Working Party 8 on Balance of Payments Restrictions

RESTRICTED

22 November 1955

DRAFT OF
THE SIXTH ANNUAL REPORT UNDER ARTICLE XIV:1(g)
ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONS

1. Under paragraph 1(g) of Article XIV the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of the Agreement permitting the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report has been drawn up by the CONTRACTING PARTIES at their Tenth Session held in October - December 1955. It is based on information supplied by the contracting parties concerned, either in writing or in the course of discussions and consultations at that Session, and on data gathered from other sources, including information supplied by the International Monetary Fund. The report is devoted principally to an examination of the general trend in the field of discriminatory restrictions during the first ten months of 1955. In the Annex a brief description is given of the discriminatory restrictive system of each of the contracting parties concerned, and of the more important modifications introduced during the year.

2. In statements submitted in 1955 at the request of the CONTRACTING PARTIES or in other communications, twenty-two of the thirty-five contracting parties to the Agreement have stated that they maintain restrictions on imports to safeguard their balance of payments and are exercising some degree of discrimination as between sources of supply as permitted under paragraphs 1(b) and/or 1(c) of Article XIV, or under Annex J. These are:

Australia	Germany	Pakistan
Austria	Greece	Rhodesia and Nyasaland
Burma	India	Sweden
Ceylon	Italy	Turkey
Chile	Japan	United Kingdom
Denmark	Netherlands	Uruguay
Finland	New Zealand	
France	Norway	

3. /The Governments of Indonesia and the Union of South Afica have stated that they are not acting under any of the provisions of Article XIV. Eleven contracting parties, namely Belgium, Brazil, Canada, Cuba, Czechoslovakia, Dominican Republic, Haiti, Luxemburg, Nicaragua, Peru and the United States, have reported that they do not restrict imports for balance-of-payments reasons. Among these, the Government of Brazil, which was listed in last year's report among those which applied discriminatory restrictions, has stated that its resort to the provisions of Articles XII and XIV, ceased with the institution on 10 October 1953 of the exchange auction system under which the licensing of imports is automatic upon closure of bidding by importers for foreign exchange. The Government of Czechoslovakia has stated that state trading in Czechoslovakia is an integral part of the planned economy under which imports are effected to the full extent of the countries' requirement and capacity to pay; they are not restricted for reasons of monetary reserves./

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4. It was noted in last year's report[1] that the general improvement in the world dollar situation which began in 1953 had continued in 1954, and that there had remained only a few countries, notably some of those largely dependent upon the export of raw materials, for which the difficulties of preceding years had not been lessened. Although this continuing trend was due in part to several special factors of uncertain duration and magnitude, such as the sustained volume of United States off-shore purchases and military and other expenditure abroad, the vigorous recovery of industrial production, especially in Europe, had enabled most major trading countries to withstand the effects of a recession in the United States and to continue to increase their gold and dollar reserves. The general improvement during 1953-54 encouraged a number of the more important trading countries to introduce greater freedom in their international transactions and to reduce the degree of restriction on imports. Especially in 1954 the reduction of restrictions on imports from the dollar area figured more prominently in the measures of relaxation adopted.

5. Toward the end of 1954, although the dollar payments position of the non-dollar world as a whole remained favourable and total gold and dollar reserves continued to increase outside the United States, the growth of such reserves had slowed down substantially, and in some countries reserves were even reduced. Dollar imports into Western Europe rose substantially. At the same time, a number of countries which had been facing difficulties, especially those heavily dependent upon the export of raw materials, suffered further reversals. Latin American exports in particular suffered from a decline in raw material prices and a sharp reduction in sales.

6. In the fourth quarter of 1954, United States exports (excluding exports financed by military aid) rose to an annual rate of no less than $14.2 billion from the figure of $12.5 billion in the previous twelve months, while United States imports remained unchanged at an annual rate of $10.3 billion. In the first half of 1955, however, these exports declined slightly to an annual rate of $13.9 billion, while imports increased to $11 billion. Preliminary figures for the third quarter indicate little further change in these figures. Net receipts of gold and dollars by the rest of the world through transactions with the United States were at an annual rate of about $1.3 billion in the last quarter of 1954 compared to the level of $1.5 billion in the previous twelve months. In the first half of 1955, such net receipts of gold and dollars by the rest of the world declined to an annual rate of $950 million.

7. It is noteworthy that most important trading nations, in some cases despite falling reserves, have maintained in 1955 the gains already made in the reduction of discriminatory restrictions on dollar imports. Many countries have even made further progress. In Europe, Denmark, the Federal Republic of Germany, Greece, the Netherlands, Sweden and the United Kingdom and among other sterling countries, India, Pakistan and the Union of South Africa, which

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[1] Basic Instruments and Selected Documents, Third Supplement, pp.63-77.

had in the preceding year substantially reduced their discriminatory restrictions or totally eliminated discrimination, took no retrogressive steps. In a number of other cases further measures of relaxation have been taken by governments in 1955.

8. The United Kingdom has continued its policy of reducing discrimination against dollar goods, and in the course of 1955 a number of products, namely hides and skins, some fats and oils, cotton linters, phosphate rocks, some ferro alloys and aluminium, have been added to the list of commodities which may be imported free of licence from all sources. In April 1955 Germany further extended its free list of liberalized dollar imports. In January 1955 Sweden announced a further relaxation of dollar restrictions by enlarging the free list. Effective from 21 February 1955 Denmark established a new general free list. In October 1955 some further restrictions on Danish imports from the dollar area were removed. As a result of these measures a high proportion of these countries' imports from the dollar area are now free from restrictions. In Austria a new list of liberalized imports from the dollar area was put into force on 15 July 1955, which is of more limited scope.

9. As noted above, the general improvement in the dollar payments situation has not been shared by all countries. The weakening of the reserves position of several countries substantially dependent on the export of primary commodities has led to cases of intensification in import restrictions though not necessarily to increased discrimination. In at least one case, namely Australia, intensification of import restrictions in April 1955, since it applied only to non-dollar imports, had the effect of reducing the level of discrimination against dollar goods. Further measures for restricting imports, introduced in October 1955, affected imports from both dollar and non-dollar countries, but at the same time a move was made in the direction of reducing discrimination by providing for licences for a list of basic materials to be issued on a "world global quota" basis.

10. A brief description of the extent and types of restrictions applied to imports from different sources by each of the twenty-two contracting parties listed in paragraph 2 is given in the Annex. It will be seen that a considerable number of these countries have established either a free list of goods permitted to be imported from any source either without licence or under licences which are freely issued, or a dollar or hard-currency list permitting similarly unrestricted imports from defined dollar areas. Global lists, varyingly referred to as World Exemption List, World Open General Licence, or Unrestricted List, etc., and dollar lists are in force in Austria, Ceylon, Denmark, Germany, Greece, India, the Netherlands, New Zealand, Rhodesia and Nyasaland, Sweden and the United Kingdom. Most dollar free lists have been introduced in recent years, and as mentioned in paragraph 8, for some of these countries such lists cover a substantial proportion of their dollar imports.

11. In addition to these formal measures for reducing discrimination against dollar imports there is reason to believe that the degree of such discrimination has in many cases also been reduced in the area governed by individual and discretionary licensing. This inference is drawn from the statements of many governments maintaining such controls and from the reduced incentives, in some cases, toward continued discrimination against dollar goods. Under the renewed European Payments Union, for example, net surpluses or deficits, beginning on 1 August 1955, have been settled on a basis of 75 per cent gold and 25 per cent credit instead of the previous ratio of 50 per cent each.

12. The progress made in the relaxation of restrictions discriminatory against dollar goods has not been uniform as between the different classes of commodities imported. The emphasis in relaxation has been mainly on those goods the import of which could directly contribute to lowering costs of production such as industrial raw materials and other basic commodities. As pointed out in last year's report, in a considerable number of countries a wide range of manufactured goods remains subject to discriminatory restrictions.

13. Even with the qualification that progress toward the relaxation of dollar discrimination has been uneven both as between countries and as between commodity groups, it remains gratifying that this progress has continued at a time when the improvement in the dollar position of non-dollar countries generally has proceeded at a slower pace. Moves in the direction of dollar liberalization by major trading countries before the advent of convertibility of their currencies should make easier the adjustment process following convertibility, and the further progress made in 1955 should therefore facilitate the movement towards convertibility. In addition to the reduction in discrimination in the administration of import restrictions, further progress has been made by some countries in the restoration of "de facto convertibility" through extending the transferability of their currencies or through other measures.

14. There has been an encouraging tendency by countries faced with balance-of-payments difficulties to seek solutions through measures other than the introduction of further restrictions on trade. Emphasis has been placed on internal fiscal and economic measures as a means of dealing with such difficulties. By relieving undue pressures on domestic prices and demand, internal measures can make a fundamental contribution to the alleviation of a country's balance-of-payments difficulties not only by moderating the outflow of payments but also by enhancing the country's ability to export. In this connexion, the observations of the contracting parties in the Third Report on the Discriminatory Application of Import Restrictions appear relevant:

> "Discriminatory restrictions cannot in themselves be regarded as providing a satisfactory solution to balance-of-payment difficulties. At most, they may prevent a further deterioration in a country's reserve position (or in the case of a contracting party with very low monetary reserves, permit it to achieve a reasonable rate of increase in its reserves), pending the adoption of fundamental corrective action. When maintained for long periods, their effect on a country's industry and trade may even accentuate the balance-of-payment difficulties and prolong them."

15. In the past, the severity of the restrictions that were applied against imports of dollar goods has tended to divert attention from the existence in most countries of restrictions applied in a discriminatory manner as between goods imported from different non-dollar countries. Much remains to be done before dollar discrimination is eliminated. While its elimination remains a difficult problem, the reduction of non-dollar discrimination is also an important element in the move towards the objectives of the General Agreement and the extent of it is, therefore, worthy of attention.

16. The liberalization of intra-European trade under the OEEC has freed to a large extent imports within that region from licensing restrictions. Nevertheless the degree of liberalization achieved varies considerably from country to country, and from category to category,[1] and all members have not attained the new targets set for 30 September 1955 of 90 per cent overall and 75 per cent for each category. Although the extent of state trading in agricultural commodities has diminished, the fact remains that state trading is still widely practised and liberalization of agricultural products remains at a substantially lower level than that of other categories. Moreover, it may be noted that in the area of European trade which is not covered by liberalization, imports are still affected by bilateral trade agreements involving quotas, concluded between members of OEEC, although the payments facilities provided by EPU have eliminated the need for bilateral balancing of accounts. In recent years the entire sterling area participates, through the United Kingdom, in the payments mechanism of EPU and most other sterling area countries maintain few restrictions which discriminate in favour of sterling imports as against imports from EPU countries. While a number of Western European countries extend to the sterling

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[1] The categories are: food and feeding stuffs, raw materials and manufactures.

area the liberalized treatment granted to other EPU members. This does not apply to all the OEEC countries listed in paragraph 2.

17. Continued resort to bilateral agreements between countries in the non-dollar area, if not in all cases resulting directly in discrimination, has tended to preserve conditions favourable to discrimination and to delay the time when the selection amongst sources of imports will be determined by competitive factors. A substantial part of the trade between certain European countries on the one hand and countries of Asia and Latin America on the other, as well as the non-liberalized portion of intra-European trade, is still governed by bilateral trade agreements. The number of such agreements entered into differs from country to country and changes from time to time, but in many European countries a considerable number of agreements are in force, although the volume of trade covered may often represent a small proportion of the total trade between the countries concerned. Countries in the sterling area mostly maintain bilateral agreements only in exceptional cases.[1] These agreements often establish favourable quotas for the importation of goods by one partner from the other or provide some other form of favoured treatment. For example, some OEEC countries extend OEEC treatment to imports from outside countries with whom they have trade or payments agreements and not to countries with whom such agreements do not exist. Some countries which have established regimes of Open General Licence for most non-dollar goods nevertheless withhold this treatment from the goods originating in certain countries.

18. However, with a wider transferability of currencies countries using inconvertible currencies are finding it more difficult to obtain from their trading partners those reciprocal advantages without which bilateral quota arrangements would serve little purpose. The widening of the transferability of currencies is making it less necessary for countries to discriminate among non-dollar currencies. /The payments agreement recently entered into by the Governments of Brazil, Germany, the Netherlands and the United Kingdom may be noted in this connexion. The implications of this arrangement to the progress towards the achievement of the wider system of global multilateral trade are, however, still not fully apparent./

19. In spite of the decreasing need for bilateral agreements for balance-of-payments reasons some countries have been reluctant to relinquish their resort to them. Some countries see in such agreements a means of maintaining exports that are important in their trade, and sometimes of preventing a decline in the prices of these exports. Even when no present advantage is to be derived from such arrangements, and when clear advantages are manifest in a policy of freer trade, some contracting parties hesitate to deprive themselves of this means of protection so long as non-contracting parties which are their competitors have not renounced the use of bilateral arrangements.

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[1] Some information will be found in the country notes in the Annex.

20. /Being drafted/

21. /The General Agreement permits the use of discriminatory restrictions as a transitional measure to meet the peculiar post war situation of payments disequilibrium. The Agreement requires, however, that each contracting party dismantle discriminatory restrictions, whether achieved by bilateral quota agreements or by unilateral action, as rapidly as its balance-of-payments situation permits. For the maintenance of discrimination by one country increases the difficulty that others face in the adoption of non-discrimination and the establishment of currency convertibility. If each country delays action in this field until all risk is removed the achievement of ultimate non-discrimination and the full benefits of multilateral trade is certain to be postponed indefinitely./