of 1955, the distinction between dollar and non-dollar import licences; with the exception of some items subject to bilateral commitments, all licences are valid for imports from any source in the world.
11. As for those imports which remain under discriminatory licensing control, a number of governments, e.g., Australia, Norway and Sweden, have indicated that because the dollar problem has become less severe, prices and other commercial considerations have been allowed to play an increasingly important part in determining the source of imports. To that extent the degree of discrimination against dollar imports has in effect, if not in form, been reduced.

12. These outstanding instances indicate that restrictions on imports from hard-currency areas, especially the dollar area, have been greatly reduced in the past year. As a result, the general level of such restrictions still maintained by most countries is probably lower than at any time since the war. This development, even seen against the background of a general trend of relaxing over-all restrictions and continual liberalization of soft-currency imports, provides ground for believing that there has been a substantial reduction in the general degree of discrimination in the application of restrictions. Although in most countries a stricter control is still maintained over dollar imports, it is understood that many governments have relaxed the standards by which applications for import licences from the dollar area are considered. The re-opening of commodity markets, the restoration of private trading and the easing up of internal controls which have taken place in certain countries must have further contributed to the freedom of traders, and lessened the hindrance to trade being conducted on the basis of price and other commercial considerations.

13. The removal of dollar import restrictions in many of the leading trading nations and other action in the interest of freer trade are only partly the result of the improved payments and reserve position. To most of them, these have been steps taken in accordance with a long-term policy of preparing their economies for the time when the major currencies of the world will have become convertible. The ultimate goal of completely unrestricted trade which is called for in a world of convertible currencies has been approached with caution, and the progress made generally reflected the varying strengths in the external financial position of the countries. To the extent that the improved strength is due to the more fundamental and enduring factors making for a more balanced international economic relationship, future advances in this field should be expected of governments which are committed to the achievement of a system of international trade free from restrictions and discrimination.

14. It is worth noting, however, that the general improvement in the world payments situation has not been shared by all countries. The deterioration in the external financial position of certain primary producing countries owing to the decline in the price of their basic exports has persisted in the period under review, or has improved only to a limited extent. The difficulties of these countries, which began in 1952, were for some time aggravated by the recession in the United States, but have since been partly alleviated by the subsequent recovery in that country and by increased demand in Europe based on the rise in its industrial production. As mentioned in last year's report, the difficulties are often more acute in countries engaged in large development programmes, which have a tendency to generate demand for imports above the level of current earnings. The continued difficulties have, in certain cases, necessitated a curtailment or postponement of such programmes.
15. These exceptions to the general trend have been seen mostly in primary producing countries in Latin America and Asia, but are by no means confined to those regions. The vicissitudes in the fortunes of these countries seem to point to a persistent underlying disequilibrium. Balanced against the recently attained strength in many primary product prices has been the looming shadow of the agricultural surpluses developed in certain countries, which have been a cause of concern to primary producers elsewhere.

16. Recent pronouncements and actions by certain governments have indicated a widespread interest in the possibility of achieving currency convertibility and restoring genuinely multilateral trade. The achievement of these objectives clearly depends on the maintenance of international equilibrium, especially between the major creditor nations and the rest of the world. The United States Government has recently expressed its intention to take rapid and resolute measures to redress any future excessive decline in internal economic activity, thus presaging a sustained level of demand for imports. It is also gratifying to see that steps are being taken by that Government to secure the adoption of a trade policy more consistent with the country's persistent creditor position. On the other hand, if convertibility and multilateral trade are to be achieved on a sound and lasting basis it is also incumbent on the nations which have resorted for long periods to restrictivo and discriminatory practices to review their policies in a new light. As the general level of restrictions recedes certain problems have emerged with increasing clarity.

17. The CONTRACTING PARTIES have repeatedly urged governments applying balance-of-payments restrictions to minimise their incidental protective effects, and in particular to discourage the establishment and growth of vested interests which might press for the maintenance of restrictions beyond the period in which they could be justified on legitimate financial grounds. That some governments have been aware of the need to prepare themselves for the future can be seen in their recent action in scrutinizing the restrictions they apply and in replacing them when necessary with tariff protection.

18. As world trade is progressively freed of restrictions, the scope of bilateral trade agreements has been diminishing, but at the same time the existence of a hard core of discriminatory practices for commercial, rather than financial reasons, has become increasingly evident. A substantial part of world trade, in particular that between certain European countries on the one hand and the countries of Asia and Latin America on the other hand, is still governed by trade agreements. The commercial motivation for such bilateral arrangements has been revealed most clearly by the changing character of trade agreements. The emphasis on agreements aimed at a balancing of trade between partners has shifted to agreements which give each participant special advantages for particular commodities in the market of the partner country.

19. Another problem that threatens to hinder progress to freer trade is that of differential exchange rates. There is evidence that not all such practices have been financial in intent. Some types of these practices have been regarded as a convenient method for maintaining trade discrimination for commercial advantage and they may prove the most difficult to remove after the original raison d'être has disappeared.
20. The use of such discriminatory devices as bilateral agreements during periods of acute international imbalance in which most currencies are convertible may be justified by their expanding effects on trade. In certain circumstances, they may be the only means for maintaining a country's export markets and solvency. But it is clear that such practices will have no place in a world of convertible currencies. Although the problems mentioned above are by no means the only ones which may persist to the detriment of a rapid move to freer trade, it would clearly be in the interest of international trade and of the countries concerned if vigorous action were taken for their elimination so that discrimination was not unnecessarily perpetuated.

ANNEX

COUNTRY NOTES ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

(The text of these notes, which will describe the systems and methods of restrictions in the twenty-two contracting parties acting under Article XIV, will be distributed separately.)