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 France on 17 June in its regime 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 30 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 as Annex III. 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 the results of that consultation and the related documentation would be transmitted to the CONTRACTING PARTIES before September next.

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 1,950 millions. 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, to a certain extent, this deterioration was due to exceptional circumstances such as the effects of frost on the import requirements for and the export availabilities of cereals. The effects of the frost on the French balance of trade in 1956 was estimated by the French Delegation at about 300 millions dollars. It noted, however, that these exceptional circumstances did not appear to be sufficient
to account for the total trade deficit during 1956 or in the early months of 1957. This was admitted by the French Delegation, which recognized that the French Government had deliberately tried to maintain the rate of expansion of the productive capacity, even though this would involve some 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 and the rate of rise in the standard of living aimed at in the policy being pursued by the French Government were both higher than warranted by the current balance-of-payments situation. 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 of the French public. Although exceptional circumstances could not explain entirely the balance-of-payments difficulties which had been encountered, it was essential to note that, in the French context, the indirect effects of these accidental factors were probably greater than they would have been in any other country.

4. The prospects for the future appeared to depend on the expansion of exports, particularly in certain sectors of the economy such as agriculture and the chemical industry. In this connection, some members of the Working Party pointed out that the French Government should be sure 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 developing the use of synthetic fibres to the same extent as other 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.
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 and the GATT Secretariat. The points on which members of the Working Party would welcome further information included the extent to which the French Government was prepared to demand its general public to forego the benefit of a rapid increase in its standard of living, and its industry, to slow down its rate of expansion. 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 taken by the French Government to restore equilibrium. Certain doubts were expressed as to the feasibility of restoring equilibrium within the time-limit of 18 months as contemplated by the French Government and the question was asked whether the French Government were 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 would be prepared on the basis of a stabilisation of the French economy on the level to be reached by the end of 1957.

NATURE AND SCOPE OF THE INTENSIFICATION

7. Several members of the Working Party pointed out that the special compensation tax which the French Government had introduced at the time when imports were liberalized and which was inconsistent with its commitments under the GATT could hardly be maintained after the liberalisation measures had been repealed. The French Representative pointed out that there had been no change in the application of the tax as a result of the new restrictions and that the French Government considered that this tax could not be treated as a purely commercial measure. If the French Government should extend the scope of that tax, this would be part of the general scheme for remedial measures. As the Working Party was of the opinion that it would be in a better position to consider these remedial measures at a later date, it appeared more logical to defer until that time the examination of the temporary tax. The Working Party further noted that, under the terms of a decision taken by the CONTRACTING PARTIES at their last session, 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 determine whether the consideration of the measures taken by the French Government would take place in the Working Party on Consultation with France or in another place.
8. The Working Party felt that the introduction of two separate import programmes for essential raw materials, on the one hand, and other products (consumer or equipment goods, agricultural products and semi-manufactures) on the other hand, introduced a complication and made it difficult to see clearly how the system 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, and that the main change would be that the former liberalized products for the OEEC or for the OPEC and the dollar area would be merged, respectively, with the global quotas for the EPU and the transferable franc area, or with the global quotas for the OEEC, the transferable franc area and the dollar area, as far as programme A is concerned. As regards the various categories of liberalized products included in programme B, the new system would be that of global quotas open to all the countries for which such imports were formerly liberalized.

**Effects on Trade**

9. The Working Party noted that, for the commodities included in programme A, the imports would be limited to about 545 billions for the second half of 1957, as compared with actual imports of 500 billions francs in the second half of 1956, and that for the commodities included in Group B, the average reduction would be of the magnitude of 30%. The figure of 545 billions 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 on the different currency areas, as the wider use of global quotas, including 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. Moreover, the new régime would, in many respects, reduce the scope and intensity of the discriminatory measures which were in force prior to the suspension of liberalization measures.

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. The French Delegation pointed out that as regards goods which had been paid for a substantial part or were covered by an irrevocable letter of credit, these goods 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 Authorities did not expect difficulties in connection with the products included in Programme A, in view of the nature and habits of the trade. For the products covered by programme B, the French Government expected that the adoption of a system on past performances of the importers similar to that applied satisfactorily by the United Kingdom authorities to determine easily whether the importers, while keeping a check on imports effected by direct users or non-traditional importers. The statements made in writing and orally by the French authorities should provide the necessary assurances that the French Government would take due account of the legitimate interests of the exporters. The application 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% rule.

Although the French Government was not prepared to release to the public the detailed instructions given to the competent authorities, it intended to touch on this point in its future announcements to importers, and would have no objection if this Report and the documents attached on this point were communicated, on a confidential basis, to exporters.

14. Several members of the Working Party wished to draw the attention of the French Government to the practical disadvantages of the issue of licences valid for only three months instead of six as formerly. The French Government was prepared to consider issuing new licences on a six-months basis. As regards the licences issued prior to the 18 June, it would be desirable for the imports covered by such licences to be affected as soon as possible, in order to determine as early as possible the needs of the French economy. The French authorities, however, would be prepared to consider 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. The French Delegation indicated that from a legal point of view, the role of these committees remain without change, but that, in effect, their influence would be greatly reduced in view of the introduction of the system of global quotas and of the distribution of licences among importers of products included in programme B on the basis of the imports made by each importer during a representative period. The task of these committees would be confined to relatively secondary questions such as the granting of quotas to new comers or of priorities to contracts entered into before 18 June.

15. 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 in order to implement the import programme. Such a communication would give the contracting parties some indication of the spirit in which the principles set forth by the French Authorities in their communications and statements to the Working Party are in fact being applied.

CONCLUDING REMARKS

17. The Working Party considers that the preliminary exchange of views which had 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 those 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 cooperative 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 their views on the remedial measures proposed. 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 recent difficulties would not have been avoided if the French Government had taken earlier certain more vigorous measures to face the situation, or 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.

16. 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 actual quotas which would be included in that 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 necessary for it to examine at a later stage the details of that programme when it has 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 inititied on the 16 and 17 July 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 added.