Working Party on the Consultation with France

PROVISIONAL TEXT OF INTERIM REPORT OF THE WORKING PARTY

1. The Working Party was appointed by the Intersessional Committee at its meeting on 28 June 1957, at which it took note of the modifications introduced by the Government of Iran on 17 June in its régime of import restrictions and considered that these modifications constituted a substantial intensification within the meaning of paragraph 4(b) of Article XII. The French Government was therefore invited to enter into consultation within thirty days as required by the provisions of that Article.

2. In accordance with the instructions given to it by the Intersessional Committee (see IC/SR.32, p.4), the Working Party met, under the chairmanship of Mr. L. Cozzi (Italy), on 16 and 17 July in Paris to initiate on behalf of the CONTRACTING PARTIES the consultation with the French Government. In the course of the consultation, the Working Party heard a statement from the head of the French delegation the text of which is annexed to this report (Annex II), as well as statements of members of the French delegation on the various points covered in the "Plan for Consultations under Article XII:4" (Annex I). A summary of these statements is appended to this report (Annex III). Annex IV contains a memorandum of the French Government on internal financial and fiscal measures taken by France, and Annex V contains statistics, supplied by the French delegation at the request of the Working Party, showing the balance of trade in 1955 and 1956 with different currency areas. The Working Party heard also a statement from the representative of the International Monetary Fund to the effect that the IMF had completed the preliminary stage of its 1956 consultation with France and that it expected that the results of that consultation and the related documentation would be transmitted to the CONTRACTING PARTIES in time for the Twelfth Session.

Spec/89/57
Nature of the Balance-of-Payments Difficulties

3. The Working Party noted that, according to the figures given by the French delegation, the deterioration in the balance-of-payments position of France in 1956 had been principally due to a substantial increase in the trade deficit, the deterioration on the trade account amounting to about $950 million. It noted further that, during the first three months of 1957, the deterioration had continued and had become even more serious than during 1956. The Working Party agreed that exceptional circumstances such as the effects of frost on the import requirements for and the export availabilities of cereals were one factor tending to cause the deterioration in the balance of payments, but noted that these circumstances did not appear to be sufficient to account for the total deficit during 1956 or in the early months of 1957. The French delegation stressed, in this connexion, that although the direct effects of frost on the French balance of trade in 1956 did not exceed about $300 the indirect effects of frost and other accidental factors were probably greater in France than they would have been in any other country. It recognized, however, that the French Government deliberately tried to maintain the rate of expansion of the productive capacity, even though this might involve some temporary decline in its foreign exchange reserves. It was pointed out by members of the Working Party that the French balance-of-payments difficulties appeared to be of a domestic origin, the disequilibrium being caused by a general expansion of internal demand. It appeared that the rate of expansion aimed at in the policy of the French Government and the consequential rate of rise in the standard of living were higher than could be afforded by the available resources. The French delegation, while admitting that the task of reconciling the balance of payments and economic considerations was a difficult one, noted that the French Government had to take into account the psychology and the traditions of the French public.

4. According to the statements made by the French delegation the prospects for the longer-term future appeared to depend on the sound expansion of industry, for example in agriculture and the chemical industry. In this connexion, some members of the Working Party pointed out that the French Government should ensure that this expansion of production would be conducted in a context of
free competition and without artificial assistance on the part of the public authorities. The expected expansion in the agricultural field and in particular in the exports of cereals was a source of concern for certain delegations. The French delegation indicated that the French Government did not contemplate to foster an artificial expansion of agricultural production and export, but to encourage a shift in production towards products such as meat, which could be produced competitively in France. As regards wheat, some time would be needed before reconversion to other types of production took place, but there was no intention of developing an increased export surplus of cereals.

5. It was also pointed out that the development of the chemical industry in France, in particular the production of synthetic or artificial textile fibres, might create difficulties for countries exporting natural fibres. The French delegation explained that the intention was not to stimulate artificially the production of such fibres, or to reduce imports of natural fibres, but simply to stabilize such imports at their present levels while providing French consumers with the choice of such fibres similar to that enjoyed by consumers in neighbouring countries. These synthetic materials, such as fibres and rubber, would be utilized by exporting industries and it would not be in the interest of the French economy if they were produced at non-competitive prices or qualities. It was noted by the Working Party that the objective was not the only thing of interest to other governments; the means employed to achieve that objective were also of importance. The French delegation thought the fact that the French economy would have to be adjusted in the near future to fit into the broader framework of the European Economic Community would make it impossible for the French Government to encourage non-competitive production.

Alternative Measures to restore Equilibrium

6. The Working Party noted the statements made by the French delegation concerning the internal measures which had been introduced in order to restore the equilibrium in the balance of payments and the measures which have been taken by the French Government since 1955 to improve productivity and export capacity.
The Working Party was of the opinion that it would be in a better position to examine these problems when it had before it the documentation to be supplied by the International Monetary Fund. The point on which members of the Working Party would welcome further information included the extent to which the French Government was prepared to bring down internal demand to levels more compatible with the resources of the country. It would also be useful for the Working Party to have an estimate, in more precise and quantitative terms, of the cumulative effects of the measures already taken by the French Government to restore equilibrium. Certain doubts were expressed as to whether the measures taken would enable the restoration of such equilibrium within the time-limit of eighteen months as contemplated by the French Government, and the question was asked whether the French Government was prepared to introduce further measures if the measures now in force proved to be insufficient to achieve that purpose. The French delegation indicated that the French Government would have to consider this question when the 1958 budget was prepared on the assumption that the French economy would be stabilized next year on the level reached by the end of 1957.

**Nature and Scope of the Intensification**

7. Several members of the Working Party pointed out that the Special Temporary Compensation Tax which the French Government had introduced at the time when certain imports were liberalized was inconsistent with the GATT and should be withdrawn. In reply the French representative thought that there had been no change in the application of the tax as a result of the new import restrictions and that its continuance might not be a particularly appropriate matter for discussion by the Working Party. The French Government suggested that this tax could not be treated as a purely commercial measure. After further discussion, the Working Party noted that under the terms of a decision of the CONTRACTING PARTIES at their last session (BISD, Fifth Supplement, pp. 27-28), the French Government was expected to submit a report on the tax by 1 September next. This report would be examined by the Intersessional Committee which would then decide how further consideration of the matter should be handled.
8. The Working Party felt that the complexity of the import control system made it difficult to see clearly how it would work until the amounts of the quotas became known, and the view was expressed that, although the intention of the French Government was to reduce discrimination, the new system might introduce new discriminatory features. The French delegation agreed that the position would become clearer when the announcements concerning the import programme became available; it pointed out, however, that the new system would not be modified as far as contractual commitments or autonomous quotas were concerned. The main changes were that the ex-liberalized products would be covered by "global" quotas. As far as "Programme A" products (raw materials, basic agricultural products and certain equipment goods) are concerned, the quotas would be open either (a) for OEEC and other EPU countries and those in the transferable franc area, or (b) for these countries and the dollar area countries. As regards Programme B imports (consumer goods, semi-manufactures, agricultural products and equipment goods) the quotas would be open to all the countries from which the goods could be imported without limitation prior to 18 June.

Effects on Trade

9. The Working Party noted that for raw materials and certain equipment which were regarded as covered by Programme A, the imports would be limited to about 545 billion francs for the second half of 1957, as compared with actual imports of 600 billion francs in the second half of 1956, and that for the commodities included in "Programme B", the average reduction would be of the magnitude of 30 per cent. The figure of 545 billion francs was arrived at after considering the needs of the French economy and the stock position for the individual commodities, whereas the reduction with respect to Programme B was a result of a uniform rate of reduction on the various categories of goods, which would bring down the total imports under that programme to the 1955 figures.

10. It appeared difficult to estimate the effects of the new measures, particularly for raw materials, on the different currency areas, as the wider use of "global" quotas, including those for various currency areas,
would give a wider choice of sources of supply to the importers and commercial considerations might affect the geographical distribution of suppliers. It should be added, however, that insofar as contractual commitments had been entered into, there would be no change in the legal position or in the amount to be imported.

11. With respect to the maintenance of discriminatory measures vis-à-vis the dollar area, it was pointed out that the French Government might find it advisable to husband its limited exchange reserves in allowing its importers to buy in the cheapest market, irrespective of the currency of settlement. The French delegation pointed out that the discrimination would only exist when goods were available under the same terms from two or more currency areas but that the reasons which justified the maintenance of such limitation before 17 June were still relevant at the present time. The products under Programme B for which imports from the dollar area will be admitted were listed in the Notices to importers issued in the course of February 1957.

12. Some doubts were expressed by members of the Working Party concerning the adequacy of the measures taken by the French Government to conform to paragraphs 2 and 3 of the code of "Standard Practices" approved by the CONTRACTING PARTIES in 1950. Some members of the Working Party drew attention to the difficulties which had been experienced because it had not been possible to give any assurance to their exporters that due regard would be paid to legitimate trade contracts. The French delegation pointed out that as regards goods, a substantial part of which had been paid for or was covered by an irrevocable letter of credit, they would have been covered by an import document at the time of the payment and that no problem should arise. As regards goods "en route", the Customs Authorities have been instructed on 1 July to clear them if the accompanying transport documents gave sufficient evidence that the goods had been shipped before the date of suspension.

13. As regards prior contracts or orders for which no licence had been issued, the position was more difficult. The French Government had provided for the import of goods covered by bona fide contracts. No difficulties were expected as regards raw materials, in view of the nature and habit of the trade. For
other products, the French Government expected that the adoption of a system similar to that applied satisfactorily by the United Kingdom authorities would permit them to determine whether an import contract was _bona fide_. The statements made by the French authorities should provide the necessary assurances that the French Government would take due account of the legitimate interests of the exporters. Applications for licence related to prior contracts would receive priority within the limits of the quotas for the second half of 1957. The French authorities would also take into consideration the needs of seasonal trade, as well as individual cases of hardship in the application of the 50 per cent rule.

14. Several members of the Working Party wished to draw the attention of the French Government to the practical disadvantages of issuing licences valid for only three months instead of six as formerly. The French delegation stated that the Government was prepared to consider issuing new licences on a six-month basis. As regards the licences issued prior to 18 June, it would be desirable for the imports covered by such licences to be effected as soon as possible, in order to determine as early as possible the needs of the French economy. In any case the French authorities had already been considering hardship cases on an individual _ad hoc_ basis.

15. The members of the Working Party wished to have further information on the part to be played by the Technical Committees in the consideration of applications for licences. As regards Programme B, the French delegation indicated that from a legal point of view, the rôle of these Committees, which was limited to the consideration of Programme B imports, remains unchanged, but that in effect they would have a limited part to play as a consequence of the introduction of the system of global quotas and of the distribution of licences among importers on the basis of a representative period. The task of these Committees would be confined to certain questions such as the granting of quotas to newcomers.

16. The attention of the French Government was drawn to the desirability of communicating to the other contracting parties the text of the administrative measures which it might take for the purpose of implementing the import programme. Such a communication would give them some indication of the spirit in which the principles set forth by the French authorities in their communications and statements to the Working Party were in fact being applied.
Concluding Remarks

17. The Working Party considers that the preliminary exchange of views which has taken place between the French delegation and the other members has been very useful and has enabled it to have a clearer view of the French economic and financial situation. It was particularly gratified in having the opportunity of discussing in a free and frank manner all the points covered in the plan for consultation with the high officials whom the French Government had designated to participate in these discussions, and it was confident that the views expressed by the members of the Working Party would be taken into account by the French authorities in the framing of their future policy. The French delegation expressed its appreciation of the frank and co-operative spirit in which the consultation had been conducted and assured the other members of the Working Party that their views would be duly transmitted to the French Government.

18. The Working Party is, however, of the opinion that because of the time-limit imposed by the provisions of the General Agreement, this preliminary exchange of views could not be considered as having covered the entire field. The Working Party had not yet received from the International Monetary Fund the necessary documentation on the nature of the balance-of-payments difficulties of France or its views on the remedial measures so far taken. The information so far available did not entirely dispel the doubts which some members might be entertaining on certain major points. It was not clear for instance whether the remedial measures applied or under consideration could be expected to restore equilibrium within a reasonable time-limit. Some members also felt that the French Government was pursuing various objectives which might be difficult to reconcile and that the French internal policies might not take sufficiently into account the effects which they might have or fail to have on the French balance-of-payments situation.

19. The French delegation had given to the Working Party detailed information concerning the import policy to be followed in the immediate future, but in the absence of the relevant details of the import programme, the Working Party felt that it was difficult for it to have a clear picture of the operation of the new policy. It would therefore be necessary for it to examine at a later stage the details of that programme when it had been approved by the French Government, and it might be more useful to resume its discussion when this programme had been in operation for some time.
20. The Working Party recommends that the consultation with France which has been initiated should not be considered as having been concluded and that it should reconvene in the autumn of this year, when fuller documentation is at its disposal. The Working Party would then complete the consultation and submit a final report to the Intersessional Committee.

ANNEXES

(To be included)


II. Statement by the Head of the French delegation.

III. Statements by members of the French delegation.

IV. Memorandum by the French delegation on "Measures of Rehabilitation taken by France in regard to Budgetary Expenditure, Taxation and Credit".

V. Balance of Trade of France with different Currency Area in 1955 and 1956.