ANNUAL REPORT (ABRIDGED)

For reasons explained in INF/57 the GATT annual report this year will be published in a shortened form.

Part I of the abridged report will deal with developments in commercial policy in 1957, sub-divided into the following four sections:

A - Customs Tariffs
B - Quantitative Restrictions
C - Bilateral Trade Agreements
D - Export Promotion

Part II of the report will describe the activities of the CONTRACTING PARTIES.

The various sections are now in course of preparation by the secretariat and, prior to publication, copies of the drafts will be distributed to contracting parties for comment.

The drafts of Sections C and D of Part I are attached hereto. Any contracting party wishing to make suggestions is requested to do so not later than 28 July 1958.
1. During the period under review several countries, particularly in Western Europe, have extended the area of transferability of their currencies to include a larger number of non-EEC countries outside the dollar area. Concurrently with this development a considerable number of bilateral payments arrangements were allowed to lapse, payments being placed on a transferable currency basis. The consequent diminution of the need for countries to achieve bilateral balance with individual trading partners, or to restrict imports from particular sources, has so far not been generally reflected in the pattern of bilateral trade arrangements. Some countries have been reluctant to relinquish their resort to trade agreements because they still see in them a means of maintaining exports that are important for their trade and sometimes of preventing a decline in the prices of their exports. On the whole, however, there was a reduction in the use of bilateral arrangements. Some trade agreements were allowed to lapse, or a number were renegotiated and put on a more flexible basis. The revision of bilateral agreements in the past year often involved the elimination of bilateral quotas or a reduction in their number. Sometimes it was agreed to extend on a reciprocal basis the benefit of measures of liberalization such as those applied to OEEC countries or of global quotas. To this extent the principle of non-discriminatory treatment for imports requiring payments in the same currency, or mutually transferable currencies, has been given fuller expression.

2. Insofar as new bilateral agreements were entered into, these have frequently been in the form of "goodwill agreements" containing indicative lists of goods which the signatory countries are prepared to import and export, without fixing the total value of the trade covered or value of specific commodities to be exchanged. That agreements of this nature have become more widely used reflects to a large measure the desire of primary producing countries to find new markets for their exports and to establish direct commercial contacts so as to dispense with the intermediary of distribution centres. Incidentally, whereas in earlier years even such "goodwill agreements" frequently included bilateral payments provisions, the new tendency has been to replace such provisions by arrangements to settle payments in transferable currencies. This development has been particularly noticeable in cases where a State-trading country is involved.

The principal developments in the use of bilateral agreements are described below.
3. A small proportion of intra-European trade has remained under restriction; a large part of this non-liberalized sector of imports continues to be governed by bilateral quota commitments. Available data do not permit an accurate assessment of the proportion of trade still covered by these arrangements, but it would appear that for most members of the OEEC this would not be more than 5 per cent of their imports from Western European countries; the percentage might be higher for Austria and France and in the case of Turkey it might be as high as 75 per cent. While the number of manufactured products covered by such quotas is not negligible, it is in the food and agricultural sectors that bilateral commitments figure importantly.

4. As noted in the previous section only limited progress was made in the elimination of the remaining quantitative restrictions in intra-European trade; similarly little change was seen in this network of bilateral arrangements. In most instances the existing agreements were merely renewed or extended, with perhaps the deletion from the quota lists of items which had been the subject of recent liberalization or of global quotas. This was the case with several agreements of Denmark and the Federal Republic of Germany. The tightening of import restrictions by France in 1957 did not lead to an intensification of bilateralism in trade; France's expiring trade agreements with other Western European countries were extended either on their previous basis, or with minor changes, for a period of one year. Import quotas expressed in French francs were adjusted in the light of the new effective rate of exchange.

5. In 1957 the Belgo-Luxemburg Economic Union and the Netherlands continued their policy of negotiating joint Benelux agreements with other countries, with a view to facilitating a common licensing policy and to reducing some of the remaining obstacles to the free circulation of imported goods within Benelux. At the end of 1957 joint Benelux agreements were in force with Austria, Denmark, Morocco, Norway, Portugal, Sweden, Switzerland and the United Kingdom. Several of the trade agreements between Member States of the European Economic Community were extended only until the end of 1958, the date by which, under the Rome Treaty, all bilateral quotas on imports within the Community should be replaced by global quotas open to all its Members.

6. Turkey's trade with Western European countries is still largely covered by bilateral trade agreements, which generally provide, among other things, for the liquidation of Turkish commercial arrears. As a rule, an agreed proportion of Turkey's receipts from each of its export commodities is credited to a special account for the settlement of such debts. The trade agreement with France contains a commitment by France to purchase certain quantities of Turkish tobacco, in exchange for which Turkey undertakes to authorize certain imports and to effect certain exports. Following the introduction in April 1957 of multilateral trade and payments arrangements with several Western European countries, Finland reduced the coverage of its bilateral quota.

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1 As indicated below Spain and Yugoslavia still conduct most of their trade on the basis of bilateral arrangements.
agreements with these countries. Transferable currencies were to be used even in cases where payments had hitherto been wholly or partly settled through bilateral clearing. Trade with countries not parties to these multilateral arrangements would continue to be conducted in accordance with the provisions of bilateral trade agreements.

7. The gradually widening transferability of Western European currencies has enabled Yugoslavia to modify its bilateral arrangements and to adopt more flexible methods of conducting trade and settling external payments. The payments agreement with the Federal Republic of Germany concluded in July 1956, whereby Yugoslavia was given access to the partly-convertible Deutsche Mark system, was followed by the conclusion in 1957 of similar arrangements for multilateral settlement with Denmark, Italy and Sweden. By special arrangements with a number of OEEC countries 10 or 20 per cent of Yugoslavia’s credit balances on its clearing accounts with these countries were made transferable. These developments considerably lessened its need for balancing bilateral accounts and enabled the use of bilateral trade arrangements of a more flexible nature. For example, the new agreement with Austria provided for unrestricted trade in specified products, and in the agreement with Sweden quotas were no longer provided for. On the other hand, in the first post-war trade agreement which Yugoslavia concluded with Spain in January 1958, balanced trade is still aimed at as payments are not generally made on the basis of transferable currency. Spain continued to conduct its trade on the basis of bilateral agreements providing for specific quotas and authorized transactions are settled through clearing accounts. Some of these agreements, however, are more flexible and require only a part of the proceeds of Spanish exports to be used for purchases in the partner’s country.

8. There was little change in 1957 in the number of trade agreements in force between the countries in Western Europe and those in Eastern Europe. Of particular significance were the trade and payments agreements which the Spanish Exchange Control Board concluded with the National Banks of Czechoslovakia, Hungary, Poland and Rumania, which were Spain’s first post-war bilateral agreements with State-trading countries. In Western Europe only Ireland has no trade arrangements with the USSR or any other Eastern European country.

9. In their negotiations with State-trading countries, several Western European countries have tried to provide only for such quotas as seemed to give real promise of fulfilment. In some cases this has led to a reduction in the targets of trade set in previous agreements. It was probably for the same reason that the new long-term agreement between France and the USSR provided that the USSR should place orders for most of the machinery and equipment on the French export list during the first year of its operation. Greater flexibility has been achieved in east-west bilateral agreements through the application, particularly by Scandinavian countries, of the OEEC liberalization list or of more limited relaxation measures; here again bilateral clearing schemes have often been replaced by arrangements for settlement in transferable currencies. Payments between the Federal Republic of Germany and countries in Eastern Europe are now settled in Deutsche Marks with limited convertibility. Italy has also extended the use of the transferable lira to cover payments with the USSR and certain other Eastern European countries. Following the adoption of this method of payments with Eastern Germany, Italy abolished its private
compensation arrangements with that country and substituted a system of global compensation. The agreement which France concluded with Hungary in October 1957 provided for the unrestricted entry into France of specified goods and for payments in transferable francs.

10. The gradual progress towards multilateral payments and the fact that the provisions of these bilateral arrangements are becoming less and less rigid should not, however, lead to the conclusion that all these agreements will soon be terminated. A certain number of countries still feel that bilateral agreements are necessary to guarantee the volume of their exports of specific products to State-trading countries and to protect their markets against unrestricted imports whose prices are not necessarily determined by production costs. In some instances, also the bilateral pattern of trade and the determination of the volume of trade both ways facilitate the settlement of outstanding debts. This is, inter alia, the case with a number of agreements concluded by France, Switzerland and the United Kingdom.

Asia, the Middle East and North Africa

11. In spite of the resurgence of balance-of-payments difficulties, Japan has continued to reduce its reliance on bilateral arrangements in the conduct of its trade and payments. Several of the remaining bilateral arrangements which aimed at a balanced trade and involved settlement of payments through open (clearing) accounts were replaced by agreements providing for settlement in convertible or transferable currencies, usually the pound sterling. Bilateral arrangements of this type now only remain in force with Egypt, Greece, South Korea, Taiwan and Turkey. Several of the new trade agreements concluded in 1957 were less rigid and exclusive than those which they replaced. In the agreements with Sweden and France, for example, Japan undertook to grant imports from these countries the same treatment as imports from sterling area countries; in return Sweden accorded Japanese goods the benefit of OEEC liberalization, and France undertook to establish quotas for certain Japanese goods and to permit imports of some other items without limitation as soon as it reintroduced liberalization measures. The agreement with Australia, which came into effect in July 1957 contains reciprocal assurances of non-discriminatory treatment in import and exchange control matters; in addition, Japan undertook to import certain quantities of Australian wheat and barley. In December 1957, Japan signed its first post-war trade and payments agreement with the USSR, thereby substituting settlements in transferable sterling for the previous system of barter. Similar arrangements seem to be contemplated with other countries in Eastern Europe with which trade is now largely conducted in the form of barter.

12. Bilateral agreements of India usually contain no commodity quotas, but merely indicative lists of goods to be exchanged and, as a rule, they do not aim at bilateral balance of trade. Although the financial provisions of some of these agreements provide for payments to be made through bilateral accounts held in rupees, they do not generally interfere with multilateral settlement since, in most cases, outstanding balances can, at the request of the creditor party, be converted into sterling. In 1957 India concluded its first trade agreements with Afghanistan and North Korea and renewed or modified a number of agreements already in existence. Under the new agreement with Afghanistan, India is to establish quotas for certain products. The three-year agreement which India signed with Pakistan in January 1957 continued to provide special facilities for the trade between their border regions. In addition, special minimum quotas were agreed upon for the import and export of a number of
commodities, including Indian coal and Pakistan jute. Under new arrangements made by India with Poland the rupee proceeds of Polish exports of essential machinery are credited to a special trade development account and are to be used only for payment of specified Indian exports. A similar arrangement was concluded with Yugoslavia. India agreed with Czechoslovakia to encourage triangular transactions as a means of widening the scope of trade; prospective participating third partners include Egypt and Indonesia.

13. Pakistan renewed with some modification its bilateral agreements with a number of countries, and concluded a first agreement with Burma. Under the current bilateral arrangements with France and Japan, Pakistan undertakes to issue licences for certain French and Japanese goods when the purchases of cotton by these countries exceed specified levels. The new agreement with the Federal Republic of Germany no longer provides for the issue of single-country licences; but Pakistan undertakes to regulate the issue of licences so as not to reduce substantially the scope for German exports. The agreement with Italy which contained a similar licensing commitment was allowed to lapse at the end of 1956.

14. Most of Ceylon's bilateral agreements are in the nature of commercial treaties; their main effect is the establishment of direct trade contacts and the mutual guaranteeing of non-discrimination in import and export licensing. Ceylon's agreements with State-trading countries, however, generally aim at bilateral balancing of trade. This is the case with the new five-year trade agreement concluded with mainland China in September 1957 which replaces the previous long-term agreement of 1952. Under this agreement a protocol will be signed annually to determine the modality of its implementation; the protocol for 1958 provides inter alia for the exchange of determined quantities of Ceylonese rubber for agreed quantities of Chinese rice at prices which will be fixed at international market price levels. In February 1958 Ceylon concluded its first trade and payments agreement with the USSR which is also aimed at a balanced trade.

15. Principally owing to difficulties in maintaining a balanced trade with these countries, Burma discontinued in 1957 several of the arrangements under which it undertook to import from State-trading countries up to a total value equivalent to the proceeds of the sale of rice. The countries with which such agreements were terminated are Bulgaria, mainland China, Hungary, Poland and Rumania. Reliance on bilateralism was further reduced by changing payments for exports, other than rice and rice products, to several of the countries with which such bilateral arrangements remained in force, to a cash sterling basis. The first agreement which Burma concluded with Pakistan in February 1957 is similar to that in force with India and is valid for a period of three years; it is of the non-exclusive commercial treaty type with no commodity quotas but specifies that the partners will endeavour to achieve a balance in their trade. A separate trade protocol obliged Pakistan to purchase certain quantities of rice annually during the period of validity of the agreement.

16. Though Indonesia still retains a substantial number of bilateral agreements, the nature of the agreements has been changed in certain cases by the deletion of quota lists and by the introduction of payments provisions based on transferable currencies. For example, quotas were eliminated from the trade agreement with Switzerland when it was extended early in 1957. After the
termination in April 1957 of the bilateral payment arrangements with Poland all payments between Indonesia and the USSR and other Eastern European countries are now settled in transferable sterling; the trade agreements in force with these countries generally contain no quotas. The only government which has recently embarked on a policy of concluding trade and payments agreements is that of Taiwan which signed its first bilateral agreement with Spain in December 1956 and with Greece, Italy and Turkey in 1957.

17. Countries in the Middle East have continued to resort to bilateral arrangements, including barter or compensation deals, principally for the purpose of securing markets for exports of cotton, fruit, tobacco and the other important products of the area. Their trade and payment agreements with State-trading countries in Europe and Asia, however, often aim at bilateral balancing and consequently involve the channelling of payments through clearing accounts with swing credit provisions. Egypt's efforts to stimulate its exports led to the conclusion, in September 1957, of a triangular agreement with Ceylon and Japan under which cotton proceeds from Egypt's exports to Japan are used for payments for imports of Ceylon tea. In October 1957 Syria entered into an agreement of economic co-operation with the USSR, under which the latter supplies equipment and industrial installations under long term credits repayable partly in kind and partly in transferable currencies. Following the relaxation of import restrictions in Iran, France and the Federal Republic of Germany terminated their agreements with that country. Early in 1958, however, Iran concluded a new bilateral arrangement with France whereby it secured certain facilities for its exports to that country. Israel maintains a large number of bilateral agreements most of which include quota commitments. In March 1958, it concluded a new quota agreement with Argentina which also provided for payments to be settled through clearing accounts.

18. Since achieving independence, Morocco and Tunisia have both negotiated a large number of bilateral trade and payments agreements, particularly with countries in Eastern and Western Europe. These agreements mostly aim at expanding their trade and take the place of agreements previously concluded by France on behalf of the Franc zone. The new agreements with OEEC countries generally continue the payments arrangements which operated previously between these countries and the Franc area.

Latin America

19. With the exception of Peru, which is virtually free of bilateral commitments, all the countries in the Southern part of the Latin American continent still conduct the larger part of their trade with countries within the region on the basis of bilateral trade and payment agreements. Although little change has occurred in this intra-regional network of bilateral arrangements, there has been a growing awareness of the limitations which this bilateral system imposes on trade. The action taken in 1957 generally aimed at making these regional trade and payments arrangements more homogeneous and at facilitating exchange of information on the position of the bilateral clearing accounts so as to make a multilateral compensation of debit and credit balances easier. Several payments agreements concluded in 1957 and in early 1958 conform to a standard agreement approved at a meeting of Central Banks representatives in Montevideo in 1957, and foresee the possibility for surpluses above the limit of the bilateral swing credits to be transferred, with the consent of the other partner, to bilateral accounts with other countries in the region.
Examples include the agreements between Argentina and Uruguay, between Argentina and Chile, between Ecuador and Chile. Some agreements, e.g., those between Argentina on the one hand and Chile and Uruguay on the other, expressly provide that trade will take place at prices equal to those quoted on the world market.

20. The formalization in November 1957 of Argentina's multilateral trade and payments arrangements (the "Paris-club") which had been functioning on a provisional basis since May 1956, and the accession of the Federal Republic of Germany to the agreement, put trading relations of Argentina with most countries in Western Europe on a firm multilateral basis by rendering unnecessary the strict balancing of accounts aimed at in the bilateral agreements previously in force. Although trade agreements with most of the partners to the multilateral scheme were as a rule retained, they no longer contain quota commitments; Argentina merely undertakes not to discriminate against imports from the participating countries, without prejudice, however, to any reservations made with respect to the trade arrangements with neighbouring countries and, temporarily, with certain other countries with which Argentina is in a creditor position. The partners to these arrangements are to maintain a liberal import policy for Argentine goods, though the application of import restrictions on certain items is not precluded. In 1957 and early 1958 Argentina renegotiated trade and payments agreements with a number of countries in Eastern Europe and with Israel, Spain and Yugoslavia. Except for the agreement with Israel, these arrangements were generally designed to facilitate the redemption by these countries of their commercial debts to Argentina in the form of increased deliveries of goods. The new agreement with Spain was concluded after protracted negotiations and is accompanied by a Protocol concerning commercial debts which provides for the progressive amortization of outstanding Argentina claims.

21. The multilateral trade and payments arrangements which Brazil maintains with a group of trading partners in Western Europe have continued to function smoothly during the period under review. The successful operation of the "Hague club" arrangements has prompted Brazil to try to extend it. In 1957 Brazil renewed or extended the agreements with Iceland, Israel, Japan, Portugal, Spain, Turkey and a number of countries in Eastern Europe. The list of commodities attached to the trade agreements are generally of an indicative nature. Bilateral clearing accounts are maintained with all these countries.

22. The departure from bilateral trade and payments arrangements in the trade relations between Latin America and Western European countries has not been confined to Argentina and Brazil. Chile, Paraguay and Uruguay, not having established special multilateral payment systems, reduced their reliance on unilateralism in trade and payments by the elimination of quantitative restrictions on certain sectors of their trade and by the adoption with some trading partners of payment systems involving the use of transferable currencies. The reform in April 1956 in Chile's import control system, resulting in a simple free list applicable to imports from all sources, had the effect of diminishing the scope of its bilateral agreements. The few arrangements still in force are concerned chiefly with the method of payment and currency of settlement. In 1957 the Nitrate and Iodine Sales Corporation terminated the private agreements for the sale of nitrates and iodine with Denmark, Egypt, the Netherlands, Portugal, Sweden and Yugoslavia which
stipulated that proceeds of nitrate exports must be used for imports from the 
countries concerned; all transactions by the Corporation are now effected in 
transferable or convertible currencies. In August 1957, after Paraguay had 
eliminated quantitative restrictions and had adopted a completely free 
exchange system, agreements were concluded with Denmark, France and the 
Netherlands, providing for settlements to be made in transferable currencies. 
Uruguay has entered into similar arrangements with Denmark.

23. In Central America, Cuba continued its policy of granting tariff 
concessions for certain imports in exchange for purchasing or licensing undertakings 
with respect to Cuban sugar, tobacco and certain minor exports. 
Agreements of this nature are now in force with a number of countries including 
Austria, the Federal Republic of Germany, Sweden and the United Kingdom. In 
1957 Mexico concluded quota agreements with France, Italy and Switzerland which 
cover the exchange of certain commodities.

Eastern Europe, the USSR and mainland China

24. Trade among the USSR and other Eastern European countries and mainland 
China is governed by extensive trade agreements which are often supplemented 
by credit and technical assistance arrangements. Practically all these agree-
ments are strictly bilateral and, although provision for settlement in cash, 
or in gold, sometimes appear in them, the actual settlement of balances, 
usually after the expiration of a one-year agreement, is almost invariably 
made by means of additional deliveries of goods. Quotas are mostly expressed 
in roubles though bargaining about prices is often in terms of free market 
sterling or dollars. In 1957 the Council for Mutual Economic Assistance 
(Comenon) which comprises the USSR and the other Eastern European countries 
established a multilateral trade and clearing union with a view to facil-
tating mutual trade and payments. It is as yet premature to speculate on the 
effects of these arrangements on the trade between these State-trading 
countries.

25. In accordance with a recommendation by the Comecon, the State-trading 
countries have in recent years been following a policy of progressively 
replacing the one-year trade agreements between them by longer term arrange-
ments which are considered to be better suited to their planned economies. 
These agreements cover periods extending from three to five years and contain 
lists of commodities to be exchanged as well as targets of trade. Detailed 
quota lists are negotiated each year and laid down in trade protocols. 
A large network of such arrangements are now in force among the Eastern 
European countries.

26. A similar trend has become noticeable in the bilateral agreements which 
the Eastern European State-trading countries maintain with countries outside 
the area. During the period under review, for example, the USSR concluded 
three-year or four-year trade agreements with Austria, France, Federal 
Republic of Germany and Italy, which contemplate significant increases in 
the volume of trade. These agreements specify the commodities in which trade 
is to take place and set a target for the total exchange of goods; they also 
provide for the annual negotiation of quota lists.

27. Of the triangular trade agreements which the USSR and Finland had 
previously entered into with Eastern Germany, Poland and Czechoslovakia, only 
the last is still in existence. However, following the conclusion of trade
agreements between the USSR and Finland in June and December 1957 which provide for additional deliveries of Soviet goods and for the payment of an agreed sum in Western currencies or gold, the commercial and financial transactions between the two countries are expected very nearly to balance. As a consequence, triangular compensation with Czechoslovakia will be very limited. On the other hand, the new three-year agreement which Czechoslovakia concluded with India in September 1957 envisages the settlement of India's adverse trade balance with Czechoslovakia by deliveries of Indian goods to Egypt and Indonesia which normally have a surplus in their trade with Czechoslovakia. A tripartite transfer arrangement has also operated between Czechoslovakia, the USSR and Burma whereby the latter country received goods from Czechoslovakia as part payment for its exports of rice to the USSR. This shows how State-trading countries have attempted to overcome the difficulties which they meet in achieving bilateral balancing in the trade with some of their partners.

28. Mainland China maintains bilateral trade and payment agreements with more than thirty countries. The agreements with the State-trading countries generally provide for the exchange of goods on a barter basis and are often associated with arrangements for aid and credits. For example, the successive trade arrangements with the USSR had provided for substantial loans and technical and financial assistance to be extended to mainland China. On the other hand, mainland China extends credit or aid or both to several of its bilateral agreement partners, including North Korea and North Vietnam. Similar aid and assistance have been extended to Ceylon and, on a more limited scale, Cambodia and Egypt. Whereas most of the agreements of mainland China still aim at bilateral balancing of trade and use private or global compensation, an increasing number of them foresee the use of transferable currencies. This is the case with the first inter-governmental trade and payments agreements which mainland China with Denmark and Sweden, concluded in 1957. These agreements stipulate that certain commodities will be licensed freely by these two partners and that payments will be settled in transferable currencies or in other mutually acceptable currencies. Likewise, payments arising out of commercial transactions with France and the Federal Republic of Germany, which are governed by arrangements entered into by private French and German trading interests with the China Committee for the Promotion of International Trade are settled respectively in transferable French francs and Deutsche Marks with limited convertibility.
EXPORT PROMOTION

1. Recent years have witnessed a return to world marketing conditions in which buyer's choice is a more active force, with the result that there has been intensified competition among sellers. Hence export promotion techniques have assumed an increasing significance in international trading relations. Although there are a variety of special facilities provided by governments, financial and otherwise, which have the effect of promoting exports, it is convenient to classify them in this section under the broad headings of subsidies, export incentives and programmes for the disposal of surplus stocks.

2. Most subsidies are applied to domestic production and only incidentally have the effect of increasing exports. During 1957, there was, however, some evidence of a tendency of increased resort to outright export subsidies. With the exception of some countries in the Far East there was no general extension of such export incentives as currency retention or import entitlement schemes. The deterioration in world economic conditions during 1957 resulted in somewhat more stress being placed on trade financing facilities, through the provision of longer-term deferred-payment credits for exports, particularly of capital goods to under-developed countries, and an increased flexibility in the administration of export credit guarantee schemes covering risks involved for exporters.

3. In Latin America, many countries still maintain multiple currency arrangements which assist exports of certain products and during 1957 there were some modifications to the systems in force. In Asia intensified efforts have been made in the indirect field of export promotion, such as grading, trade publicity and the organization of trade conferences and fairs.

4. The existence and accumulation of surpluses of agricultural commodities in both exporting countries and former net importing countries, as a result of the continued maintenance of price support and guarantee schemes, has led to considerable price uncertainty for the commodities concerned. Arrangements for their disposal during 1957 continued to influence the terms of competition in world markets for these goods and have resulted in the development of trading techniques which have assumed considerable importance in view of the magnitude of trade involved.

5. Some countries entered into bilateral arrangements - such as barter agreements and long-term sales contracts - with a view to promoting their export trade. Some of these arrangements have been described above in the section dealing with bilateral trade agreements.

6. In view of the lack of authoritative statements from governments on action taken in these various fields no comprehensive survey can be made, but the following notes will serve to indicate the type of measures adopted and the kind of transactions that have taken place in the period under review.
Subsidies

7. Article XVI of the General Agreement requires contracting parties to submit annual notifications describing the nature and extent of subsidies maintained by them which have the direct or indirect effect of reducing imports or increasing exports. The bulk of the information in this section concerning measures taken by contracting parties has been derived from these notifications.

8. Most of the subsidies maintained by contracting parties are applied to domestic production and are usually intended to stabilize income and output, to meet import competition or to stimulate the growth or manufacture of items in short supply. Seldom, except incidentally, do subsidies of this type have the effect of increasing exports of the item concerned although frequently they have the result of reducing imports. The extent of the effects on importation is difficult to measure precisely. Outright export subsidies are usually avoided.

9. An examination of the notifications received from contracting parties in 1957 suggests that no major changes have occurred in the past year in the policy of government subsidization of domestic production, although some adjustments have been made in the products benefitting and in the amounts of subsidy granted. There is, however, some evidence of a tendency for increased resort to outright export subsidies, particularly of agricultural products. Most of the subsidies on production or export described in the annual GATT reports on International Trade were still being applied and the principal changes reported during the period under review are summarized below.

Production subsidies

10. In order to avoid an increase in the cultivation of wheat at the expense of lower production of feed grains, Belgium granted a subsidy to producers of the latter. There were also some modifications made in the system of granting subsidies to Belgian film producers. Canada introduced subsidization measures on dry skimmed milk, fowl and potatoes, designed to stabilize price levels for these products and to maintain returns to producers. With effect from December 1957 India abolished subsidies on the production of motor benzol and benzene. The United Kingdom introduced a new subsidy for catches of herring and extended until 1961 a measure which subsidizes catches of white fish in certain waters and the improvement of old but sound ships.

Export subsidies

11. Governments reporting the maintenance of export subsidies have stated that, while some quantities of the subsidized products would have been exported without the subsidy, it was not possible to estimate the volume of trade that would have taken place.
12. From 27 February to 27 July 1957 Belgium granted a temporary export subsidy on eggs. Finland continued to subsidize the export of several agricultural products, but the devaluation of the Finnish markka and the maintenance of domestic minimum prices have resulted, in effect, in a reduction in the subsidies. On 12 August 1957 France introduced a uniform 20 per cent payment to exporters on the price of most exports. By October 1957 this payment had been extended to cover all exports. This was a part of a scheme to rectify the situation created by the disparity between French and world prices which also involved a corresponding 20 per cent surcharge on imports. The Federal Republic of Germany granted a uniform export subsidy of 4 per cent to manufacturers in the Saar to assist them in marketing their products in the Federal Republic. Turkey introduced an export subsidy on olive oil to enable exporters to bring their prices down to world levels. In April 1957 Uruguay announced the introduction of an export subsidy on linseed oil. It was announced in February 1957 that the United States would continue until 31 July 1958 the system of granting equalization payments to exporters of cotton textiles based on the difference between the domestic and export price of the raw cotton content exported.

13. As regards countries not contracting parties to GATT, the following changes have been noted. As from 1 March 1957, Argentina abolished subsidies on beef exports. Up to the end of December 1957 Egypt granted subsidies on exports of cotton to specific currency areas. Israel introduced a 30 per cent freight subsidy to exporters who sent their goods on the national airline. Mexico extended through 1957 the operation of its export subsidies on natural chicle and candelilla wax. Morocco and Tunisia adjusted their foreign trade system to the situation created by the French measures, mentioned above, and introduced a uniform 20 per cent export subsidy. Paraguay subsidized exports of bananas, pineapples, grapes and grapefruit.

Export Incentives

14. Apart from the granting of export subsidies there are many other ways by which the government can assist exporters. In view of the indirect nature of these export incentives, it is difficult to assess with any precision their effect in stimulating exports and the extent to which they may distort normal conditions of competition on world markets.

15. As indicated in previous GATT reports on International Trade member countries of the Organization for European Economic Cooperation agreed to discontinue certain measures which the Council of the OEEC, in a Decision taken in January 1955, qualified as affording artificial aid to exporters. When the situation was reviewed in July 1957 it was noted that the forms of aid declared to be artificial by the Decision were no longer being practised by member countries. It should be recalled, however, that the Decision under reference does not apply fully to Greece and Turkey and the OEEC has recognized the special position in respect of France. Moreover, Denmark still operates a dollar export incentive scheme in the form of import entitlements. The OEEC
has also undertaken extensive studies of the systems of direct and indirect aid to exports of food and agricultural products with a view to arriving at some agreement on their limitation or abolition.

16. The Treaty establishing the European Economic Community, which entered into force on 1 January 1958, contains provisions to harmonize measures to aid exports to ensure that competition between enterprises in the six Member States will not be distorted. No distinction is drawn, however, between aid to production and aid to export. Special provisions relating to France, moreover, permit the maintenance of its present system, subject to an annual examination, until the balance-of-payments position on current account reaches and remains in equilibrium for more than a year and the monetary reserves reach a satisfactory level. The provisions of the Treaty would then apply in their entirety.

17. Currency retention schemes or similar practices which involve import entitlements or a bonus on exports are still maintained by several countries, particularly in Asia. During 1957 there were some modifications to the schemes in force. Cambodia increased the amount of benefits applicable to exporters of rubber and rice under its import entitlement scheme. The previous entitlement to 13 per cent of the proceeds from exports to the Dollar Area and to 10 per cent in the case of other currency areas were both increased by an additional 10 per cent. Further, timber exporters were permitted to retain 100 per cent of their exchange earnings to pay for imports of specified investment goods. Pakistan extended the operation of its import entitlement scheme unchanged until 1 October 1958; under these arrangements exporters of specified commodities are granted additional import licences on the basis of a certain percentage of their exports. These facilities were supplemented in June 1957 when exporters were granted additional import licences in advance, over and above their normal ceilings, for imports of raw materials and packing materials. Effective 20 June 1957, Indonesia introduced major exchange reforms designed to encourage exports. Exporters must now surrender all foreign exchange to authorized banks in return for exchange certificates (HFE Certificates) expressed in rupiahs converted at the official rate. All imports must be financed by these certificates and the exporter may sell them freely on the open market; the price of these certificates being determined by supply and demand. Vietnam abolished its import entitlement (EFAC system) for exports and concurrently introduced multilateral exchange rates authorizing exporters to convert 35 per cent of their foreign exchange earnings at the free market rate. On the other hand Japan reduced the scope of the "link" system whereby exporters of certain products are assured of supplies of raw materials. The linking of the import of beef tallow to the export of oils and fats manufactured from it was abolished on 1 April 1957. There now remains only three linking arrangements, benefitting exporters of cotton and rayon textiles and woollen goods.

18. On 12 April 1957, Turkey abolished an import entitlement scheme for exporters of chrome and manganese ore whereby they were allowed to retain all their exchange proceeds for the purchase of mining and agricultural machinery.
In August, however, a new import entitlement scheme for the export of twenty-one items, including tobacco, cotton, figs, raisins and hazelnuts was established. Under this scheme exporters are permitted to retain various percentages of foreign exchange proceeds up to 15 per cent in order to import materials exclusively used in the packaging and preparation of these goods for export. In August 1957, France issued "exporters' cards" to firms whose exports comprised a minimum of 20 per cent of their total production. Holders are entitled to special credit and tax facilities and have priority in obtaining import licences for the purchase of capital goods and raw materials. They also receive an additional 5 per cent above the usual percentage of proceeds that may be retained by exporters under the import entitlement scheme (EFAC) for meeting incidental expenses or for imports essential to the production process; the usual percentages are 15 per cent for exports paid for in convertible currencies and "free" francs and 10 per cent for other exports.

19. In Latin America many countries maintain multiple currency arrangements which provide more favourable rates for the conversion of the foreign currency proceeds of some exports than of others. These and other multiple exchange practices were described by the International Monetary Fund in the Ninth Annual Report on Exchange Restrictions 1958. Modifications made to the systems in force during 1957 are set out in detail in that Report. The most important changes may be summarized as follows: Colombia and Ecuador introduced fundamental alterations to their exchange systems. Uruguay increased the rate of conversion applicable to exports of meat, wool, hides and skins, casein and butter. Nicaragua and Spain, on the other hand, standardized the rate of exchange applicable to exports of all commodities.

20. In Asia, many countries dependent on earnings of foreign exchange for the maintenance of their economic development programmes have intensified their efforts to promote exports through the more indirect methods already widely employed by governments of leading commercial countries. At the Fourteenth Session of the Economic Commission for Asia and the Far East member countries decided to direct particular attention to the improvement of the quality and grading of their products. They also agreed to encourage trade fairs and missions and to exchange trade information. Intra-regional trade promotion conferences are to be held on an experimental basis and courses in trade promotion are to be conducted in co-operation with United Nations technical assistance programmes. During 1957 Export Promotion Committees were established by India, Egypt and Tunisia to recommend and co-ordinate policies for promoting exports.

21. In recent years there has been intensified competition among manufacturing countries in marketing capital goods in under-developed countries. The seller's market of the early post-war period no longer existed and exporters were finding it necessary to extend credit facilities to customers in under-developed countries in order to enable them to purchase capital goods which they could not pay for in foreign currencies. It is clear that in view of their balance-of-payments difficulties a number of under-developed countries
expect such credit to be extended as a condition for the transaction to take place. In 1957, for example, the Government of India decreed that private importers of capital goods must insist on long-term credits, usually for seven years. In Argentina and Brazil foreign exchange for the import of certain industrial machinery is only made available if deferred payment terms extending from five to eight years are provided. Uruguay grants certain concessions to imports of capital equipment financed over a period of two years or more.

22. In many countries favourable credit terms are granted by the banking system and in some cases State organizations have been set up to provide long-term credit facilities to exporters. In France the Banque du Commerce Extérieur assists medium-term credit transactions by adding its endorsement to bills of exchange which then become more easily discountable. In Belgium State organizations provide credit facilities to finance exporters of capital goods. The Italian Government provides special rediscounting facilities for exporters of capital goods. In the Federal Republic of Germany the banking system itself established a special exports credit system. In the United States the Export-Import Bank grants development loans and exporter credits to enable under-developed countries to purchase United States capital equipment. In 1957 Japan intensified its efforts in this field and offered more liberal credit terms to exporters and long-term credits in Japanese yen to South-East Asian countries to assist their purchases of Japanese capital goods.

23. In addition, the trend towards the increased use of export credit guarantee schemes has continued. These schemes cover the exporter against risks (such as insolvency, default, restrictions on the transfer of payments and political and war risks), which are not normally accepted by commercial insurance companies. At the beginning of 1957, export credit guarantee schemes were in force in most European countries, the United States, Canada and Japan. In 1957 new schemes were brought into operation in Australia and India. During that year Austria and the Federal Republic of Germany increased the amount of funds available for export guarantees. In addition, Germany increased the proportion of the risks to be borne by exporters. Japan lowered premiums and extended the scope of its scheme to cover more cases. The United Kingdom extended facilities available for granting short-term credits to cover greater risks and a greater percentage of losses, and a special committee was appointed to examine the efficacy of the present arrangements.

24. Western European countries have endeavoured to avoid the adverse consequences of unlimited competition in credit terms by (informal) discussions in the Berne Union of Export Credit Insurers. Particular consideration has been given to the length of credit to be granted. Some governments have felt that it might be advantageous to examine this question on a more formal basis and the CEEM has undertaken studies on the facilities granted by members to exporters in the form of credits and export credit guarantees; it is expected that concrete proposals will eventually be submitted to governments.
25. In recent years there has been stronger competition in this field from the USSR and other Eastern European countries who have been prepared to offer more generous credit terms than other exporters both as regards time for repayment and the rate of interest.

Disposal of Surpluses

26. The continued maintenance of internal prices, by various support measures, at levels substantially above those prevailing on world markets has led to the accumulation of excessive surpluses in some exporting countries, particularly in North America. The existence of large surpluses of any commodity leads to considerable price uncertainty and gives rise to concern in other exporting countries. Efforts to find outlets for these surpluses on world markets without causing undue interference to normal commercial transactions have become more pronounced in recent years and have resulted in the development of trading techniques which have assumed considerable importance in view of the magnitude of trade involved. This section describes such arrangements during 1957.

27. In Western Europe many governments maintain support and guaranteed price schemes as an integral part of their national agricultural policy. From time to time, the continuance of price supports has led to the formation of surpluses of particular commodities. Such situations have occurred even in countries usually net importers of the product concerned and despite the fact that the agricultural policy was not aimed at the promotion of exports. In many cases these surpluses cannot be absorbed by the domestic market or be added to stocks and therefore have to be exported. These additional supplies on international markets of agricultural products are bound to affect the trade of traditional exporters often depressing world prices of these commodities when, as is often the case, exporters can rely on taxpayers to bear wholly or in part the loss resulting from such exports. As a result of higher yields and under the stimulus of high guaranteed prices some sectors of European agriculture recorded sharp increases in production during 1957 and early 1958. Of particular note was the accumulation of surplus stocks of dairy products (especially butter), eggs, flour and wheat. Efforts were made to dispose of these surpluses in other European markets at prices below the domestic guarantee price. Discussions have been held between the countries concerned in an effort to remedy the situation and to alleviate the resulting distortion to normal patterns of trade and measures have been taken in certain importing countries to restrict or limit imports from all or certain countries.

28. While the accumulation of such surplus stocks in Europe may be a temporary and intermittent phenomenon, a situation of a more durable nature exists in the United States, where large stocks of surplus agricultural commodities are carried over from year to year. At the end of the calendar year 1957 the United States Commodity Credit Corporation held stocks of various agricultural products acquired under the price support programme valued at $5.4 billion. This represented a fall of $0.5 billion from the level held at the end of 1956. The decline could in part be attributed to the operation of the Soil Bank Programme
which diverted crop-land from the production of agricultural commodities in excess supply through the establishment of an acreage reserve and a conservation reserve. The values quoted above are in terms of "CCC cost" which represent the cost of the commodities to the Corporation including investment, processing, handling and other costs. The two principal items held by the Corporation were wheat and corn each of which constituted roughly 35 per cent of total stocks. Other major items were upland cotton, grain sorghum, rice and dairy products. Not all the Corporation's holdings are true surpluses since a part represents normal carry-over and reserves against unforeseen contingencies. On the other hand, some other commodities, not held in Corporation inventories, principally tobacco, lard and vegetable oils were also in surplus supply.

29. The United States Government has several programmes for disposing of surpluses abroad as well as domestically. In the calendar year 1957 the Corporation arranged for the disposal of about $1 million of stocks domestically and of about $1,170 million abroad. These figures are expressed in terms of CCC cost. In addition, commodities valued at well over $1 million, in terms of CCC cost were distributed for domestic consumption outside the CCC.

30. In order to meet competition in international trade, commodities for which special export programmes have been developed are sold abroad at their "export market value" which is less than the CCC cost of those commodities. Under the CCC export sales programme for cotton, 7,750,000 bales of upland cotton were sold, on a competitive bid basis, for export by 15 August 1957. In addition, as of 15 August 1957, 3,600,000 bales had been sold for export between 16 August 1957 and 31 July 1958. This system is to be continued until 15 August 1958. The major special export programmes have been developed under the Agricultural Trade and Development Act (Public Law 480) and Section 402 of the Mutual Security Act.

31. Public Law 480 was enacted in July 1954. Up to 31 December 1957 the programming of surplus commodities under the Act had totalled $5,820 million at CCC cost; of this amount almost 50 per cent or $3,340 million at CCC cost ($2,300 million at export market value) had been disbursed under Title I of the Act which provides for the disposal of surpluses abroad against payment in foreign currencies. Transactions were to be carried out through private channels wherever possible, the proceeds in the currencies of the foreign countries being utilized locally under the terms of the respective agreements. To date about 55 per cent of the proceeds has been lent to the purchasing countries for economic development and 25 per cent used for the payments to be made by the United States government in these countries. These provisions were amended, however, in August 1957 to provide that 25 per cent of the proceeds in the future shall be available for loans to assist United States or foreign firms to promote the consumption of United States agricultural products abroad.
32. Agreements concluded under Title I in 1957 amounted to $540 million at CCC cost ($360 million export value). This was considerably lower than agreements entered into during 1956 which totalled $2,125 million at CCC cost ($1,430 million export value). The volume of the surpluses actually entering world markets, however, was higher in 1957 than in any preceding year. Shipments during 1957 amounted to approximately $750 million (export value) compared with $620 million (export value) in 1956 and total shipments of $1,650 million (export value) since the beginning of the programme. The authority under Title I, initially for a total expenditure over three years of $1,500 million at CCC cost which was supplemented by an additional $1,500 million in August 1956, expired on 30 June 1957. In August 1957, however, the authority was increased from $3,000 million to $4,000 million and extended to 30 June 1958. As at 31 December 1957, $3,340 million had already been appropriated.

33. Title II of Public Law 480 provides for donations of surplus commodities abroad for emergency and relief purposes; and authorizations since the programme began total $390 million at CCC cost, of which $102 million was authorized in 1956 and $121 million in 1957. In August 1957 the authority under Title II, which had expired on 30 June 1957, was extended to 30 June 1958 and increased from $500 million to $800 million.

34. Title III covers donations of surplus foods for domestic use and for distribution abroad by non-profit voluntary agencies and inter-governmental organizations as well as the Corporation's barter activities. Cumulative donations under this programme amount to $1,216 million at CCC cost, including repacking and shipping, of which $183 million was donated in 1956 and $377 million in 1957. Barter contracts, by which the Corporation trades its stocks for strategic and other materials required by government agencies amounted to $128 million in 1957. Since July 1954, cumulative barter contracts have amounted to $873 million at export market value. The barter programme underwent a major revision during the period January-June 1957 to assure that commodities exported under barter arrangements would result in a net gain in the total volume of agricultural exports.

35. Section 402 of the Mutual Security Act provides that a certain minimum amount of funds for economic aid authorized during a particular period should be in the form of surplus agricultural commodities; in the fiscal year 1955/56 the minimum was $300 million, for 1956/57 it was reduced to $250 million and for 1957/58 further reduced to $175 million. In order to avoid decreasing the aid to certain countries which would be unable to take agricultural commodities a system of triangular transactions is in operation. Under this scheme surplus agricultural commodities were sent to third countries, mostly in Western Europe, which in turn exported industrial items to the under-developed countries for which the aid had been programmed. In the fiscal year 1956/57 the export market value of Section 402 programmes to eighteen countries totalled about $285 million, of which $51 million was related to triangular transactions.
36. In assessing the impact of these agreements on world trade, it should be borne in mind that while the United States agricultural exports increased in 1956 and 1957, due in part to these surplus disposals, world agricultural exports likewise increased. Moreover, the United States has taken due account of the principles for the disposal of surpluses drawn up by the GATT and the Food and Agriculture Organization and has used their procedures for consultations designed to safeguard the interests of other exporting countries.

37. From time to time governments holding stocks of primary products which have been accumulated as part of a national strategic stockpile for defence purposes decide to liquidate such stocks, either wholly or in part. In the performance of such operations due attention is usually given to the principles laid down in the GATT Resolution on the Liquidation of Strategic Stocks. During the period under review the United Kingdom announced, in accordance with the policy set out in the 1956 Defence White Paper on running down strategic holdings of industrial raw materials, their intention to dispose of the following: 80,000 - 100,000 bales of wool, 27,000 tons of zinc, 20,000 tons of lead, 2,500 tons of tin, 1,600 tons of nickel pellets and 12.5 tons of cadmium metal. All of these disposals were to be effected by 30 June 1958 and some have already been completed. Consultations were held with trade representatives concerned in order to ensure that the disposals would take place without unduly disturbing the market. The United States also released some strategic stocks to domestic producers and Canada disposed of 3,000 tons of tin from its strategic stockpile.