CONSULTATIONS UNDER ARTICLE XII: 4(b)

Preliminary Draft Report on the Consultation with Austria

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1955, the Consultations Committee has conducted the consultation with Austria under paragraph 4(b) of Article XII.

2. The Committee had before it:

   (a) a basic document prepared by the secretariat in collaboration with the Austrian authorities describing the system and methods of the balance-of-payments import restrictions in operation in Austria. The document also contains a statement under Part II "Effects on Trade", submitted by the Austrian authorities;

   (b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Committee followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES invited the International Monetary Fund to consult with them in connexion with this consultation with Austria.

As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its consultation with Austria concluded on 12 October 1956. The results of the Fund's consultation with Austria are reproduced in document QRC/4.

Spec/71/57
5. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement supplementing the Fund documentation with respect to the position of Austria. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its 1956 consultation with Austria which was concluded on 12 October 1956. The Fund's 1957 consultation with Austria has not yet been completed, although it is anticipated that it will be concluded shortly.

"As some time has elapsed since the conclusion of its last consultation with Austria, the Fund has also provided a supplementary paper on Austria dated 3 May 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the 1956 consultation, and the results of the 1956 consultation have been distributed to the members of this Committee.

"With respect to Section I in the Plan for Consultations, relating to balance-of-payments position and prospects, pending the conclusion of its 1957 consultation with Austria, the Fund sees no reason to alter the appraisal of the situation contained in the results of its 1956 consultation which have been transmitted to the CONTRACTING PARTIES.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Committee is drawn to the results of the last Fund consultation with Austria. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Austria

6. Recent years had witnessed a substantial strengthening of the basic structure of the Austrian economy which had now become even more viable than that which existed before 1938. A rapid increase in economic activity had been taking place and employment, subject to rather sharp fluctuations, was at present satisfactory. In spite of the difficulties created by events in Hungary and the economic repercussions of the Suez crisis, inflation had been kept under control. On current account the balance of payments had shown a surplus in 1956, compared with a deficit in the previous year, and had thereby
contributed to a rise in the monetary reserves of the National Bank. On first examination, it might appear surprising that, in spite of these favourable developments, Austria maintained vis-à-vis the United States and Canada a level of liberalization which amounted to only 40 per cent of private trade in 1953, compared with a corresponding percentage for the OEEC countries as a whole of 61 per cent. However, the balance-of-payments situation could not fully and accurately be assessed without examining the economic facts on which the favourable developments were based.

7. The balance of payments deficit, which amounted to $53 million in 1955, was converted into a surplus of $52 million in 1956. This reversal was accounted for mainly by the proceeds of loans from the International Bank for Reconstruction and Development ($25 million) and from United States agricultural surplus credits ($22 million). Thus the balance of payments was not in surplus, but merely in equilibrium. This was undoubtedly satisfactory, but it had to be considered whether this situation was due to permanent rather than to unstable and non-recurrent factors.

8. In spite of a good harvest the trade deficit was still considerable in 1956, and totalled about 3 billion Austrian schillings. Excluding tourism, the deficit on services account was 203 million schillings. The equilibrium of the balance of payments could only be attained thanks to the tourist revenues, which exceeded 3 billion schillings. As for the current year the National Bank had forecasted a trade deficit including deliveries to the USSR under the State Treaty of $162 million and a surplus on service account including tourism of $118 million. With net capital inflow the balance of payments would again be in equilibrium. Results so far achieved, however, were not very encouraging, and during the first four months of 1957 there had been a trade deficit of $17 million as against only $43 million in the equivalent period of the previous year. The Austrian representative therefore entertained doubts whether the expectations of the National Bank were not rather too optimistic.

9. Experience of the last years leads to the following general conclusions: the trade balance will remain passive because of the structure of Austrian foreign trade and because of the compensation deliveries in the form of
unrequited exports which had to be made to the USSR in accordance with the State Treaty and which would for six years amount to 1.1 billion schillings and for four years thereafter to about 500 million schillings. The capital balance will show a deficit owing to an increasing burden from the servicing of foreign debts. The invisibles balance, without tourism, which showed a deficit in the past will be equilibrated at the best. Thus tourism will be the only important factor which may bring about an equilibrium in the global balance of payments. But incomes from tourism were of a special, rather uncertain, nature, and depended on the international political situation, weather conditions and the like. Taking this projection into account the Austrian representative concluded that although particular concern did not seem justified at the time, the balance-of-payments position would, in future years, remain precarious and would dictate the need for a cautious commercial policy and a progressive relaxation of restrictions in order to avoid being forced to rescind liberalization measures.

10. Efforts in the field of liberalization of trade had to be judged in the light of certain factors, which, although connected with balance-of-payments difficulties, were of a rather particular character. Since 1918, the Austrian economy had undergone three major structural modifications; after the second world war Austria had lost a great part of its markets in Eastern Europe which, before 1938 accounted for about 33 per cent of total trade. Austria was considered up to 1952 as a structural debtor of EPU. It is only since two years that this country has recovered her full political and economic sovereignty. These facts were enumerated not in order to plead for extenuating circumstances but in order to show that Austria had to make special efforts, in order to make up for lost time and to get in line with the more advanced countries. In spite of a later start with the reconstruction programme, and notwithstanding the political, economic and psychological difficulties which arose from a quick increase of liberalization, Austria had liberalized imports from OEEC countries to the extent of 90.3 per cent of private imports.
11. Parallel steps to free trade on a world level and with the United States and Canada, hampered by the inconvertibility of currencies, had been taken within the limitations imposed by the balance-of-payments position. The External Trade Law which came into force on 1 December 1956, had further increased the liberalization of trade, vis-à-vis the rest of the world to about 27 per cent. On 15 October 1956, the free list of imports from the United States and Canada had been extended and the percentage of liberalization raised to 40 per cent of private imports from these two countries in 1952. This level of liberalization, while appearing low at first sight, nevertheless compared favourably with that achieved by other countries in a far better economic position than Austria. Raw materials and manufactured goods were liberalized to levels of 88.1 and 86.8 per cent respectively. In the food and feedingstuffs sector, however, liberalization was only 4.5 per cent. This low percentage did not reflect a more protectionistic policy than that followed by other countries, but resulted from the maintenance of import controls on wheat and maize which were mostly under State-trading in numerous other countries. These two items accounted for approximately 20 per cent and 23 per cent of liberalization respectively in the food and feedingstuffs category. The 40 per cent overall liberalization did not indicate therefore the real progress that had been made with the removal of quantitative restrictions. For motives of internal and external policy, it was unfortunately not possible to free these two items. As Austrian farms were mostly of a small size, and did not as a rule permit the extensive use of machinery, productivity could not easily be improved. On the other hand the maintenance of price stability was of paramount concern to farmers and consumers alike. The freeing of imports of maize constituted a special problem as it would further an overproduction of pigs, which in its turn would lead to an excessive fall in meat and other agricultural prices, and disrupt the whole agricultural economy. As far as commercial policy is concerned a liberalization of imports of wheat and maize would hemper the sales of agricultural products of some of Austria's Eastern European trading partners, and thereby adversely effect Austrian industrial exports to these countries.
12. The representative of Austria then announced that in accordance with the policy of progressive trade liberalization a new dollar free list containing about 400 tariff items and parts thereof—among which oilseeds, spelt, canned fruit, cheese and liquors—would in the near future be submitted to the Council of Ministers. This additional list could be expected to come into force on 15 July 1957.

13. In the field of imports still subject to quantitative controls, his Government had followed a very liberal licensing policy. Notwithstanding the high liberalization level, vis-à-vis OECD countries, imports from North America had, since 1954, expanded much more rapidly. The share of that area in total Austrian imports had increased from 10 per cent in 1954 to 12 per cent in 1955 and 14 per cent in 1956. The trade deficit with North America had, in the meantime, risen from $33 million in 1954, to $66 million in 1955 and $84 million in 1956, and in the four first months of the current year, it had reached $38 million with the United States alone. Although increased purchase of raw materials were admittedly playing a large rôle, imports of other commodities had also expanded considerably. These increasing trade deficits gave rise to apprehension since it seemed difficult to keep them within limits which would not endanger the equilibrium of the overall balance of payments, this all the more because of the lack of convertibility with surpluses in other directions. The structure of the Austrian industry, with the prevalence of medium and small-size enterprises, and a wide range of export commodities, rendered marketing in North America particularly difficult. To that must be added the disadvantageous geographic location of Austria and consequential increased shipping costs. There was also a deficit on service account with the United States and Canada which was mainly due to the fact that the percentage of North American tourists visiting Austria was still relatively low.

14. It seemed necessary to mention some factors of internal policy which influence the balance of payments and commercial policy. As the Austrian economy was, in a large measure, dependent on foreign trade, and would become increasingly so should the projected free trade area come into being,
her competitive strength in world markets would remain a primary concern. In a number of fields, Austrian production was not yet in a position to face international competition, owing to economic consequences of political events in the last decades and the necessity to integrate the Eastern zone of the country in the national economy. This process of assimilation was taking the form of rationalization and conversion of industries which involved considerable investments, which, on account of the narrowness of the domestic capital market, was a very difficult financial problem. Investment was, for example, necessary in the oil industry, where production was declining owing to the exhaustion of fields actually under exploitation. New prospecting would involve considerable expenditure. These investment programmes would unfavourably influence the balance of payments, as a high proportion of machinery would have to be imported from abroad.

15. The Austrian representative concluded by saying that his Government would pursue its liberalization programme with caution, in order to avoid a deterioration in the balance of payments. The straightforward elimination of all quantitative restrictions would upset the present equilibrium and disturb the further development of the economy. In view of the late commencement of the reconstruction of the Austrian economy compared with other Western European countries it was clear that no excessive caution had been exercised hitherto, as it was possible to get into line with more advanced countries. In the issue of licences as well as in the negotiation of bilateral agreements, interests of third countries had been taken into account. His Government hoped to be in a position to abolish all quantitative restrictions in not too distant a future, as soon as economic conditions would allow it, but could not outline a time-table for such measures. Any trade partner experiencing difficulties in its trade with Austria would be most welcome to approach his Government on a bilateral basis with a view to discussing any problems that might have arisen. As in the past Austria would pursue her policy of harmonizing further liberalization with the progressive stabilization of the balance of payments, while avoiding a dislocation of the economic structure, which is still in full development.
16. Several members of the Committee thanked the representative of Austria for his informative statement, which had focused attention on the difficulties with which the Austrian Government was confronted and had shed considerable light on some particular aspects of its balance-of-payments difficulties. It was particularly gratifying to note that in the previous years difficulties had been dealt with largely by internal measures of monetary and fiscal policy. They expressed the hope that further improvements in the financial situation and the continued stability of the Austrian economy would permit the progressive removal of quantitative restrictions and in this connexion the announced measures of further dollar liberalization were particularly welcome.

17. The representative of France thought that it was a wise policy to exercise caution in matters of trade liberalization. The experience of his Government showed that balance-of-payments positions could be reversed extremely rapidly.

Balance-of-Payments Situation and Prospects

18. One representative enquired about the reasons for expecting a less favourable balance-of-payments situation in 1957. Did not the developments which had been outlined in the introductory statement and in particular the increase in foreign exchange reserves permit the Austrian Government to approach the future with confidence? Even if receipts from foreign capital were not of the same nature as those accruing from current transactions they could still to a certain extent be relied upon in the future. As for exchange incomes from tourism, Austria could certainly expect to benefit from the current expansionary trends in this industry. The Austrian representative replied that on the basis of the first four months of 1957 estimates made by the Austrian National Bank seemed somewhat optimistic. The forecast for the deficit on goods account of $117 million (deliveries to the USSR excluded) was likely to be too optimistic, since in the first four months of the current year the deficit already amounted to $67 million i.e. an annual rate of $201 million. The National Bank had anticipated an increase in foreign exchange earnings from tourism of somewhat more than 25 per cent. At this stage such estimates seemed in any case not too cautious. He further indicated that while reserves had risen in absolute terms, when compared with the present
rate of imports, they had in fact declined since the current level represented only 4.8 months of imports instead of 6 to 7 months which had been the case previously. The representative of Canada then pointed out that such a reserve position compared very favourably with that of his country.

19. In reply to a question concerning the reasons for the rather marked upturns and downturns in the balance of payments, the Austrian representative explained that from 1946 to 1952/53 the reconstruction process resulted in a high level of imports while exports were very low. The considerable deficit incurred in that period was met by an extension of the drawing rights in the EPU mechanism and by borrowing from other sources. From 1952 onwards the balance of payments was nearly equilibrated and exports expanded rapidly thereby facilitating the task of stabilizing the Austrian currency. As a result of the improved competitive position of Austrian products on world markets a surplus was achieved with the EPU area and the EPU quota for Austria increased. Partly as a consequence of the monetary expansion resulting from a high level of exports, inflationary pressures again developed which, with the further increase in investments and extremely rapid economic development, led to a deficit vis-à-vis the EPU area. Stocks of merchandise were run down to a considerable extent so that the commercial deficit did not in fact reflect the real underlying imbalance. The situation was reversed by the adoption of credit controls and a reduction in Government expenditure. In 1955/56 new inflationary pressures of a milder nature appeared which were for a part caused by budgetary deficits. By the end of 1956, however, inflation had almost been checked and with the adoption of cautious budgetary policies all dangers of excessive monetary expansion seemed to have been removed.

20. In response to a question, the Austrian representative indicated that the upward movement of prices and wages was a general phenomenon in many countries and was not limited to Austria. These inflationary pressures, which resulted partly from over full employment, were perhaps stronger in Austria where, owing to the situation during the occupation of the country, price levels were not yet in full conformity with those of world markets. The Austrian authorities had been aware of these inflationary developments and had taken steps to cope with them. A "Price Wage Board" had been created to deal
with demands for price and wage increases and the Ministry of Finance had concluded a Credit Control Agreement with the credit institutions to reinforce the disinflationary policy. Some decline in prices of imports had helped to restore stability.

21. When asked whether Austria had structural deficits in her trade with the EPU area, the Austrian representative explained that for several years Austria had incurred trade deficits with the EPU which, however, did not fully appear in the monthly settlement figures of the EPU. Indeed, bilateral settlements not handled by the agent were effected with sterling purchased for dollars. Rather than use the credit facilities of the EPU, his Government preferred to settle all deficits in gold or dollars. He estimated that the deficit on goods and service account was in the order of magnitude of $40 million a year. The representatives from Canada and the United States then pointed out that the use of dollars to settle deficits with the EPU area confirmed what had been said previously, namely that the need to draw distinctions between settlements in different currencies was rapidly diminishing. This also showed that the maintenance of discrimination in import restrictions was no longer justified.

22. One member of the Committee wished to stress the fact that the discussion had once more demonstrated the need for balance-of-payments figures broken down by currency areas. The representative of the International Monetary Fund recalled that on a previous occasion he had referred to certain limitations which frequently made it difficult to prepare statistical studies. Time had been too short to reproduce for 1956 the table appearing on page 23 of the background paper of the 1956 consultations which gave an area breakdown of the balance-of-payments figures.

23. Referring to the opening statement by the Austrian representative, one member of the Committee wished to know whether the increase in imports from the United States and Canada, which rose from $33 million in 1954 to $88 million in 1956, and the parallel expansion of imports from the OEEC countries and the sterling area, were in some way the result of import policies followed by the Government. The Austrian representative replied that the Austrian trade
policy was based entirely on commercial considerations. His Government wished to expand trade with all countries, because that was the way to maximise benefits from international division of labour and to reduce risks connected with excessive reliance on a few trade partners. Stagnation of trade with Eastern Europe and Latin America was due to the limited export possibilities of these countries, and to unsatisfactory payments systems. In regard to trade with Latin America progress had recently been achieved by Austria's decision to become a member of the multilateral payments arrangements of the Paris and Hague Clubs. Settlements with Argentina and Brazil could henceforth be effected in transferable sterling or in other EPU currencies. A further payments arrangement with Uruguay allows settlement in EPU currencies. The multilateralization of payments would undoubtedly lead to an expansion of trade with these countries.

Internal Fiscal and Monetary Measures

24. Members of the Committee invited the Austrian representative to comment, in the light of Austria's experience in the past two years, on the relationships between its commercial policy and the internal economy. It was suggested that the liberalization measures should have contributed, through lessening pressures on prices and wages, to the effectiveness of the internal measures designed to maintain equilibrium. The Austrian representative replied that in general, the freer flow of imports had helped in maintaining price stability. On the other hand, liberalization had created difficulties for certain sectors of the industry, e.g. textile which had been obliged to change to some extent their programmes of production. In general the Austrian Government was aware of the value of liberalization measures, along with tariff reductions, as means to reduce internal prices and costs. A member of the Committee, referring to the statement of the Austrian representative concerning the continuing balance-of-payments difficulties in 1957, enquired whether the Austrian Government had analysed the effects of the internal fiscal and financial measures recently taken, on its balance of payments. In his view the lowering of costs should have a beneficial effect on exports and the lessening of pressures on demand
for imports should equally contribute to an improvement in the balance of payments. The Austrian representative stated that his Government had not yet analyzed in detail the trade and economic figures for the first months of 1957. It would appear that the tendency which had become noticeable in 1956 for imports to be concentrated on consumer goods rather than capital goods had been going on to some degree. It would be premature, however, to draw conclusions from the preliminary figures for the first months of 1957.

25. In answer to a question relating to measures aimed at relating wage levels to productivity, the Austrian representative observed that although desirability of relating wages closely to productivity was generally recognized, it was an aim difficult to attain in practice; any increases in wages granted in one industry on account of a rise in productivity would be followed by claims for similar increases in other industries.

26. Members of the Committee welcomed the internal fiscal and monetary measures taken in Austria in the past two years and expressed the hope that these would contribute to the stabilization of the economy and to the easing of Austria's balance-of-payments difficulties.
System and Methods of Restriction

27. The Committee discussed the system and methods of the restrictions applied in Austria as described in the basic document prepared by the secretariat. In the course of the discussions the Austrian representative clarified certain ambiguities and supplied supplementary information. In answer to a question as to the competence and functions of the Advisory Council in the Federal Ministry for Trade and Reconstruction, the Austrian representative stated that the Council had no competence in matters of liberalization such as might be suggested by the statement in the basic document that "all matters of principle relating to foreign trade . . . . must be brought before the Council". The functions of the Committee were limited to considering certain types of transactions such as compensation arrangements and licensing of imports over and above established quotas. Import policy relating to liberalization etc. was considered by an Inter-ministerial Committee.

28. A member of the Committee noted that in addition to the agency of the Federal Ministry for Trade and Reconstruction, several other ministries and offices were empowered to issue import licences. He wondered whether in view of the fact that these bodies were generally more competent in matters relating to domestic production and would be less concerned with the balance-of-payments situation, undue emphasis would not be given to the interests of domestic producers as against those of importers and consumers. The Austrian representative replied that these licensing authorities, though each was competent in its special field, were expected to act in the general interest of the nation rather than that of a special sector of the economy. The Austrian administration was compact enough to ensure adequate co-ordination, and any problems that might arise could always be easily solved by inter-ministerial consultation. The distribution of authority among different ministries should therefore not give rise to the fear that protectionist considerations would dominate in the administration of import policy. Referring to the statement in the basic document that "Every importer is entitled to file applications which must be treated according to uniform criteria", a member of the Committee enquired whether these criteria
related to domestic production. The Austrian representative replied that, as was more accurately reflected in the French text of the basic document, the statement was merely intended to indicate that no differential treatment was accorded to different importers.

29. Representatives from the dollar area pointed out that no exchange permit was required for imports from CEC countries, whereas in the case of imports from the dollar area an importer must obtain an exchange licence in addition to an import licence. They expressed concern about this differential treatment and expressed the hope that the Austrian Government might dispense with this additional formality which might have some discriminatory effects. In reply, the Austrian representative assured the Committee that the exchange permit requirement was a mere formality designed to facilitate statistical control of dollar payments. In the present payment circumstances it was still necessary to ensure that dollar payments were not made for imports originating in non-dollar countries. Exchange licences were issued automatically and should therefore have no restrictive effects on trade from the dollar area. The Austrian delegation would, however, be prepared to bring the views expressed at the Committee on this point to the attention of the competent Austrian authorities.

30. A member of the Committee commented on the general system of import control in Austria which involved licensing functions distributed among several ministries and an advisory council with a large membership, and expressed concern about the complexity of this administrative set-up. It was felt that some simplification of the system would be beneficial to the trade interests. The Austrian representative stated that the apparently complicated system had been considered necessary in the light of internal circumstances. He would assure the Committee that it involved no undue delay in the consideration of licence applications, which in all cases were decided upon within three weeks.
Treatment of Imports from different Sources

31. The representative of Australia noted that different import regimes applied to OEC countries and other countries in the EPF area and expressed the hope that the Austrian Government might find it possible in the near future to extend the treatment now accorded to the former to countries in the latter category. The Austrian representative replied that although there would be no difficulty in extending OEC treatment to certain countries in the EPF area outside Europe, there were difficulties in doing so in respect of certain other countries. The representatives of Australia and Austria agreed on the fact that the trade relations between the two countries at present did not give rise to any specific problems, and that they would engage in direct discussions on any matters affecting their trade.

32. The basic document stated (on page 11) that "Commodities which are licensed free under the External Trade Law must be treated in accordance with that law even though they are specified in the OEC negative list". A member of the Committee wished to know whether this involved discrimination against OEC countries. The representative of Austria stated that there were only one or two commodities which fell within this exceptional category and that even in these cases the additional requirement related only to the allocation of currency.

33. It was noted by members of the Committee that the bilateral commitments entered into by Austria, as described in the basic documents, might involve undue discrimination against non-partner countries, and the Austrian representative was invited to comment on the effects of such arrangements and the scope of the trade covered. Specifically, a representative wished to know whether goods covered by bilateral agreements could equally be licensed for importation from other countries. The Austrian representative replied that in principle, as noted in the basic document, it was irrelevant to the consideration of a licence application from what country an import should be made. The licensing of imports was generally guided by commercial considerations. Even though quotas for a given commodity were provided in bilateral agreements, imports from other sources could always be made if
supplies from such sources should prove more advantageous; imports from bilateral sources would be preferred in cases where the supply conditions were equal. Furthermore, in general, the total of bilateral quotes did not cover the import needs of Austria so that there was enough leeway to take into consideration export interests of countries with which no quota agreements existed.

34. A member of the Committee pointed to the rather high percentage of imports under trade agreements, and wondered why more use was not made of other régimes such as global quotas. The Austrian representative said that in the system of bilateral quotas had been proved useful so far and Austria, at the present time, saw no necessity to replace it by global quotas. However, the introduction of global quotas for certain agricultural products was under study. Other members of the Committee thought that global quotas, especially if in the sense of quotas applying to imports from all sources, were a useful way to reduce unnecessary damage to exporting countries. The Austrian representative replied that the methods used in restricting imports were under constant review. Although he could give no commitment as to the use of any specific technique, he would undertake to bring the views expressed at the Committee on this point to the attention of his Government. Certain members of the Committee emphasized that to derive the full benefit of any such improvement, global quotas must be really "global", in the sense of applying to all countries of the world.

Restrictions on agricultural Products

35. The basic document mentions (on page 6) "special systems" of control and regulation applying to agricultural products and notes (on page 7) that in fixing prices for import milk and dairy products, account was taken of domestic production. Referring to this, a member of the Committee requested the Austrian delegation to supply some statistics to indicate the proportion of imports and local production in relation to total consumption, and asked whether import duties were included in the calculation of import prices. Further, it was asked what were the internal market conditions to be fulfilled and how licences were distributed among the sources of supply.
The Austrian representative replied that for many of these products, actually no import duty was levied. The Ministry of Finance had the power to suspend or to reduce among others the tax on butter, lard, meat and cheese. The equalization tax had been applied so far only to pork meat from Eastern European countries. This system of equalization tax had been provided in order to stabilize prices and to overcome certain difficulties met in agricultural production in Austria, partly because of the high costs prevailing in domestic production, but principally because of the policies of subsidizing agricultural production and exports in other countries. As to the question of distribution of imports among different sources of supply, the Austrian representative referred to the statement in the basic document to the effect that imports were directed exclusively by commercial considerations.

Effects of the Restrictions

36. The Austrian representative was invited to supply information on the rôle played by price considerations in the licensing of imports. In reply the Austrian representative referred to the statement in Part II of the basic document that "quantitative restrictions applied in Austria have the purpose to protect the balance of payments and partly also to protect certain productions. For the time being, this protection seems necessary with regard to the economic development of Austria as well as for geographical, social and other reasons ...." The policy of the Government was to provide certain incentive to particular domestic industries which were considered to deserve development. In such cases, licences might be refused in order to provide the desired advantage. Applications for licences in such cases were considered on their individual merits, and there were no definite criteria as to the price margin between imported and local products.

37. A member of the Committee wished to know whether and to what extent the Austrian Government would invoke the Decision taken by the CONTRACTING PARTIES on 5 March 1955, with respect to those restrictions which were being maintained partly for protective reasons, and whether any such action would relate to most of the items in the negative list or whether further liberalization could be expected to remove many items from that list before
an application was submitted under the "hard core" waiver. The Austrian representative observed that protectionism in Austria was closely linked to the internal economic policy, which covered, among other things, the integration of the eastern territory of the country; industries recovered after the evacuation required reorganization and development, and the task of rationalization of production was still being examined by the Government. The general situation, after two years of examination, was not yet clear enough to the Government and it was difficult at this stage to indicate which items could be liberalized and which items would require "hard core" treatment in the context of the General Agreement.

38. A member of the Committee noted that the tariff negotiations held in 1956 had brought out the fact that the elimination of quantitative restrictions on imports in Austria had been accompanied by increases in customs tariffs, in some cases to prohibitive rates. The Austrian representative was invited to comment on this fact, in the light of the statement in Part II of the basic document concerning the establishment of a new customs tariff. The Austrian representative stated that there was no direct link between the quantitative restrictions and the new tariff, which was at any rate not yet in force. The work on the new tariff had been started some years ago when the obligations undertaken by Austria with regard to quantitative restrictions had not been as they were today. The modern nomenclature contains a number of items not existing in the present tariff, which had been adopted more than thirty years ago and had now become obsolete. The general purpose of the new tariff was to ensure stability for the Austrian economy.

39. Commenting on the licensing policy in relation to the domestic economy, members of the Committee stressed the desirability of admitting imports as freely as possible when this would have the effect of reducing internal costs and ensuring price stability. In so far as permitted by the balance-of-payments situation, it would be in the interest of both Austria itself and other contracting parties if due consideration were given to price margins between foreign and domestic products, so as to avoid high costs of production.
40. At the request of the Committee, the Austrian representative described in detail the EPU payments mechanism and explained that Austria was not interested in availing itself of the credit facilities provided in EPU, which amounted only to 25 per cent of the monthly deficit while 75 per cent had to be settled in any case in gold or dollars; such credit was of a short-term nature and involved the payment of interest, and was therefore of little value to Austria in present circumstances. Consequently, it has been the recent practice of Austria to purchase gold or convertible currencies for settlement in EPU. This practice could therefore not be interpreted towards convertibility. Members of the Committee remarked that in these circumstances, the Austrian Government should find little advantage to be gained from the payments point of view in discriminating against imports from the dollar area. It was to be hoped that the remaining discrimination would be reduced and eventually removed and that the items now subject to discriminatory restrictions would figure in the new liberalization list to be announced in the near future. The Austrian representative said that his delegation took due note of these views which, however, were in general agreement with the policy being pursued by his Government.

41. The United States representative stated that producers and exporters in his country were concerned about the lack of liberalization on products on which Austria had granted concessions in the tariff negotiations held under the aegis of GATT, and about the difference in treatment of imports of dollar and non-dollar origin, especially in the agricultural sector. His delegation would wish to discuss with the Austrian delegation problems relating to specific items. His Government was fully aware of the difficult problems faced by Austria but would hope that further improvements of the balance-of-payments situation would enable further reductions in restrictions and the degree of discrimination. The internal difficulties mentioned by the Austrian representative were important for the CONTRACTING PARTIES in their implications for the General Agreement. It was to be hoped that these difficulties would be amenable to the internal measures which had been applied and which might be extended. It would be in the interest of all concerned if the Austrian Government would avoid the continued use of quantitative restrictions since such restrictions, if applied for long periods, generally had a tendency to become permanent.