WORKING PARTY 5 ON BALANCE-OF-PAYMENT IMPORT RESTRICTIONS

DRAFT of Report to the CONTRACTING PARTIES

Part I: Report on Consultations
(Paragraphs (a), (d) and (e) of the Terms of Reference)

INTRODUCTION

1. In paragraphs (a) and (d) of its terms of reference, the Working Party was asked to carry out consultations with France pursuant to Article XII:4(b); with Ceylon, Italy, the Netherlands, New Zealand, and the Union of South Africa pursuant to Article XIV:1(g); and with Australia, Southern Rhodesia and the United Kingdom pursuant to both Articles XII:4(b) and XIV:1(g). The representative of the International Monetary Fund informed the Working Party that since the Fund had not completed its own consultations with the Union of South Africa or with the United Kingdom in respect of Southern Rhodesia, it was not yet in a position to furnish the CONTRACTING PARTIES with background material and the results of its consultations. The Fund representative also stated that preliminary work had been done in the Fund on the preparation of background information on New Zealand but the Fund was not in a position to submit papers until it has had an opportunity to check the facts with the New Zealand Government. In view of the important role of the Fund in these consultations as provided in Article XV of the General Agreement, and in view of the procedure adopted by the CONTRACTING PARTIES at their Sixth Session (GATT/CP.6/52), the Working Party recommends that the CONTRACTING PARTIES defer their consultation under Article XIV:1(g) with New Zealand until the Fund is in a position to submit its data on New Zealand. The Working Party further recommends that the consultation under Article XIV:1(g) with South Africa and the consultation under Article XIV:1(g) and XII:4(b) with Southern Rhodesia be deferred until such time as the Fund has completed its consultations with South Africa and with the United Kingdom in regard to Southern Rhodesia under Article XIV of the Fund Agreement.
2. The Working Party, in pursuance of paragraph (e) of its terms of reference, considered in the first instance which contracting parties (other than Australia, France, Southern Rhodesia and the United Kingdom) had changed their balance-of-payments import restrictions since the Sixth Session in such a manner as to make consultations appropriate under Article XII:4(b). The Working Party had before it a secretariat note on measures affecting imports which had been adopted by contracting parties in recent months. In considering these, the Working Party heard statements from the representatives of the contracting parties concerned and studied written statements submitted by them. On the basis of information available, the Working Party considered that eight contracting parties, namely, Brazil, Ceylon, Chile, Finland, New Zealand, Pakistan, Sweden and the Union of South Africa should be invited to consult under the provision in Article XII:4(b) which reads: "The CONTRACTING PARTIES may at any time invite any contracting party which is applying import restrictions under this Article to enter into such consultations with them". Accordingly, the eight contracting parties were invited and agreed, to consult with the CONTRACTING PARTIES under Article XII:4(b).

3. The Fund was invited to consult with the CONTRACTING PARTIES, as required by Article XV, on these newly-instituted consultations. The Working Party, in consultation with the representative of the Fund, agreed that it would be possible to complete the cases of Ceylon and Pakistan at this Session. In order to afford the contracting parties concerned as well as the Fund adequate time for preparation, the Working Party agreed that the consultations with Brazil, Chile, Finland, Sweden, New Zealand and the Union of South Africa under Article XII:4(b) should be deferred until after the present Session, those with the last two Governments to be held concurrently with their deferred consultations under Article XIV:1(g). It was further agreed that the Fund would be notified when these consultations would be expected to proceed and the date by which the CONTRACTING PARTIES would wish to receive the determinations and other relevant material from the Fund.

4. The Working Party considered the means of carrying out the consultations which had been initiated but which, as explained in paragraphs 1 and 3, could not be held at this Session. The Working Party was, on the one hand, concerned about leaving the consultations too long in suspense as would be the case if they were deferred until the Eighth Session. On the other hand,
it was doubtful of the value of establishing a rigid timetable regardless of future events. In the interest of flexibility the Working Party recommends that should the CONTRACTING PARTIES decide to appoint a committee on intersessional business to operate between the Seventh and Eighth Sessions, it should be authorized either to conduct or to appoint a working party to conduct, any of these consultations which may conveniently be proceeded with intersessionally so that they may be concluded at the Eighth Session. The committee, in deciding to proceed with any of these consultations, should take into account the progress made in the Fund in preparing for its consultations with the CONTRACTING PARTIES, the urgency of the respective cases and the convenience of governments. If, however, an intersessional committee is not appointed it is recommended that the procedures adopted at the Third Session be reverted to. Any of the consultations which are not so dealt with will take place at the Eighth Session.

5. In recommending this procedure the Working Party noted that, in accordance with Article XXII, the governments with which consultations had been postponed would be under the obligation to enter into bilateral consultations with any other contracting party when requested to do so regarding matters arising from the application of their balance-of-payments import restrictions.

6. The Working Party, in pursuance of paragraphs (a), (d) and (e) of its terms of reference, therefore, conducted consultations with the following contracting parties:

| Under Article XII:4(b) | France  
| Under Article XIV:1(g) | Pakistan  
| Under Articles XII:4(b) and XIV:1(g) | Italy  
|  | Netherlands  
|  | Australia  
|  | Ceylon  
|  | United Kingdom  

The deviations from Article XIII maintained by Australia, Italy and the Netherlands forming the subject of the Article XIV:1(g) consultations were pursuant to Article XIV:1(c) and those by Ceylon and the United Kingdom were pursuant to Annex J.
7. Despite the varying provisions of the General Agreement which were applicable, each of these contracting parties discussed the entire range and impact of its import restrictions in these consultations. Thus, Australia, Italy and the Netherlands made no effort to isolate any discriminatory measures which might be considered to fall under Article XIV:1(c), rather than Article XIV:1(b), and replied freely to broad enquiries put by other members of the Working Party. The consultations under Article XII:4(b) also proceeded on a broad basis, as had similar consultations conducted at previous sessions, covering the entire range of restrictions maintained by the contracting party in question.

8. In conformity with the discussion in the plenary session, the Working Party, in conducting these consultations, whether under Article XII:4(b) on the intensification of restrictions or under Article XIV:1(g) on their discriminatory application, paid more attention than in the past to the trade aspects of the restrictions, in addition to the financial basis of their application. This is reflected in the following sections of the report dealing with the consultations with individual governments, as well as in the draft report on the discriminatory application of restrictions which the Working Party was instructed to prepare. In particular, mindful of the suggestions put forward by delegations at the plenary meeting, the Working Party allowed ample time for detailed questions to be addressed to the representative of each consulting country on the policy and administration of import restrictions as they affected specific commodities. In the opinion of the Working Party the discussion of specific commodities with a view to illustrating the actual working of the restrictive systems considerably improved the understanding not only of the problems facing the countries imposing restrictions, but of the difficulties which were created for exporting countries by the restrictions.

9. In the course of the consultations, the representatives of several consulting contracting parties amplified the information furnished concerning the internal monetary and fiscal measures adopted by their governments. The Working Party showed considerable interest in these measures and discussed with the consulting countries the relationship between internal monetary and fiscal policy and their balance-of-payments position. The Working Party noted that the Fund had particularly emphasised the importance of monetary and fiscal
measures in restoring international equilibrium and in its own consultations under Article XIV of the Fund Agreement had expressed satisfaction over the achievements of certain of these governments while urging in some cases that additional efforts remained essential to further the results obtained.
10. The Working Party heard a statement from the representative of Australia on the need for the intensification of its import restrictions and the circumstances making necessary the continuation of the deviation from the provisions of Article XIII. Reference was made to the two-third increase in the value of Australia's exports in 1950-51 owing principally to the high prices of wool, which, coupled with only a moderate rise in import prices, resulted in a sizeable current account surplus in the earlier months of 1951. Imports advanced in 1950-52, largely as a result of higher income and investment. This continued sharp rise in imports in the face of declining exports resulted in a trade deficit of £A 377 million and an estimated deficit on goods and services account of £A 530 million in 1951-52. The rapid fall in external reserves continued into the first quarter of 1952.

11. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultation with the International Monetary Fund and representatives of the Fund participated in the consultations conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund's Article XIV consultation with Australia which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultations. The Working Party also took into account the following results of the Fund's consultation:

"The Government of Australia has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"The Fund notes that there has been a serious deterioration in the Australian balance of payments and reserves position during 1951/52 and that the outlook for 1952/53 is not yet clear. The recent intensification of restrictions on imports and other external expenditures is regarded by the Commonwealth Government as a temporary measure only, to be reduced as soon as possible. The Commonwealth Government has taken a number of measures to correct the external imbalance including budgeting for a surplus in 1951/52, imposing more rigorous monetary and credit restraints, cutting immigration targets, reducing public investment programs in conjunction with the States; and has taken steps, including tax and other concessions to farmers, to increase agricultural production."
"In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia."

12. In the course of the consultation under Article XII:4(b), the Working Party was informed by the Fund's representative that the Fund had determined that "the import restrictions of Australia which are under reference do not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

13. Members of the Working Party asked a number of questions concerning alternative corrective measures to the intensification of import restrictions. Specific reference was made in the questions to the degree of inflation in Australia and the effect of this upon the demand for imports. In his reply, the Australian representative stated that domestic inflation had been a matter of concern to the Commonwealth Government for some time and a number of measures had been taken to control inflationary pressures. In answer to specific questions concerning domestic policy, the representative of Australia elaborated upon the various steps taken by his Government, including:

(a) The attainment of a budget surplus in 1951/52 and adoption of a more restrictive monetary and credit policy (comprising further selective and quantitative bank credit controls, capital issue controls, consumer credit restrictions and a rise in long-term interest rates on government bonds).

(b) A substantial reduction in public works programme in 1952/53.

(c) A reduction in the target rate of immigration from 200,000 persons per annum to 80,000 persons per annum.

The representative of Australia referred to the drawings which the Commonwealth Government had arranged with the International Monetary Fund and the two loans from the International Bank for Reconstruction and Development.

14. The representative of Australia drew attention to the long-term programme which the Commonwealth Government had adopted for a series of positive measures to increase agricultural production and consequently to increase the Australian export income.

15. The representative of Australia stated that in applying the restrictions the Government sought to avoid unnecessary damage to the commercial or
economic interests of other contracting parties.

16. In the course of answering detailed questions concerning the administration of the discriminatory import restrictions, the representative of Australia stated that:

(a) in the administration of the restrictions, consideration was given to any substantial price differentials between supplies available from different sources (he gave some examples of goods for which licences had been granted from dollar countries because of the high unit price asked by suppliers in other monetary areas);

(b) on 8 March 1952, there had been very few bilateral agreements in existence and their existence had been primarily to secure markets for Australian exports in those countries, and did not affect the administration of the import licensing;

(c) the problem of contracts outstanding at 8 March 1952 was a matter of considerable concern to the Commonwealth Government who wished to permit the implementation of these contracts to the extent financially possible and had established special procedures to examine all cases of hardship - it had, in fact, discussed this problem bilaterally with certain interested governments; and

(d) import restrictions were not used for the purpose of giving protection to domestic producers and, in fact, producers have been warned that the restrictions would be removed at the earliest possible moment in the light of balance-of-payments considerations.
CEYLON: CONSULTATIONS UNDER ARTICLES XII:4(b) and XIV:1(g)

17. The Working Party heard a statement from the representative of Ceylon describing the import control system in Ceylon, the recent intensification of restrictions and the discriminatory aspects of their application. It was stated that prior to the recent intensification imports into Ceylon were practically free of control except for certain specified items from dollar countries. The recent intensification of restrictions consisted in the addition of 19 items to the list of goods subject to licence when imported from the dollar area and the bringing under licence of some 30 items of imports from EPU countries. This measure was made necessary by the sharp fall in Ceylon's export income and was resorted to in order to build up external reserves and to save dollar income for the implementation of development projects.

18. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultations with the International Monetary Fund and representatives of the Fund participated in the consultations conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund's Article XIV consultation with Ceylon which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultations. The Working Party also took into account the following results of the Fund's consultation:

"The Government of Ceylon has consulted with the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"The Fund notes that in the past when circumstances were favourable Ceylon relaxed its restrictions.

"The Fund notes that in recent months the balance of payments of Ceylon has been deteriorating and that a sizable overall deficit and a deficit with the dollar area now exists. In the light of this situation the Fund considers that Ceylon needs restrictions.

"The Fund welcomes the recent measures adopted to deal with inflationary pressures and expresses the hope that such measures will continue to receive emphasis."
"In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon."

19. In the course of the consultation under Article XII:4(b) the Working Party was informed by the Fund's representative that the Fund had determined that "the import restrictions of Ceylon which are under reference do not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves".

20. In discussing the question of alternative corrective measures which might have been available, the representative of Ceylon referred to the series of emergency measures which had been taken by his Government in the fiscal domain. Food subsidies had been reduced and the governmental selling price of sugar raised. There was a reduction in budget expenditure on certain items, and a new surcharge of 10 per cent on certain import duties and the assessed income tax. Other measures included the doubling of the betting tax, the floating of a government loan and the organization of a national saving campaign. On the production side, the guaranteed price for foodgrains had been increased to stimulate output. Attention was drawn to the Fund's attitude on the desirability of continuing to emphasise the need for anti-inflationary measures.

21. As to the effects of the intensified restrictions, the representative of Ceylon informed the Working Party that imports from dollar countries were being reduced. The need to increase dollar expenditure for foodstuffs had been a major cause in the deterioration in the dollar payments position of the country. It was, however, expected that the disinflationary measures mentioned above would in time have the effect of reducing the demand for imports.

22. The representative of Ceylon described various features of the administration of the import controls, including the administrative use of "monetary ceilings" for imports of particular commodities from dollar countries, and explained the complete exclusion of certain commodities on the basis of considerations not predicated upon the provisions of Article XII,
23. In reply to questions concerning any steps taken to ensure the fulfilment of the price criterion in paragraph 1(a)(i) of Annex J, the Ceylon representative stated that, except in the case of rice which had to be obtained from any source available, the Government had not encountered any serious discrepancy in prices between imports from different sources. With respect to bilateral agreements the Working Party was informed that Ceylon had such agreements only with four countries. The purpose of these agreements was merely to provide an indication of the prospective markets for certain commodities and quantities likely to be available in either signatory country. They involved no obligation on the part of Ceylon or the partner countries to import specific commodities; imports under these agreements enjoyed no privileges over the products of other countries and were to be admitted in accordance with the laws and the regulations in force in the countries concerned.
24. The Working Party heard a statement from the representative of France on the developments in the balance-of-payments and reserve position of France leading to the intensification of import restrictions, the manner in which that policy was carried out, and the effects of these restrictions. The French representative provided the Working Party with statistics showing movements in its merchandise trade and external reserves in 1951 and the early months of 1952, and referred to various factors which adversely affected the balance of payments. It was the view of the French delegation, however, that whatever the temporary effect of other factors might have been, the fundamental cause of the worsening of the French balance-of-payments situation in 1951 was to be sought in the gradual deterioration of its trade balance, resulting from the continued rise in imports at a time when the upward tendency in exports following the war in Korea had ceased.

25. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultation with the International Monetary Fund and representatives of the Fund participated in the consultation conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund's Article XIV consultation with France which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultation. The Working Party also took into account the following results of the Fund's consultation:

"The Government of France has consulted the Fund under Article XIV, Section 4, of the Fund Agreement, concerning the further retention of its transitional arrangements.

"The Fund recognizes that France still finds itself in acute difficulties and is experiencing a serious disequilibrium in her balance of payments.

"The Fund notes with satisfaction the present efforts made by the French Government to combat inflationary pressure and improve monetary stability.

"The Fund feels, however, that additional anti-inflationary efforts remain essential to further the results already obtained."
"The Fund has also consulted with France regarding the EFAC accounts, barter deals (échanges compensés) and export subsidies. Since the Fund is examining various types of multiple currency practices and discriminatory currency arrangements now prevailing in Europe, the Fund's conclusion as to these measures in the case of France will be deferred.

"In concluding the 1952 consultations, the Fund had no other comments to make on the transitional arrangements maintained by France."

26. In the course of the consultation, the Working Party was informed by the Fund's representative that the Fund had determined that "the import restrictions of France which are under reference do not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

27. Members of the Working Party and the representative of the Fund drew particular attention to the results of the Fund's consultation with France as cited in paragraph 25. Questions were addressed to the representative of France concerning any alternative corrective measures which might have been available. In reply, the French representative referred to the various measures taken by the French Government since March 1952 to restore confidence in the French currency, which followed stop-gap measures such as the negotiation of a temporary increase in the EPU quota to protect dwindling reserves. A programme was adopted aiming at price reductions, the retrenchment of budget expenditure, stricter enforcement of tax laws, and increased savings. Discussions in the Working Party indicated the importance which several of the participants attached to the views expressed by the Fund with respect to anti-inflationary measures.

28. Addressing itself to the question of the possible effects of these restrictions, the Working Party discussed with the representative of France details of the administration of the restrictions. The French representative informed the Working Party that:

(a) in determining the quotas for different commodities, the Governments consulted the trades and industries concerned even though it could not make provisions for all commercial requirements;
(b) the protection which the Government considered necessary to afford to certain industries was effected through customs tariffs and not by quantitative restrictions;

(c) the French Government had proved its intention to restore the natural pattern of trade as far as possible by adhering to the policy of trade liberalization of the OEEC; it had liberalized its trade with OEEC countries up to 75% of such imports prior to the intensification of the restrictions; and

(d) the prices of imports to be admitted from different sources were taken into account by the Government when negotiating bilateral agreements for the purpose of securing markets for French exports.
ITALY: CONSULTATIONS UNDER ARTICLE XIV:1(g)

29. The Working Party heard a statement from the representative of Italy on the circumstances making necessary the continuation of the deviation from the provisions of Article XIII. It was stated that the discrimination in the application of import restrictions was in the main against imports from dollar countries, and that control of imports from countries in the European Payments Union area had almost been totally abolished.

30. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultation with the International Monetary Fund and representatives of the Fund participated in the consultation conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund's Article XIV consultation with Italy which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultation. The Working Party also took into account the following results of the Fund's consultation:

"The Government of Italy has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"The Fund notes that Italy's external payments position has been characterised so far by an overall deficit, reflecting a dollar deficit partly offset by a surplus in non-convertible currencies. The Fund considers that the present level of gold and dollar reserves is sufficiently large so that Italian exchange policy need no longer emphasize to the same degree the desirability of increasing gold and dollar reserves. The Fund considers also that a possible moderate deterioration in Italy's dollar payments position could appropriately be absorbed by some use of these reserves prior to the introduction of new restrictions.

"The Fund notes with satisfaction that Italy's credit and monetary policies have contributed significantly to the attainment of monetary stability, and to the improvement in the balance of payments position, and that Italy is endeavouring to increase production, consistently with the maintenance of a satisfactory reserve position.

"The staff is requested to explore further with Italy the possible multiple currency aspects of the Italian exchange system.

"In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Italy."
31. In answer to questions put by members of the Working Party concerning the administration of the import restrictions the representative of Italy stated that his Government constantly gave consideration to the need to avoid any protective effect which the restrictions might have on those domestic industries which could not be expected to attain a competitive position in a free market when such restrictions were once dispensed with. Measures such as the relaxation of import restriction or the lowering of a tariff rate were used from time to time to combat any sudden rises of commodity prices resulting from shortages. In addition, special arrangements were in force to admit small quantities of non-essential goods, although the possibility of allotting a share of dollar receipts for such imports was limited in present circumstances.

32. As regards the effect of the discriminatory application of the restrictions, the Italian representative explained that although imports from the dollar area were under strict control, the Government had not neglected the desirability of directing purchases to that area of goods which might be available elsewhere, when the price disparities justified dollar expenditure. Bilateral agreements, though still in force in certain instances, had become less important to the commercial policy of Italy, and an increasing number of them had become inoperative with the progressive relaxation of trade control. The Italian representative assured the Working Party that the policy of his Government was, on the whole, to enlarge and to liberalize imports from all monetary areas to the fullest extent possible under the existing balance-of-payments and reserve conditions of the country.
33. The Working Party heard a statement by the representative of the Netherlands on the factors affecting the balance-of-payments position of the Netherlands and the need to maintain discriminatory restrictions on imports. Reference was made to inflationary pressures which caused a rapid deterioration of the Netherlands balance-of-payments position in 1950 and 1951. The Netherlands representative referred to the various disinflationary measures taken by his Government in March 1951 to restore equilibrium. These included relative variations in prices and wages accompanied by higher taxation, a reduction in investments and budgetary expenditure, a slowing down in building activity and a considerable cutback on food subsidies. Additional monetary and credit measures included the institution of a new requirement of cash deposits for forward foreign exchange purchases, the prohibition of pre-payment for imports, and higher rates of interest. Increased restriction of imports was not resorted to except to a limited extent for imports from the OEEC countries in the form of a reduced percentage of trade liberalization from 65 to 60 per cent; but this percentage was not only restored but raised to 75 in March 1952 upon an improvement in the balance-of-payments position in the EPU.

34. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultation with the International Monetary Fund and representatives of the Fund participated in the consultation conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund's Article XIV consultation with the Netherlands which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultation. The Working Party also took into account the following results of the Fund's consultation:

"The Government of the Netherlands has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"The Fund notes with satisfaction the successful application by the Netherlands Government of monetary, fiscal and credit measures which have
considerably strengthened the Netherlands balance-of-payments and reserve position. The Fund notes that the Netherlands' balance-of-payments position at present involves an overall surplus, mainly in EFU currencies, together with a dollar deficit on current account.

"The Fund has also noted that under existing circumstances the removal of the restrictions on dollar payments is not feasible. If, however, there is any further substantial rise in gold and hard currency reserves, part of this increase could be devoted to some relaxation of the dollar payments restrictions.

"The Fund notes that the Netherlands is practising dollar retention quotas and commercial switches. The Fund also notes the reasons given by the Netherlands for the maintenance of these practices.

"In view of the resolution adopted by the Board of Governors at the Seventh Annual Meeting requesting the Executive Directors of the Fund to make a special study of dollar retention quotas and other similar practices in member countries, the Fund's conclusion as to these measures in the case of the Netherlands will be deferred.

"In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the Netherlands."

35. The Netherlands representative stated that his Government had taken note of the Fund's recommendation regarding the use of any further substantial increment in reserves. He drew attention to factors which might prevent any further increase in reserves, such as the replenishment of stocks, the reduction of export possibilities caused by import restrictions in other countries, increased military expenditure and the maintenance of full employment. Under the circumstances the Netherlands Government considered it necessary to retain, for the time being, its restriction on imports from dollar countries.

36. In reply to questions concerning the discriminatory application of the restrictions, the Netherlands representative assured the Working Party that his Government had always endeavoured to avoid unnecessary damage to the commercial and economic interests of other contracting parties. The impact of the restrictions on the import of certain particular commodities was discussed between the Netherlands representative
and other members of the Working Party. By adhering to the trade liberalization policy of the OEEC the Government had proved that it did not intend to afford protection to uneconomic production.
37. The Working Party heard a statement from the representative of Pakistan on the system of import control in Pakistan, and the scope of the recent intensification of restrictions. It was stated that a heavy and the stagnancy in Pakistan’s exports to dollar countries increase in dollar expenditures had brought about a further deterioration in the country’s dollar accounts since the middle of 1951. The restrictions on dollar imports were intensified in August 1952. This involved the withdrawal of certain goods (grouped under one tariff item) from the dollar open general licence. Imports from other sources were put under stricter restrictions at the same time following unfavourable developments in the country’s general balance of payments, caused by the steep fall in prices and demand for primary commodities and by the failure of wheat crops in Pakistan.

38. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultations with the International Monetary Fund and representatives of the Fund participated in the consultation conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund’s Article XIV consultation with Pakistan which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultation. The Working Party also took into account the following results of the Fund’s consultation:

"The Government of Pakistan has consulted the Fund under Article XIV, Section 4, of the Fund Agreement, concerning the further retention of its transitional arrangements.

"The Fund recognises that Pakistan is experiencing deficits in its overall and dollar balances of payments, and that its reserves have declined sharply since the beginning of 1952. The Fund notes that the use of reserves is closely related to its development programme. The Fund notes also that, partly because of the restrictions recently introduced, the drain on reserves is expected to be considerably eased by the end of the year; however, a balance in the dollar payment position seems unlikely in the near future.

"The Fund notes that in favourable circumstances in the past Pakistan had relaxed the severity of its restrictions and discrimination."
"The Fund notes the efforts undertaken by Pakistan to equilibrate the balance-of-payments position. In view of this and the existence of large budgetary deficits (including capital expenditures) the Fund wishes to emphasize the importance of fiscal and monetary policies in maintaining future stability.

"In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Pakistan."

39. In the course of the consultation under Article XII:4(b), the Working Party was informed by the Fund's representative that the Fund had determined that "the import restrictions of Pakistan which are under reference do not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

40. The representative of Pakistan referred to certain measures taken by his Government to restore balance in the current account. These included a reduction in the support-prices for jute and cotton, a substantial reduction or abolition of the export duties on jute, cotton, wool and tea, an increase in the import duty on cotton textiles and the restriction of credit facilities for financing imports. The long-term development projects which were in progress were expected, upon their completion, to reduce the country's dependence on imports for certain manufactures and increase its export capacity. Members of the Working Party directed attention to the emphasis put by the Fund on the importance of fiscal and monetary policies in maintaining future stability.

41. As for the effect of the measures of intensification, the representative of Pakistan stated that in view of the Government's intention of not cancelling outstanding licences and of admitting imports for which genuine commitments had been made before the intensification of dollar imports, no material decline in the level of imports from the dollar area was expected until after the end of 1952. The policy to be followed after that time would depend upon further developments in the dollar payments situation. Owing to the great disequilibrium in Pakistan's balance of payments with countries outside the dollar area, the intensification of restrictions on imports from those countries had, however, been more substantial.
42. Questions were asked by members of the Working Party concerning the nature and scope of the bilateral agreements entered into by Pakistan and the Working Party was informed that Pakistan had such agreements with sixteen countries; that these agreements involved no more obligation than that imports of specified commodities from the partner countries could be admitted up to agreed quantities during a given period; that no provision was made in these agreements regarding the prices of goods to be bought or sold; and that the quotas provided were often sufficiently large to permit almost the free import of the goods concerned. In particular, the Pakistan representative pointed out that inasmuch as many products figured not only in a number of bilateral agreements but were also covered by Open General Licences, importers were free to choose among different sources of supply on the basis of price and other commercial considerations.

43. As regards any protective effects of the restrictions, the Pakistan representative stated that the Government's policy was to provide the necessary protection to newly established industries through customs tariffs.
44. The Working Party heard a statement from the United Kingdom representative setting out the reasons for which the import restrictions had been intensified, the manner in which imports were reduced and the effects of the restrictions on the United Kingdom's balance of payments. Reference was made to the sharp increase in prices, especially of raw materials since Korea, the necessary expansion in expenditure on defence and the ensuing wage inflation that in turn strengthened the demand for imports. Following the adoption of the trade liberalisation policy under the value of imports from European countries rose sharply in 1951, and the cost and volume of imports from the dollar area also increased considerably. The United Kingdom representative cited statistics to show the deterioration in the payments and reserve position since mid-1951. An outline was also given of the circumstances making it necessary for the United Kingdom to continue to invoke the provisions of Annex J.

45. Pursuant to Article XV, the CONTRACTING PARTIES had initiated consultation with the International Monetary Fund and representatives of the Fund participated in the consultations conducted by the Working Party. The Working Party had before it background material prepared in connection with the Fund's Article XIV consultation with the United Kingdom which the Fund had submitted to the CONTRACTING PARTIES as relevant to their consultations. The Working Party also took into account the following results of the Fund's consultation:

"The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"In the course of the 1952 consultations with the United Kingdom, the Fund was informed of the efforts being made by the United Kingdom to strengthen the position of sterling. The Fund records its view that the interest of all members of the Fund will be much advanced by the convertibility of sterling on a firm basis and the relaxation of restrictions, and welcomes the efforts being made by the United Kingdom Government to progress toward those declared
objectives. However, the Fund has also had to take note of the present low level of the United Kingdom reserves and the serious disequilibrium in the United Kingdom balance of payments.

"In concluding the 1952 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom."

46. In the course of the consultation under Article XII:4(b), the Working Party was informed by the Fund's representative that the Fund had determined that "the import restrictions of the United Kingdom which are under reference do not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

47. In reply to questions by members of the Working Party on alternative corrective measures which might have been available the United Kingdom representative said that his Government had introduced disinflationary measures such as raising the Bank Rate and restricting credit facilities. Internal investment had also been restricted though special encouragement had been given to investment in industries manufacturing export goods. Budgetary measures such as the de-subsidisation of food were also taken. In addition, the Government had taken steps to expand exports, especially those of coal and engineering products. Because of the very rapid loss of exchange reserves during the second half of 1951 and the first quarter of 1952, these internal fiscal and credit measures could not be relied upon alone to cope with the situation quickly enough and the Government considered it necessary to intensify its import restrictions.

48. The United Kingdom representative gave a detailed description to the Working Party of the United Kingdom import programming procedure, including the administrative steps taken when the programme had to be reduced to match the availability of foreign exchange.

49. The United Kingdom representative assured the Working Party that his Government sought by various means to minimise any undesirable incidental protective effects which might result from the restrictions. The criteria for obtaining investment facilities in industry and the close control over allocation of essential materials and finance for investment, would generally prevent expansion of industries obtaining temporary protection as a result of import restrictions. Moreover, producers were
aware of the ephemeral character of the protection afforded by import restrictions, because in the past the United Kingdom had relaxed those restrictions when the balance of payments showed improvement and also because of the Government's adherence to the trade liberalisation policy of the OEEC.

50. Discussion took place on the United Kingdom Token Import Scheme. Although slightly reduced in total when other import restrictions were made, the Government attached sufficient importance to the Scheme to keep it generally in force.

51. In answer to questions on the discriminatory application of restrictions, the United Kingdom representative stated that general discrimination against dollar imports had been reduced during the period under consideration. He observed in this connection that:

(a) in circumstances where all sterling payments to non-sterling countries were likely to be a charge on the gold and dollar reserves, no difference in principle was made as between dollar and other non-sterling sources of supply in the reduction of imports from outside the sterling area. This had resulted in cuts being applied generally to the more expensive sources of supply, especially in the procurement of raw materials for industry;

(b) the Government was conscious of the effect of internal costs of importing from sources where prices were at a high premium over dollar prices for similar goods and had permitted switching of public purchases in certain cases to take advantage of the lower prices;

(c) in connection with private imports of goods showing a wide differentiation in price as between dollar and non-dollar sources of supply global quotas had been introduced which enabled the importer with a licence to choose his own source of supply anywhere in the world. This policy had been applied to commodities such as soft-wood, wood pulp, and hog casings, and it greatly helped to reduce or eliminate the differential between dollar and non-dollar prices; and

(d) another example of the United Kingdom's efforts to allow greater scope for international competition was the reopening of the lead market on 1 October 1952. This market had been completely non-discriminatory. It was the intention of the Government to reopen the zinc market in 1953.

52. Taking the policy as a whole the United Kingdom representative assured the Working Party that his Government had tried to be as non-discriminatory as was permitted by its balance-of-payments and reserve position and that its administrative policy was being directed towards that end.
CONCLUSIONS

53. The Working Party concludes that there has been a full and frank discussion in all these consultations. The consulting governments readily provided the information required by the Working Party and opinions were freely exchanged. There was also full consultation with the International Monetary Fund and the Working Party had the benefit of the background material and results of the Fund's consultations with the governments concerned as well as the necessary determinations of the Fund. The representatives of the governments whose restrictions were the subject of the consultations indicated that they had taken full note of the views expressed by other contracting parties and that these views would be conveyed to their respective governments for consideration.

54. The Working Party recommends that the CONTRACTING PARTIES take note of this report and record that the consultations with France and Pakistan under Article XII:4(b), with Italy and the Netherlands under Article XIV:1(g), and with Australia, Ceylon and the United Kingdom under both Article XII:4(b) and Article XIV:1(g) are concluded with the adoption of this report.