Australia fully appreciates the motives behind the proposals being put forward for stricter rules after convertibility. We agree that balance-of-payments quantitative restrictions should not be used for protective purposes and we know that it is in our own interests as well as in the interests of the trading world to make strenuous efforts to eliminate abuses of the balance-of-payments escape clause. But we do not believe that the problem can be tackled by writing into the General Agreement obligations which could never be accepted by the majority of contracting parties, or by putting into new words obligations which are already in the text.

My remarks are almost entirely limited to Article XII. We believe there is no case for amendments of the kind which have been so far put forward.

Prior Approval

This proposal is unacceptable to us. In Australia, as in most countries, the preparations for any change in import policy are carried out with the utmost secrecy. Immediately after the Cabinet reaches a decision, the changes which are inevitably considerable are announced to the public and are put into force. If it were necessary to wait a week, a month, or more until the CONTRACTING PARTIES gave their approval, considerable damage would inevitably be caused.

This is not our only objection to the concept of prior approval but in itself it is insurmountable. There is another; in making a decision to impose restrictions a government must make a judgment of the situation; this judgment is not a mere measurement of the facts of the past but of the inference to be drawn from those facts and the trends they portend. The Government must not only judge that trend but also determine the size of the financial reserves it needs in the light of those trends. This is a judgment of utmost importance in its economic policy, which the Government cannot hand over as the responsibility of any other body no matter how competently organized.
Prompt post-facto approval

It seems to us that the substance of prompt post-facto approval is already written into Article XII. The paragraph 4 procedures are certainly post-facto. Are they prompt and do they involve approval?

The words in paragraphs 4(a) and (b) provide for prompt action. The only question is whether the CONTRACTING PARTIES themselves are able to meet their side of the obligation. That is an organizational question which we shall have to consider in conjunction with wider problems of organization.

There remains the question of approval. We do not believe that there is anything more that the CONTRACTING PARTIES can or need do than is contained in the present paragraph 4(d), whereby if restrictions are found to be inconsistent with the criteria, the CONTRACTING PARTIES may recommend withdrawal or modification failing which other contracting parties may be released from specified obligations—so giving expression to their disapproval.

Time-Limit

The next major amendment proposed is that the obligation to relax progressively and to eliminate import restrictions should have a time-limit put on it. The country imposing the restrictions should be obliged to remove them in one year. In exceptional circumstances the time-limit might be extended for one further year with the prior approval of the CONTRACTING PARTIES.

But we would remind members of the Working Party that Australia is 10,000 miles away from Geneva, and that we have to allow on average six months for changes in import licensing policy to be reflected in the flow of imports.

If the time-limit obligation should ever be inserted in the General Agreement, we would have to say that with the best will in the world we could not honestly undertake it. When countries have got into balance-of-payments difficulties it is not always through any fault of their own or through any conditions which they themselves can remedy. Often the utmost they can do is to keep on restrictions until such time as external conditions improve and they can again trade on a basis of stability.

This is well exemplified by the factor which so often in the past caused or contributed to the balance-of-payments difficulties experienced by Australia—a fall in world prices for raw materials and foodstuffs or a decline in output through seasonal conditions, or indeed, the failure to sell because of great surpluses somewhere else. When this has happened and our reserves have fallen below a certain point, we have simply had to cut down imports by the use of quantitative controls and we have then had to keep on those controls until such time as export prices have risen again and our reserves have been restored to a reasonable level. That may happen fairly quickly or it may take a long time, but it is beyond our power to determine how long it will take.
In addition to the uncertainties about our export income, there is the very pace of Australia's economic development. This generates pressures for increased imports which make it still more difficult for us to know how soon import controls will become effective.

It may be said that the time-limit could be met by vigorous internal measures. That, however, is a matter on which we can give no undertakings beyond stating that it is one of the foremost objectives of the Australian Government to maintain internal economic stability. We are no press-button economy. The Government, despite the great limitations under which it operates in our Federal Constitution, has achieved a great deal in the field of anti-inflationary policy in recent years, but can give no guarantees affecting the timing and intensity of internal economic measures.

It may be said also that we have nothing to fear from the time-limit proposal, for the CONTRACTING PARTIES would always give sympathetic consideration to deserving cases. But the proposal is that countries should accept an obligation to remove import restrictions in a specified period of time. Whether the period be six months, twelve months, two years or more, we could not accept even a waiver with any certainty that we could live up to the obligation. We can go no further than the existing undertaking to relax progressively and eliminate restrictions as soon as we can.

Moreover, the very concept of a waiver approach is repugnant. Not only do we know that, regardless of the decision, we must and will make our own judgment and therefore our own decision, but the use of a waiver puts the applicant contracting party in the position of appearing to offend against the principle. This is a position we cannot accept. We are now making it clear that we accept the principle of applying quantitative restrictions for balance-of-payments reasons only in necessitous circumstances and with no other motives than balance-of-payments reasons. Since we do not offend the principle, we feel we should not have to beg for the right to apply the restrictions.

What the present Procedures provide

So much for Australia's own position in relation to the time-limit proposal. But we appreciate the motives of the proposal. We realize that behind the smoke-screen of balance-of-payments quantitative restrictions some countries may use quantitative restrictions for other than balance-of-payments reasons. The time-limit proposal is an attempt to force illegal quantitative restrictions out into the open where there will be a better chance of eliminating them. The proposal is also part of the collective approach to convertibility. It is intended to be geared to the collective approach, to come into force at an appropriate time after the convertibility operation and to play a part in maintaining currency convertibility.
As a foundation member of the collective approach, Australia has an interest in and a responsibility for seeing the aims of the time-limit proposal achieved. But we believe that the solution is to be found in the existing text of Article XII, in particular in the consultation procedures in paragraph 4.

What are the present rules and procedures?

Paragraph 1 is a statement of principle with which all are agreed.

Paragraph 2(a) sets out the criteria for deciding when a country may resort to the provisions of paragraph 1.

Paragraph 2(b) obliges countries applying restrictions under 2(a) to relax them progressively as the balance-of-payments position improves and to eliminate them as soon as they can.

Paragraph 3 contains certain qualifications and obligations of an interpretative or supplementary kind.

Paragraph 4 contains the procedures for consultation. Under paragraph 4(b), the CONTRACTING PARTIES may at any time invite countries applying import restrictions to consult about the nature of their balance-of-payments difficulties, alternative corrective measures and the possible effects of such measures on the economies of other countries. The CONTRACTING PARTIES must invite a country substantially intensifying restrictions to consult within thirty days.

Furthermore, Article XII 4(d) provides that any contracting party which considers that another contracting party is using import restrictions unwarrantably may bring the matter up for discussion. The contracting party applying the restrictions must attend. The CONTRACTING PARTIES may make a determination on the issue and therefore a post-facto approval or disapproval. If they decide against the country applying the restrictions they may recommend that the restrictions be withdrawn or modified, failing which other contracting parties may be released from specified obligations.

Finally, paragraph 5 provides for a special review of world economic conditions, to find ways and means of removing underlying causes of disequilibrium, in the event of persistent and widespread application of import restrictions.

It is our conviction that these rules and procedures are complete and adequate for all situations. We do not believe that they need amending to reflect fundamental changes which have taken place in the international economy since they were conceived. They were drafted to apply possibly for all time. The postwar transitional period provisions are to be found in Article XIV:1, not in Article XII, and, when the General Agreement was drafted, it was thought that the transitional period would last for only about five years.
The rules and procedures in Article XII are a fine balance between the need to allow countries to protect their foreign exchange reserves and the need to prevent countries from making unwarrantable use of the balance-of-payments escape clause.

Inadequate use of present Articles

It is said that the consultation procedures have proved ineffective, that they must be revised and strengthened.

Defects in past consultations have been due not to any weakness in the procedures, but because contracting parties have not made effective use of the procedures available to them. There have probably been good reasons for this. In the difficult years we have passed through, countries have been reluctant to enforce the rules. But, in a convertible world, that should change. Countries whose currencies have become convertible will have a much stronger interest in using the procedures fully.

So far the majority of consultations have been on discrimination under Article XIV. In them the United States and Canada have played a rather lonely rôle as prosecutors, and most of the rest of the trading world has been in sympathy with the defence. But after convertibility we might see the Sterling Area countries, the major European countries and North America lined up together. They will have at their disposal their combined trade intelligence services and consultations should become a powerful instrument of persuasion.

It is said that there should be improved co-ordination between the CONTRACTING PARTIES and the Fund. But the first thing to examine is whether the CONTRACTING PARTIES are at present making adequate use of the facilities for factual information already available from the Fund under existing arrangements. Our experience rather suggests the contrary.

If we stick to the present procedures, we overcome at a stroke two important defects of the time-limit proposal. I refer to the special exemptions for underdeveloped countries and to the problem of when the time-limit should be introduced.

The fact that it is suggested that there should be special exemptions for underdeveloped countries reveals the basic weakness of the time-limit proposal. It must have been obvious that many countries could not accept a time-limit, but it was thought that they could be neatly segregated. They cannot for this purpose.

If the proposal is based on the argument that the consequence of development in these areas is continued pressure of imports on the economy, then it is difficult to see in what respect the Australian problem of rapid development is different. A rising population and a rising national income must lead to increased imports. If these are not continuously financed adequately by exports or by inflows of capital, then Australia must expect the same sort of pressures as seems to be taken for granted in respect of the underdeveloped countries.
If this is not the problem there is, in our view, a danger of confusing with the balance-of-payments question the altogether separate issue of the use of quantitative restrictions in underdeveloped areas for protective and developmental purposes.

By way of final comment on the value of the present procedures, it is observed that they present no difficulty as to the timing of their imposition. The present Article XII remains valid in our view both for conditions before and after convertibility. Accordingly no difficulty is presented by the date of convertibility for the application of stricter rules. There is simply the need for an increasingly rigorous application of the present administrative processes as provided in the Article.

Conclusion

In short, the Australian delegation is not able to agree to assume the obligations inherent in proposals sponsored by the United Kingdom and other delegations which are not only unacceptable in principle, but for which - to quote again the time-limit proposal for example - no guarantee whatever can be given that they will be carried out. We believe that Article XII can work and that the onus is on those who wish to make substantive changes for tighter control to show that the present procedures cannot be administered more effectively to this end.