DRAFT REPORT ON THE CONSULTATION WITH AUSTRIA

1. In accordance with its terms of reference, the Committee has conducted the consultation with Austria under Article XII:4(b). The Committee had before it: (a) a basic document prepared by the secretariat on the basis of data supplied by the Austrian Government; and (b) documents provided by the International Monetary Fund. In conducting the consultation the Committee followed "the plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 8 July 1959. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Austria. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Austria which was concluded on 21 November 1958 and a supplementary paper dated 22 June 1959. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Austria. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Austria under Article XIV of the Fund Agreement, which consultation was concluded on November 21, 1958. The Fund has also provided a supplementary paper, dated June 22, 1959, to supply background information on recent developments.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its 1958 consultation with Austria under Article XIV of the Fund Agreement and particularly to paragraph 4, which reads as follows:

See Annex II
14. The Fund notes the steps taken by Austria to multilateralize payments with certain bilateral agreement countries. However, the Fund urges Austria, in view of the continued improvement in its balance-of-payments position, to make further substantial reductions in restrictions and discrimination, including as far as possible those arising from bilateralism."

"Since that consultation was completed, non-resident convertibility has been introduced by Austria, and there has been further strengthening of the reserve position. Accordingly, the Fund sees no reason to alter the position taken in the passage quoted above.

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

Opening Statement of the Austrian Representative

3. At the opening of the consultation, the representative of Austria made a statement. The text of that statement is given in Annex I.

4. In his statement, the representative of Austria recognized the continuing increase of the surplus of the balance of payments and of the monetary reserves of his country. The latter were, on 30 April 1959, equivalent to the average import requirements of about eight months. Nevertheless the Austrian authorities had come to the conclusion that this favourable position did not yet justify "further substantial reductions in restrictions and discrimination" as urged upon Austria by the Fund. The reasons given can be summed up as follows.

(a) The rise of monetary reserves during 1958 was accounted for to the extent of no less than 93.3 per cent by a surplus on capital account and income from discrepancies between the balance of trade and the foreign exchange balance, which have the same effect as short-term commodity credits. The surplus on capital account was exclusively the result of medium and long-term borrowing, resulting from the economic policy of the Austrian Federal Government. The aim of this policy was to meet the requirements of a large backlog in investment and to
counteract the recession by increased investments. Moreover, amortization and interest would be a burden on the balance of payments in coming years. It was hardly possible to estimate the future development of the Austrian capital account as that development depended too much on the future budgetary and investment policy.

(b) The exports included in the Austrian balance of payments comprise the unrequited deliveries to the USSR to an amount of $45 million. At a later stage of the consultation the Austrian representative informed the Committee that, under a new arrangement, this burden might be reduced by an estimated sum of $9 million.

(c) The current account had in 1958 contributed only 6.7 per cent to the improvement in Austria's monetary reserves. This was only due to the fact that, the large deficit on account of visible trade, (14.5 per cent of the value of total annual imports) was compensated by a slightly larger surplus on invisible account. This surplus was mainly due to the income from tourist traffic. The Austrian delegation felt that no other item on current account was as sensitive to economic and other fluctuations than receipts from tourist traffic.

(d) A good part of Austria's foreign payments had to take place in the framework of bilateral payments agreements. It was later explained that part of Austria's industries were, for geographical and historical reasons, dependent on trade with neighbouring countries, which preferred bilateral arrangements.

(e) In view of its dependence on trade with the countries of the EEC, Austria had to consider the further development of European integration.

Balance-of-Payments Position and Prospects

5. The Committee was unanimous in congratulating the Austrian representative on the remarkable and sustained improvement in his country's balance-of-payments position. From remarks made by members of the Committee it appeared that there was a general feeling that the Austrian attitude to further liberalization
of trade and in particular to the elimination of present discrimination in
treatment between imports from OEEC countries, from the United States and
Canada and from other contracting parties of GATT, was too cautious. It
was suggested that tourism was not such a volatile item in the country's
balance of payments, that the inflow of capital was bound to lead to a
greater export capacity or reduced import requirements and that in general
the Austrian delegation tended to look too much at possible unfortunate
future developments in each part of its country's balance of payments as
separate problems rather than the balance of payments as a whole. Several
members commented that monetary reserves equal to eight months' imports were
larger than most countries could boast of.

6. The attention of the Austrian delegation was also directed to the fact
that the introduction of external convertibility had created a situation
in which there was no longer any payments advantage in buying from one
source rather than another and in which further steps should be taken which
would progressively eliminate restrictions and discrimination.

7. Representatives of certain outer sterling area countries pointed out that
their countries had been and were discriminated against although there had
never been any payments justification for discriminating between countries
clearing through European Payments Union.

8. Certain members stressed the dangers of discriminatory bilateral
arrangements. One member of the Committee suggested that Austria's eastern
neighbours would now feel more inclined towards multilateral payments
arrangements. The Austrian representative said that his country would have
to approach such a new development with the utmost care.

9. The Austrian representative stressed again the uncertainties in the
future position of his country's balance of payments in reply to these
observations. He pointed out that the capital inflow was to a large part
due to the borrowing policy of his Government, which again was part
of his Government's "Konjunkturpolitik". He also maintained that discrimination
was less severe than might be deduced from the fact that liberalization did in most cases not apply to other contracting parties than the OEEC countries and the United States and Canada. In fact liberalized goods were freely licensed, when they come from countries other than those to which liberalization applied.

As for the prospects of his country's balance of payments for 1959 the Austrian representative told the Committee that the expectations were the following. Exports would decline further while imports would remain at the same level as in 1958. The deficit on visible trade account would therefore be 15 per cent higher than in 1958. On the other hand the surplus on the invisibles account would be 10 per cent higher than in 1958, due to more income from tourism. The outcome of the current account would thereby be about the same as in 1958. The influx of foreign capital would however be smaller. The rate of increase of the reserves was expected to be 60 per cent lower than in 1958.

As for the fears expressed by the Austrian representative about the effect that the development of the EEC might have on his country's balance of payments, it was pointed out by some members that these fears were shared by other countries outside EEC. Other members, however, stressed that it was unlikely that the dangers referred to by the Austrian representative would materialize. In their opinion the development of the EEC should have a favourable effect also on the economies of third countries. In view of the uncertainty about this matter, the Austrian representative and the Committee agreed that at this stage it would serve no useful purpose to pursue it further.

Some discussion took place of a remark made by the Austrian representative that a deterioration in Austria's terms of trade as a result of a rise in prices of raw materials might also endanger his country's balance of payments. It was pointed out that it would greatly help under-developed countries if those
prices rose and that it would increase their capacity to buy from industrial countries. The Austrian representative replied that he had by no means wanted to object to such a rise in prices, but that he had only indicated that it would affect his country's balance of payments. He pointed in particular to the prices of coal.

13. The representative of Japan stressed that although Austria had no obligation to extend liberalization to Japanese imports he very much hoped that Austria might see her way clear to accepting the GATT relationship with Japan, and enquired about the prospects of expanding imports from Japan. The Austrian representative replied that he would take note of the Japanese statement and that in his view the trade between the two countries was fairly substantial.

Alternative Measures to Restore Equilibrium

14. The general feeling of the Committee was that Austria had been so successful in restoring equilibrium that no alternative measures had to be suggested at present. The Austrian representative did not entirely share the Committee's optimism.

15. The Austrian representative, in reply to a question, informed the Committee that the Central Bank had been authorized to make available export credits up to a ceiling of Sch.1.5 billion. Moreover they could export credit guarantees up to a ceiling of Sch.1.5 billion.

16. As for the mobilization of internal sources of capital it was found that after the experience of two inflations after two wars, the Austrian public had become reluctant to invest in bonds. The Government had therefore been compelled to borrow abroad.

System and Methods of Restrictions

17. The Austrian representative regretted that he could not make available the Austrian lists of liberalizations, in particular of the increased liberalizations for the United States and Canada, as these had not yet been
officially approved. He could however give the assurance that these increased
liberalizations were already applied through automatic licensing. Some
members of the Committee complained that it was difficult for the trade to
know what those lists contained.

18. The Committee was informed that the difficulty in bringing out a now dollar
free-list was due to complications arising from the change-over to the Brussels
Nomenclature. Considerable discrepancies had been found in the new CEEC
list drawn up in the new nomenclature and adjustment had not been completed.
The new dollar list was being drawn up with great care and would be published
as soon as it was approved by the new Government. The Austrian authorities
considered the issue and extension of free-lists to be the method of liberalization
best suited to the country's conditions. The difficulties in publishing the
new liberalization list being, as mentioned above, no time-saving could be
expected from the substitution of the negative list method for the present
positive lists.

19. It was noted that the Austrian authorities had recently removed the
requirement of separate exchange permits for import payments. The Austrian
import control system, in the view of some members of the Committee, however,
was still unnecessarily complicated and cumbersome. In supplement to the
documents available to the Committee the Austrian representative described the
general system in broad outline. It was stated that:

(1) All goods not specified in the three lists annexed to the External
Trade Law, but mentioned in the Tariff Act, were free from any
licensing control and quantitative restriction regardless of their
origin.

(2) All goods appearing in the CEEC free-list could be imported without
licence from the CEEC area countries and dependent territories.

(3) All goods appearing in the free-list for the United States and
Canada could be imported freely from these two countries subject to
licences issued upon application.
Other imports were admitted (a) under global quotas, (b) through bilateral licensing or (c) through individual discretionary licensing.

The import of certain products was prohibited for reasons consistent with Article XX of GATT.

20. The Austrian representative further explained that it was for administrative convenience and in the light of the constitutional system that the authority to issue import licences was divided among three competent ministries, and that the authority had been delegated to land governors merely in order to enable them to cope with emergency import requirements. This authority was of limited scope and had a historical origin.

21. Liberalized imports from the dollar area countries continued to require licences which were issued upon application. In the view of the dollar area countries, this unnecessary formality could not but affect to some extent the free flow of imports; they reaffirmed the view that automatic licensing was no substitute for completely control-free importation.

22. Regarding the relative levels of dollar and OEEC liberalization, the Austrian representative stated that almost all raw materials and finished products that were liberalized for the OEEC had been liberalized also for the dollar countries, and that only in the agricultural sector did the liberalization of dollar imports fall substantially short of that level attained for imports from OEEC countries, most agricultural imports from the dollar countries remained under control, although substantial purchases were in fact made from North American sources. The fact that agricultural products were in many countries the subject of State-trading/direct control would seem to explain why such imports had not been liberalized by Austria for the important supplying countries.

23. In response to questions concerning the operation of the Marketing Laws, the representative of Austria noted that among the three boards established under these laws the Grain Compensation Board and the Board for Livestock and Meat had similar functions; they prepared annual import programmes and
invited tenders which, when accepted, formed the prerequisite for the delivery of an import licence. These tenders were now being invited on a global basis instead of on the previous regional basis. The Dairy Products Board acted as an equalization instrument only. Cheese was the only product which could be imported freely. Austria was traditionally an exporter of butter and there was still a surplus of all types of dairy products. No relaxation of import restrictions for these commodities was likely in the foreseeable future. Austria applied these stabilization measures, similarly to many other countries, for social considerations, as the farming population, which constituted 22 per cent of the total population, accounted for only 12 per cent of the G.N.P.

24. The representative of India drew attention to the marked imbalance in his country's trade with Austria and to the fact that India treated imports from Austria on the same basis as imports from all "soft currency" countries. As all transactions between the two countries had been cleared through the EPU and now settled in convertible currency there were clearly no payments grounds for the discriminatory treatment accorded by Austria to Indian products. In view of the critical balance-of-payments position of India, the Indian Government might be compelled to reconsider its present treatment for Austrian goods unless Indian exports were assured non-discriminatory access to the Austrian market.

25. In the light of the externally convertible status of currencies the Austrian Government was urged to eliminate discrimination still existing. The Austrian representative stressed the special circumstances which made it difficult for Austria to advance further in this direction immediately. Trade with the Eastern European countries must be conducted on a bilateral basis and the preservation of the existing trade with the Eastern countries was essential, especially as the percentage of total trade with these countries had decreased to 10-12 per cent from the pre-war level of about 30 per cent. These bilateral agreements in the view of the Austrian
representative could be justified on balance-of-payments grounds. Some Austrian industries, partly those which had not benefitted from post-war reconstruction and investment programmes in the Western States of Austria, were export-oriented towards these countries. If goods now imported from these Eastern European countries would have to be imported from the West, additional strains would be placed on Austria's balance of payments. Several members of the Committee said that they appreciated the difficulties imposed by the special circumstances of Austria's geographic position, but they considered it desirable that Austria should endeavour to reduce its reliance upon bilateral arrangements.

Effects of the Restrictions

26. The Committee discussed with the Austrian representative the question of avoiding incidental protective effects of the restrictions maintained for balance-of-payments reasons. The Austrian representative considered that it was as yet premature to say which industries were likely to meet with difficulties of a "hard-core" nature.

27. The Committee was assured that the inclusion of representatives of industry in the Foreign Trade Council did not mean that local industries had any determinant voice in the country's commercial policy. The Council being a purely advisory body, all decisions regarding import control policy rested with the competent ministers and ultimately with the Council of Ministers. The Chamber of Labour in Austria was not a trade union organization and represented predominantly the interests of consumers.

General

27. Summing up the discussions the Chairman stated that it had been the view of several members of the Committee that in the light of the continued increase in and the high level of the net gold and foreign exchange holdings, Austria's attitude toward removing restrictions were over-cautious. As no payments advantage could be gained by making purchases in one country rather
then another among the convertible currency countries there was no reason why all discrimination among these countries should not be eliminated. It was hoped that steps would be taken by the Austrian authorities to ensure that adequate and precise information were available.

28. The representative of Austria reassured the Committee that note had been taken of all the views and suggestions that had been put forward by members of the Committee and that all these would be conveyed to his Government for consideration.

Annex I Opening statement by the Austrian representative
Annex II Results of the last consultation between Austria and the IMF