Note: The Special Sub-Group on the United States proposal appointed by the Working Party on Balance-of-Payments Restrictions is still consulting delegations on the matters referred to it. It expects to report to the Working Party early next week. Meanwhile, the following preliminary draft of the report of the Working Party on this subject which it has prepared is circulated for the information of the members of the Working Party and other contracting parties.

* * * *

DRAFT REPORT OF THE WORKING PARTY ON UNITED STATES PROPOSAL FOR CONSULTATIONS UNDER ARTICLE XII

1. The Working Party, in accordance with its terms of reference, has examined the United States proposal outlined in L/528 that contracting parties maintaining restrictions under Article XII be invited to consult with the CONTRACTING PARTIES pursuant to the first part of the first sentence of Article XII:4(b). In presenting this proposal the United States observed that, following the general examination of restrictions undertaken by the CONTRACTING PARTIES in 1951, many changes have taken place in the balance-of-payments position, productive capacity, economic development, internal economic stability, and trade interests of individual contracting parties. These changes have in turn brought about important changes in trade policy and numerous modifications of trade restrictions and their administration. The United States submitted that the free exchange of views that would take place on a realistic basis in the course of such consultations would contribute to a better mutual understanding of the problems facing the countries concerned, of the various kinds of measures taken by contracting parties to deal with the problems, and of the possibilities of further progress in the direction of freer, multilateral trade. The consultations would be conducted within the standards that are applicable under the existing text of the General Agreement, rather than those applicable under the revised text not yet in force. It was suggested that the proposed consultations should be completed before the close of the Twelfth Session of the CONTRACTING PARTIES.

2. The Working Party considers that it would be in the common interest of the contracting parties to engage in the programme proposed by the United States, as benefits would accrue to both the contracting parties invited to consult and the other contracting parties.
3. The Working Party considers that the most value would be obtained from the consultation programme by having consultations with all contracting parties maintaining restrictions under Article XII. On the other hand, having heard the views of its members and other delegations, it recognizes that it may be difficult for certain contracting parties engaged in programmes that currently press upon their limited resources of technical staff to prepare for and engage in consultations during the period contemplated. In this connexion the Working Party has taken note of the fact that the CONTRACTING PARTIES have given special recognition to the situation of certain contracting parties in that, under the terms of the revised Article XVIII, such contracting parties would not be required to consult as frequently as other contracting parties. Finally, it has been observed that consultations before the end of the Twelfth Session with all contracting parties maintaining restrictions under Article XII might unduly tax the facilities that may be available to the CONTRACTING PARTIES.

4. With these considerations in mind, and having investigated the situation of individual contracting parties with their representatives and having reviewed the prospective consultation time schedule of the International Monetary Fund with the representatives of the Fund, the Working Party recommends that the CONTRACTING PARTIES currently invite the contracting parties listed in Annex A to consult pursuant to Article XII:4(b) prior to the end of the Twelfth Session. Approximate times for such consultations are indicated in each case.

5. The Working Party also recommends that the Executive Secretary be authorized to determine the precise date for each consultation, after consulting with the individual contracting parties concerned, the International Monetary Fund, and the Chairman of the Consultations Committee (the establishment of which is recommended below). In the determination of the precise dates, the Executive Secretary may change a consultation from one part of the schedule to another, recognizing, however, that a concentration of consultations near the end of the schedule may cause difficulties for the CONTRACTING PARTIES.

6. In accordance with Article XV:2, the CONTRACTING PARTIES will desire to invite the International Monetary Fund to consult with them in connexion with these consultations. The text of a letter of invitation, in the form used in previous invitations to the Fund concerning consultations under Article XII, is given in Annex B.

7. The subject matters for consultations under paragraph 4(b) of Article XII are specified in paragraph 4(a) of that Article, viz: (a) the nature of the balance-of-payments difficulties; (b) alternative corrective measures which may be available; and (c) the possible effects of the restrictions on the economies of the contracting parties. Attention may also be drawn to the special report adopted by the CONTRACTING PARTIES in 1950 on the use of
quantitative restrictions for protective and other commercial purposes. It will be recalled that in that report the CONTRACTING PARTIES inter alia (a) made certain recommendations on methods to reduce undesirable incidental protective effects of balance-of-payments restrictions, and (b) drew certain conclusions regarding the use of such restrictions in a manner calculated to afford undue protection to domestic industries. These recommendations and conclusions are pertinent points to be taken up in the consultations.

8. In the report of the Working Party on Balance-of-Payments Restrictions adopted by the CONTRACTING PARTIES on 2 December 1955 (BISD, 4th Supplement, p.44), it was stated: "The working Party is of the opinion that future consultations would be greatly facilitated by advance preparation and by the use of such plans of consultations. However, in view of the diversity of circumstances, these plans should not be regarded as rigid programmes but might require suitable modifications in each case." In the light of these comments the Working Party has drawn up a plan for the proposed consultations (see Annex C). This plan is based on the plan for consultations under Article XII used in 1955 (see BISD, 4th Supplement, pp. 44 and 45), but modified to take into account the nature of the proposed consultations. It is suggested that, in using this plan for the consultations, the Consultations Committee bear in mind the comments quoted above. The Working Party agreed that in the consultations the special problems of each consulting country relating to its balance of payments will perforce be given careful consideration. In this connexion, the Working Party also agreed that underdeveloped countries have additional problems respecting their balances of payments that should likewise be taken into account while consulting with them.

9. In order that the consultations may be as effective and meaningful as possible, it is suggested that for each consultation the following stages of work should be performed.

10. On the basis of available information including information supplied by the International Monetary Fund, data supplied by the contracting parties concerned and information gathered from other sources, the secretariat will compile a basic document in connexion with each of the consultations. As the financial aspects of the restrictions will be fully dealt with in the background papers supplied by the Fund, the secretariat paper will concentrate on the trade aspects of the restrictions giving, as far as possible, a precise and comprehensive description of the restrictive systems and their administration and of the effects of the restrictions on trade. In preparing these papers the secretariat will consult as fully as possible with the contracting parties concerned.

11. As early as possible, preferably several weeks before a consultation is to be opened, those papers should be circulated to all contracting parties together with the background papers and other relevant documentation supplied by the International Monetary Fund. To enable the secretariat to operate efficiently and without delay, the co-operation of the contracting parties concerned will be essential.
12. The Working Party considers that the CONTRACTING PARTIES should appoint a Consultations Committee comprising governmental representatives to conduct the consultations. This Committee, although it should not be so large as the present Working Party, should nevertheless reflect, as far as possible, the characteristics of the contracting parties generally, in terms of their geographic locations, external financial positions, and stage and nature of their economic development. It is considered particularly important that members of the Committee designate as their representatives persons of adequate qualifications and acquaintance with the problems to be dealt with by the Committee. Moreover, to the extent possible, the same persons should be sent to the several meetings of the Committee so that full use may be made of the experience that they will gain in conducting the consultations.

13. The Working Party considers, after consulting with many delegations, that a Consultations Committee of the following contracting parties would meet the objectives indicated in the preceding paragraph and recommends that the CONTRACTING PARTIES designate them as the members:

[List of members to be inserted]

It was agreed that the Consultations Committee should meet in Geneva.

14. Since contracting parties other than those comprising the Consultations Committee may be interested in participating in one or more of the consultations, they should be entitled, on their own motion or by invitation of the Committee, to be co-opted. The International Monetary Fund should be invited to be represented at the consultations.

15. At the conclusion of each consultation the Committee will draw up a report which will be circulated to the contracting parties forthwith and transmitted to the CONTRACTING PARTIES at the Twelfth Session.

16. So that the CONTRACTING PARTIES will have time to consider all the reports of the Consultations Committee during the Twelfth Session, it has been considered desirable to keep the number of consultations at the Twelfth Session to a minimum. In this connexion, such consultations as are held at the Twelfth Session should be carried out early in the Session. In order to ensure continuity, the Working Party suggests that the Consultations Committee carry out the consultations held at the Twelfth Session.
ANNEX A

June-July 1956

[List to be inserted]

Immediately Before Twelfth Session

[List to be inserted]

Early in Twelfth Session

[List to be inserted]
I wish to inform you that the CONTRACTING PARTIES, acting under the first part of the first sentence of paragraph 4(b) of Article XII, have decided to invite the contracting parties applying import restrictions under Article XII to consult with them, such consultations to take place between the close of the Eleventh Session and the close of the Twelfth Session.

Accordingly, I have been directed to invite the International Monetary Fund to consult with the CONTRACTING PARTIES pursuant to paragraph 2 of Article XV in connexion with each of these consultations, and to transmit to you the attached provisional timetable for these consultations.

The Fund will be notified of any changes in the dates by which the consultations will take place and consequently the time by which the CONTRACTING PARTIES will wish to receive the relevant material from the Fund. Meanwhile, I should be grateful if you would inform me of the Fund's acceptance of this invitation to consult, and of any changes the Fund might wish to make in the timetable or in the related arrangements.
ANNEX C

PLAN FOR CONSULTATIONS TO BE HELD IN 1957
UNDER ARTICLE XII:4(b)

I. Balance-of-Payments Position and Prospects

1. Balance-of-payments situation and prospects; factors affecting the balance of payments.
2. Level of monetary reserves and expected movements in reserves; special considerations affecting the availability of or the need for monetary reserves.
3. Effects of the restrictions on the balance of payments; expected effects on the balance of payments of any relaxation or elimination of the restrictions.
4. Expected duration of the restrictions; prospects of relaxation or elimination.

II. Alternative Measures to Restore Equilibrium

5. Internal fiscal and monetary measures to preserve or restore equilibrium.
6. Long-term measures (e.g. to raise productivity and export capacity to reduce structural disequilibrium or rigidities).
7. Other measures which may help to restore balance in international payments.

III. System and Methods of the Restrictions

8. Legal and administrative basis of the restrictions; methods used in restricting imports; categories of goods, and proportion of imports covered by each method used.
9. Treatment of imports from different countries or currency areas.
10. The use of state trading or governmental monopoly in imports; restrictive operation of such régimes.

IV. Effects on Trade

11. Protective effects of the restrictions on domestic production; difficulties or hardship that may be expected upon relaxation or elimination of the restrictions.
12. Steps taken to reduce incidental protective effects of the restrictions; steps taken to minimize the difficulties of transition to the stage where balance-of-payments restrictions may be eliminated.
13. Steps taken to avoid unnecessary damage in accordance with Article XII:3(c)(iii).