

24 November 1955

Working Party 8 on Balance-of-
Payments Restrictions

Revised

DRAFT NOTES ON THE CONSULTATIONS WITH AUSTRALIA
UNDER ARTICLES XII:4(b) and XIV:1(g)

Introduction

1. The consultations with Australia were pursuant to the provisions of paragraph 4(b) of Article XII concerning the intensification of its import restrictions on 1 October 1955, and pursuant to paragraph 1(g) of Article XIV concerning the continued resort to the provisions of Article XIV:1(c). In conducting these consultations the Working Party generally followed the plans adopted and covered all the subjects mentioned therein. On a number of questions, particularly those concerning Australia's basic economic and commercial policies and long-term measures to raise productivity and export capacity, the Working Party noted, however, that a full discussion had been held at the consultation in June-July last. For these questions, the Australian representative therefore referred to the Working Party report on the June-July consultation (L/370) and supplied supplementary information on certain points. The present notes represent a summary of the major points of discussion and broadly follow the pattern of the plan for consultations under Article XII:4(b). Some questions which are exclusively relevant for the consultation under Article XIV:1(g) are dealt with in paragraphs 18 and 19.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Australia. As relevant, the Fund transmitted the results of its 1955 consultations with Australia together with the background material prepared by the Fund staff for that consultation. These documents were referred to and taken into account by the Working Party in the course of the present consultations.¹

¹ The results of the Fund's consultations with Australia (W.10/6/Add.1) and the text of a statement made by the Fund representative during the Working Party consultation are contained in the Appendix to these notes.

Circumstances leading to the intensification

3. In opening the discussion the Australian representative called attention to the statement made by the Head of his delegation at the plenary meeting on 7 November 1955, on the circumstances leading to the intensification of import restrictions on 1 October. The text of that statement was circulated in W.10/7. Reference was made therein to a statement by the Australian Prime Minister on 27 September in which he gave a comprehensive review of the Australian economic situation, announced the Government's decision to tighten import restrictions and outlined the measures to be taken in the internal field to help restore equilibrium in Australia's balance of international payments and to preserve stability in the economy. The text of that statement was made available to contracting parties in L/414/Add.2.

4. The Australian representative explained that the major development since the June-July consultations affecting Australia's balance-of-payments prospects was the decline in wool prices at the current season's auctions which opened in August last. The average price per lb. had declined by about 11d. as compared with the previous year and each fall of one penny meant a loss of some £A 5 million in export income. Because of marketing difficulties arising from the current world wheat situation receipts from wheat exports were also expected to be some 20 per cent lower than in 1954-55. Taking into account these altered prospects for Australia's two major export products, it now seemed likely that Australia's total exports in 1955-56 would not exceed a figure of about £A 730 million. The net deficit on invisible items in 1955-56 was not expected to be much less than the figure of £A 173 million recorded in 1954-55. Assuming a possible net surplus of £A 50 million on capital account (which could prove optimistic) it would appear that over the financial year running from 1 July 1955 to 30 June 1956 Australia's international reserves would decline by roughly the amount by which imports exceeded £A 625 million.

5. The import restrictions operating from 1 April 1955 were expected ultimately to bring imports down to an annual rate of £A 730 million but, owing to the time lag between the issue of licences and the importation of the goods, this annual rate would not be achieved in 1955-56 and, before the October restrictions, the total value of imports in 1955-56 was expected to be about £A 770 million. If no further measures had been taken reserves, which stood at £A 428 million at 30 June 1955 would, as far as could be seen, have fallen by something of the order of £A 140 million by 30 June 1956. While such a decline would still leave reserves at a substantial figure the prospect, before the October measures, was that imports would still be coming in at an annual rate of £A 750 million which, on present export prospects, would imply a continued heavy drain on reserves. Because of these factors the Australian Government had felt it had no alternative but to introduce further import restrictions to operate from 1 October 1955. The new restrictions were expected to reduce imports by £A 80 million in a full year

but, as they would not be reflected in reduced imports until the June quarter of 1956, the reduction in 1955-56 imports was estimated at only £A20 million. 6. This meant that, even after the October restrictions, imports in 1955-56 were expected to reach the comparatively high total of £A730 million. By the June quarter of 1956, however, the restrictions would, it was expected, have brought imports down to an annual rate of about £A650 million - a rate which it was hoped could be maintained without a further serious decline in reserves.

7. In reply to a question as to whether the Australian Government had in mind any particular figure for a "safe minimum" level of reserves, the Australian representative said that what was more important than the absolute level of reserves was the direction and rate of prospective future movements in reserves. In the words of the Australian Prime Minister: "it would not inevitably be disastrous if by the end of next year our reserves were somewhat below £A 300 million but it would be disastrous if that point were reached with nothing done to check the downward fall in reserves".

8. In answer to questions asked by various members of the Working Party the Australian representative said that the pressure of demand for imports which had arisen from the high level of internal prosperity and the rapid rate of development within the country extended to all categories of imports including consumer goods as well as machinery, raw materials and other producers' goods. The Working Party discussed the extent to which the decline in reserves was due to excess demand within Australia for consumer goods. The Australian representative pointed out that, as the statement of the Australian Prime Minister (L/414/Add.2) indicated, the Australian Government was fully conscious of the need for complementing the new import cuts by internal measures to reduce the inflationary pressures in the economy. This was noted by the Working Party and the detailed measures other than import restrictions adopted by the Australian Government are discussed more fully in the following section of these notes.

Alternative and supplementary measures to restore equilibrium

9. In introducing the discussion on alternative and supplementary measures taken by the Australian Government to restore equilibrium the Australian representative recalled that at the June-July consultations it had been pointed out that it remained the Australian Government's "firm intention to reduce and finally to eliminate all import restrictions as soon as that could safely be done and internal policies would be designed to assist towards that end" (see L/370 para.35).

10. The Australian representative said that the first major opportunity for his Government to take action in the internal field was presented by the introduction of the Federal Budget on 24 August 1955. He summarized the Australian Treasurer's budget speech which generally reviewed the Australian economic situation at that time and gave the background to the budgetary measures adopted. Although the previous budget year had ended with a substantial surplus the Government had decided that, in view of the reemergence of inflationary pressures in the economy and the continuing deficit in the balance of payments, no taxation concessions could be given and no new forms of expenditure approved. The 1955-56 Budget, after making provision for all the Commonwealth Government's capital works to be financed from revenue, provided for a surplus of £A48 million which was to be devoted largely to assisting in the financing of the works programmes of the various Australian State Governments.

10. At the time of the presentation of the budget the new season's wool auctions had not begun. When the auctions opened at the end of August and the sharp fall in wool prices became apparent the Australian Government decided upon a further series of measures in the internal field which were announced by the Australian Prime Minister on 27 September 1955 at the same time as the announcement was made of the new import restrictions to operate from 1 October (see L/414 Add.2). These internal measures, which were discussed in some detail in the Working Party, are briefly listed below:

(a) Bank Advances. A new central bank directive has been issued to the Australian trading banks requesting them:

- (i) not to approve new or increased accommodation of any magnitude for capital expenditure; and
- (ii) not to enter into any new commitments involving increased accommodation for financing imports.

The banks were also asked to undertake a comprehensive review of large overdraft accounts.

(b) Hire Purchase. Because of the limitations imposed by the Australian Federal constitution the Commonwealth Government lacks the power to intervene directly to control hire-purchase transactions. However, following an appeal by the Australian Prime Minister the major Australian hire-purchase companies have agreed upon a policy of voluntary restraint which is expected to limit the rate of expansion of hire-purchase financing.

(c) Federal Government Capital Works. Provision was made in the August Budget for expenditure totalling £A 104 million during 1955-56 on Federal Government capital works projects. The Government had, however, decided to reduce the 1955-56 works programme by £A 10 million by deferring various projects. The review of the works programme is still continuing but the Working Party was given details of works totalling £A 21 million which are to be deferred with a cash saving in 1955-56 of £A 4 million.

(d) Measures to promote exports. The measures contemplated by the Australian Government include:

- (i) an intensified trade publicity drive;
- (ii) strengthening of the Australian trade commissioner service;
- (iii) financial aid to trade missions sent abroad by exporting interests;

- (iv) consultation with farming and other export interests on ways and means of improving the efficiency of production and marketing;
 - (v) the setting up, if a system suited to Australian conditions can be evolved, of an export credit guarantee scheme.
- (e) Other measures. In addition, the Australian Prime Minister in his statement of 27 September 1955 (L/414/Add.2):
- (i) made a general appeal to responsible elements in the community to practice voluntary restraint;
 - (ii) announced the deferment of a proposed review of Parliamentary salaries and allowances; and
 - (iii) announced that in future an Annual Economic Report (and other periodical reports) would be issued on the facts of the economic situation to assist in obtaining better public understanding and co-operation in meeting economic problems as they arose.

12. It was noted that action taken in certain other countries to meet similar situations would not be practicable in the Australian case either because of differences in circumstances (e.g. the absence in Australia of a short-term money market) or because of the limitations imposed by the Australian Federal Constitution (e.g. the limited power of the Federal Government to intervene directly in the field of capital issues and hire purchase transactions).

Nature and extent of the intensification

13. A description of the measures of intensification introduced on 1 October 1955 was given by the Australian representative. It was stated that in general the intensification applied to all categories of goods. For import licensing purposes goods were classified in four broad groups. The reductions in import quotas for the goods included in each of the groups were listed in L/414 and set out in more detail in L/414/Add.1. On a limited range of goods the restrictions were not applied on a quota basis, and import licence applications were dealt with on a case by case basis. As goods in this category included, in general, machinery and raw materials the restrictions applicable to them were as a rule less severe than those applicable to goods subject to quota.

14. In the administration of the import licensing measures a distinction is made between goods of dollar origin and goods of non-dollar origin. For a description of the more restrictive measures which were applied to goods of dollar origin, the Australian representative referred the Working Party to his Government's successive replies to the questionnaire on discriminatory restrictions (a brief note on these measures will be found in the Annex to the Sixth Annual Report under Article XIV:1(c)). With regard to goods from countries outside the dollar area importers were free to elect the source of supply, except that a ceiling is placed on the amount of the importer's quota that may be used to import certain goods from Japan. The most

significant change in the element of discrimination which resulted from the new restrictions introduced in October was the provision for a system of issuing licences for a list of basic materials which would permit the licence holder to purchase the materials from any country regardless of currency considerations. A list of these basic materials was given on page 2 of L/414. The total value of imports of these materials in the year 1954-55 was £A57 million. Of this amount, £A28 million was imported from the dollar area during that year. This formal move in the direction of non-discrimination was an extension of the policy that had been followed for some time of modifying the criteria used in the administrative system of licensing dollar goods so as to give greater weight to price considerations and earlier delivery dates.

15. Several members of the Working Party expressed particular interest in the Australian Government's decision to widen the area of non-discrimination in its import control by licensing the listed materials on what amounted to a "world global quota" basis. The view was expressed that the experience of other countries had shown that moves in the direction of non-discrimination could contribute towards overcoming balance-of-payments difficulties by improving the cost structure and competitive position of the countries taking such steps. The Australian representative said that his Government was very conscious of those considerations and hoped it might be practicable progressively to add to the list of items licensed on a non-discriminatory basis. In common with the governments of other countries associated with the "collective approach" towards a freer system of trade and payments, the Australian Government's policy was to play its full part in working towards the achievement of the conditions which were a necessary prerequisite to the attainment of convertibility of currencies and a wider multilateral trading system. The Australian representative concurred with the suggestion of one member of the Working Party that to the extent that discrimination in import controls could be reduced before a formal move to convertibility the adjustments that would then be necessary would be facilitated.

Effects of the restrictions on the trade of contracting parties

16. The Australian representatives provided information on many aspects of the incidence of the new restrictions about which questions were asked by various members of the Working Party.

17. In discussing the treatment given to goods subject to "administrative control" (which applies to practically all dollar goods and to non-dollar goods in the "administrative" category) the Australian representative said that the cut of 12½ per cent would not be applied uniformly to each item. The practice was to draw up quarterly import licensing budgets making allocations for the individual commodities in accordance with the needs and surrounding circumstances prevailing at the time. Some items would not be cut at all and might even receive increased allocations while others would be cut much more than 12½ per cent. One important factor was the stock position at the time the allocation was being considered. The Australian licensing authorities were always willing to discuss with the trade representatives of interested countries any points they might wish to raise from time to time in connexion with the licensing of goods in this "administrative" category. Members of the Working Party expressed appreciation of the Australian Government's attitude on this point.

18. In answer to questions about the effect of the restrictions on dollar goods in particular, the Australian representative said the types of goods Australia imported from the dollar area are in the main essential requirements and it could be taken that no commodity at present being imported would, as a result of the recent intensification of restrictions, be so severely cut as to damage trade connexions. He added that finished consumer goods represent a relatively small proportion of Australia's total imports from the dollar area but that they would not be eliminated. The capital goods sector would have to take a relatively large cut because first priority had to be given to imports of raw materials required to maintain current production. This may mean some slowing up of the rate of industrial development.

19. Certain members of the Working Party contended that their countries' exports to Australia would suffer disproportionately from the new restrictions because their export trade was almost wholly made up of consumer goods which fell within the "B" category in the Australian licensing system and were thus subject to a greater degree of restriction. The Australian representative said his Government was always prepared to discuss bilaterally with the representatives of any contracting party any special difficulties arising for its trade as a result of the operation of the Australian system of import control. In view of its balance-of-payments difficulties, however, the Australian Government must continue to avail itself of the right recognized in Article XII:3(b)(ii) of the General Agreement to determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential in the light of its domestic policies of full employment and rapid development of resources.

20. In response to a question about the twenty-year old agreement between Australia and Belgium providing for the establishment of quotas for the importation of sheet glass into Australia (see L/370 para. 16) the Australian representative explained that, although this agreement preceded the GATT and was still in force, there was no discriminatory element in it. Import quotas were established for all supplying countries on the basis of the proportion of the trade each held in a previous representative period. He indicated, without attempting to define the present legal position, that inasmuch as the agreement did not relate specifically to restrictions applied for balance-of-payments reasons, it would probably require re-examination when the GATT was applied definitely.

21. The Working Party also discussed the measures taken by Australia to minimize the protective effects of import restrictions imposed on balance-of-payments grounds. These measures were also discussed at the June-July consultations and an account of them will be found in paragraph 19 of document L/370.

Discriminatory aspects of Australia's system of import control

22. As relevant for the consultation under Article XIV:1(g) the Australian representative stated that apart from the special treatment accorded to a limited number of imports from Japan, discrimination in the application of Australia's import restrictions was against the dollar area only. The

discriminatory application of restrictions is pursuant to the provisions of paragraph 1(b) and 1(c) of Article XIV. He stated that, in determining its policy on discrimination, Australia has had to take into consideration its deficits on dollar account, indicated in the statistics supplied by the International Monetary Fund, and the fact that such deficits have been met by increased drawings on the sterling area's dollar resources.

23. The Japanese representative on the Working Party expressed his appreciation of the reduction that had taken place in the area of discrimination against Japanese goods in the Australian system of import control. There was nevertheless still some residual discrimination against certain important Japanese export products. As the General Agreement was not applicable as between Japan and Australia it would not be appropriate to pursue discussion of this question in the Working Party. The Japanese delegation would be glad to accept the suggestion made by the leader of the Australian delegation in the plenary meeting that any points of difficulty be discussed privately between representatives of the two countries concerned. The Australian representative confirmed his delegation's willingness to participate in such discussions.

General policy objectives

24. The Australian representative said that the general policy objectives of his Government remained as set out in paragraph 35 of document L/370 recording the June-July consultations. His Government continued to attach the highest importance to the maintenance of full and productive employment, the rapid development of the economic resources of Australia and to the maintenance of a high rate of immigration. It remained at the same time a major policy aim to achieve economic stability and to work towards the objective of removing the need for quantitative import restrictions.

APPENDIX

Statement by the Representative of the
International Monetary Fund

"The International Monetary Fund's 1955 consultation with Australia had not been completed when the October intensification of import restrictions became effective. The Fund has therefore prepared two background papers which together give the picture of recent developments, including the October intensification.

"The results of the Fund's consultations have been distributed to the Working Party. With respect to the question of alternative measures to restore equilibrium, the attention of the delegates is called to this paper, particularly paragraphs 4 and 5. The Fund had no additional alternative measures to suggest at this time.

"With respect to item eleven, relating to Article XII:2(a), I am authorized to say that the general level of restrictions of Australia which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

Results of the Fund's 1955 Consultations with Australia

"1. 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.

"2. Although production continued to expand in 1954/55, signs of pressure on resources became evident as immigration increased and investment and consumption were both at higher levels. Wages and salaries rose and the increase in bank advances offset the contractionary effect of the external deficit on the money supply. The budget for 1954/55 showed a current surplus which, together with long-term public borrowing, was sufficient to finance government investment. Prices were stable during the first half of 1954/55 but showed an upward tendency in the second half.

"3. The external position deteriorated in 1954/55 owing to a large increase in imports and to a fall in export receipts resulting mainly from a decline in wool prices. Wool prices in the opening months of the 1955/56 selling season declined further. Although there was a relatively large net inflow of capital, international reserves declined considerably in 1954/55, and continued to decline in the early months of 1955/56. With a view to arresting the decline in reserves, the Australian authorities intensified their import restrictions on 1 April and 1 October 1955. The intensification of 1 April applied only to imports from the non-dollar area and the intensification of 1 October applied in varying degrees both to dollar and non-dollar imports. Steps were also taken on 1 October 1955 to introduce a non-discriminatory system of import licensing for specified commodities.

"4. The Australian authorities have indicated that the deterioration in Australia's external position is largely due to the pressures of domestic demand and have emphasized the need to take measures to reduce this demand. The budget for 1955/56 provides for a current surplus and the programme for capital work is less than in 1954/55. Measures have been taken to restrain bank lending activities and to curb instalment credit.

"5. The Fund believes that the intensifications of restrictions by Australia in April and October 1955 were warranted in the light of its balance of payments and reserve position, and in this connexion welcomes the steps taken to reduce the incidence of discrimination against the dollar area and expresses the hope that further progress will be made in this direction. Australia is eager to encourage immigration and to develop rapidly its economy. Large variations in export proceeds, especially from wool, add to its difficulties in maintaining external equilibrium. Under these conditions special efforts are needed to relate demand to available resources, and thus to reduce the need for recurrent intensification of restrictions. The Fund, therefore, welcomes the measures being taken to achieve this end. The Fund considers that Australian domestic policies should aim at creating conditions which will make possible the reduction and eventual elimination of restrictions and the avoidance of renewed inflationary pressures. This would facilitate the balanced development of productive resources at a high and stable level of employment and real income.

"6. In concluding the 1955 consultations the Fund has no other comments to make on the transitional arrangements maintained by Australia."