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Committee on Balance-of-Payments RestrictionsREVISED DRAFTELEVENTH ANNUAL REPORT UNDER ARTICLE XIV:1(g)
ON THE DISCRIMINATORY APPLICATION OF IMPORT RESTRICTIONSPreliminary draft to serve as a basis
of discussion at the Committee

1. Under paragraph 1(g) of Article XIV of the General Agreement the CONTRACTING PARTIES are required to report annually on any action still being taken by contracting parties under the provisions of Article XIV which permit the use of discrimination in the application of import restrictions imposed for balance-of-payments reasons. The present report deals with discriminatory restrictions applied by contracting parties on balance-of-payments grounds during the period under review. The report has been drawn up by the CONTRACTING PARTIES at their seventeenth session held in Geneva during October-November 1960.
2. At present, the following seventeen contracting parties state that they maintain restrictions on imports under Article XII or XVIII:B to safeguard their balance of payments: Austria, Brazil, Burma, Ceylon, Chile, Denmark, Finland, Greece, India, Indonesia, Japan, New Zealand, Norway, Pakistan, Turkey, Union of South Africa and Uruguay. Contracting parties exercising some degree of discrimination as between sources of supply under Article XIV:1(b) are: Austria, Brazil, Burma, Chile, Denmark, Finland, Greece, India, Japan and Norway.
3. When the last report was drawn up in October-November 1959 there were twenty-four contracting parties applying restrictions for balance-of-payments reasons. The seven which have ceased to do so are: Australia, France, Ghana, the Federation of Malaya, the Federation of Rhodesia and Nyasaland, Sweden and the United Kingdom, all of which had also been making use of the provisions of Article XIV.

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4. The process of reduction of import restrictions and discrimination applied on balance-of-payments grounds began several years ago and has quickened since the end of 1958 when external convertibility was extended to include most of the important trading currencies. This resulted in an almost complete elimination of the former distinction between these currencies and greatly reduced the scope of the restrictions which contracting parties could justify under the provisions of the General Agreement. In October 1959 the Executive Board of the International Monetary Fund took a decision on discriminatory restrictions imposed for balance-of-payments reasons. In that decision the Fund noted [the progress that had been made towards the elimination of discriminatory restrictions and] the substantial improvement in the reserve position of the industrial countries in particular and the widespread moves towards convertibility. The Fund considered that there was no longer any balance-of-payments justification for discrimination by its members whose current receipts were largely in externally convertible currencies. The Fund, recognizing that a reasonable time [, which should be short,] might be needed for the elimination of discriminatory restrictions, expected that its members would proceed with all feasible speed in eliminating discrimination against other member countries, including that arising from bilateralism. In the case of countries with a substantial portion of their current receipts still subject to limitations on convertibility, particularly in payments relations with State-trading countries, the Fund would be prepared to consider whether balance-of-payments considerations would justify the maintenance of some degree of discrimination, although not as between countries having externally convertible currencies. In this connexion the Fund reaffirmed its basic policy on bilateralism as stated in a previous decision of June 1955.

5. In the Tenth Annual Report on Discrimination the CONTRACTING PARTIES reaffirmed that the removal of discrimination applied under Article XIV of the General Agreement was a vital step towards the achievement of the objectives of the Agreement and the expansion of international trade. There was a consensus that the remaining discrimination applied under Article XIV of the Agreement should quickly be eliminated.]

6. During 1959 and during the first half of 1960 the primary producing and less-developed countries, although as a group showing some improvement in the overall level of their foreign exchange reserves, did not significantly increase their reserves over the relatively low level ^{of reserves} available to them at the end of 1958. A number of these countries have suffered a further reduction in the level of their respective foreign reserves. On the other hand, the combined total gold and foreign exchange reserves of the non-dollar industrial countries, while not increasing at the same rapid rate as in 1958, continued to show some further slight increase with the result that the scope for the maintenance of import restrictions on financial grounds was further reduced.

7. The progress which has been made in 1959 and 1960 is not only reflected in the fact that a number of countries have ceased to apply restrictions on balance-of-payments grounds under Articles XII and XVIII:B and have ceased to invoke Article XIV for the justification of discriminatory restrictions, but also in the reduction of the level of restrictions and the degree of discrimination by countries continuing to resort to the balance-of-payments provisions of the Agreement. Progress in eliminating dollar discrimination has been particularly conspicuous; a number of countries have narrowed or eliminated the distinction between their dollar and their non-dollar free lists, and have extended their global quotas to include countries from the dollar area. However, many contracting parties applying restrictions continue to discriminate against imports from dollar countries. In some cases this remaining discrimination is of a formal nature, i.e. imports from dollar countries still require licences. While these are normally licensed automatically, similar licences are not required for imports from non-dollar sources.

Recent Changes in Discrimination

8. The following paragraphs note the more important recent changes concerning the application by contracting parties of discriminatory import restrictions under Article XIV of the General Agreement.

9. In February 1960, Australia undertook very substantial relaxations of its import restrictions. The area of complete freedom from licensing was increased to over 90 per cent of the total value of imports and at the same time quotas in the remaining restricted sector were substantially increased. As from 1 October 1960, restrictions were removed from imports of motor vehicles from the dollar area, thereby further reducing the remaining area of restriction. Moreover, by this step the last element of discrimination, whether against the dollar area or any other sources in the small remaining restricted sector, was abolished.

10. Effective 7 July 1960, Austria took action to eliminate the last remnant of discrimination against imports from the United States and Canada by liberalizing certain textile and agricultural products.
11. Commodities not on the negative list can be imported freely into Denmark from most GATT countries or from the few remaining countries under a system of open licensing. Import liberalization was further considerably extended on 1 March 1960.
12. In January 1960, France issued a new list showing goods the import of which was restricted for all sources of supply. This conversion to a negative basis of restricted items also reduced the element of discrimination in the former free lists. In latter months, several steps of liberalization were taken, in some cases covering imports from non-dollar, non-EEC GATT countries.
13. Since 1 January 1960, the group of countries participating in the multilateral trade and payments arrangements with Finland has been enlarged to include also France, the United States of America, Canada, Tunisia and Iceland. The bilateral agreements with Uruguay and Paraguay have been discontinued.
14. Ghana, on 25 February 1960, placed on the free list imports of all types of machinery from Japan. On 19 March 1960, dollar discrimination was removed by the removal of all import restrictions except those applied on arms and ammunition, explosives, gold, cinematographic film, petroleum products, unmanufactured tobacco and tobacco manufactures.
15. Since 18 December 1959, India permitted importers to utilize for imports from the dollar area the full value of the licences held by them for importing items other than capital goods from the so-called soft currency area/as a whole/. As a result, imports from the dollar area were placed on par with imports from the soft currency area.

16. Japan undertook several steps during 1960 to remove dollar discrimination. On 1 January 1960 dollar discrimination was removed for copper scrap and copper alloys scrap, abaca fibre, lauan wood and gypsum. In April 1960 dollar discrimination was removed for iron and steel scrap and beef tallow. Another step taken on 1 July 1960 removed dollar discrimination on cattle hides, calf skin and kip skin. This reduced the number of dollar discrimination items to only two.

17. With the termination of import licensing control on 1 July 1960, Malaya ceased to maintain any quantitative restrictions or licensing procedures on imports from the dollar area, from OEEC countries or from Czechoslovakia.

18. On 1 July 1960, the Government of Norway announced a new liberalization measure covering approximately 400 items. This and previous liberalization lists were made applicable to all GATT countries except Japan. Thus the previously existing element of discrimination in the Norwegian import system has been largely eliminated.

19. Through measures on 1 April and 1 August 1960 Sweden has further extended its list of liberalized items, with the result that practically all imports can be imported freely from all contracting parties. Trade with a couple of GATT Member countries, however, continues to be conducted under bilateral trade agreements and imports under these agreements are subject to licensing. Import licences for these countries are generally granted without restrictions.

20. Prior to January 1960, only a few items remained subject to restriction from the dollar area when imported into the Federation of Rhodesia and Nyasaland. At the beginning of this year the Federation announced the liberalization of the following items previously restricted from dollar countries; blankets, rugs and sheets, certain piecegoods, canvas tarpaulin, tents, cutlery, and metal furniture. Imports from Japan continued to be subject to licensing control.

21. On 1 February 1960, the United Kingdom removed controls from dollar imports of tobacco and tobacco manufactures (other than cigars) and from fresh, chilled and frozen fish, synthetic rubber and transistors. Import restrictions are now retained on a very small number of products and there is no longer any discrimination arising from balance-of-payments considerations.

22. With the implementation of the Decree of 29 September 1960 which provided for the elimination of all quantitative import restrictions on all imports regardless of their source, Uruguay has completed the process of import liberalization set out under the Exchange Reform Law of 17 December 1959.

General Observations

[The welcome progress which has been made in substantially reducing dollar discrimination has not always been accompanied by equal progress in removing discrimination against imports from non-dollar sources. A number of countries have continued to maintain distinctions in their import control systems between sources of supply which appear to be unrelated to balance-of-payments considerations. For example, some European countries have continued to accord different treatment to imports from OEEC sources, or to OEEC and dollar sources, from that which they apply to imports from non-OEEC, or non-OEEC non-dollar sources. Such a distinction cannot be justified on balance-of-payments grounds since the establishment of external convertibility of the major European currencies, nor indeed in many cases was it so justifiable even before that event.]

[The reduction of restrictions generally and of discrimination between sources of supply, which has been a feature of the past few years, has, however, served to emphasize the manner in which remaining restrictions are concentrated in certain particular fields, notably in respect of agricultural products.

In a situation in which industrialized products are now enjoying relatively unrestricted access to world markets, trade in agricultural products continues to be hampered by extensive barriers. This is the more to be deplored when it is recalled that the chief, indeed almost the sole, beneficiaries from the massive movement of international reserves of the past few years have been the industrialized countries, and particularly those of Western Europe.]

[Although considerable progress had been made in recent months in reducing reliance on bilateral arrangements, particularly as between contracting parties, a number of countries continued to maintain bilateral arrangements which appeared to contain discriminatory elements as the result of commitments to open quotas for specific quantities of designated imports from bilateral partners. In other cases bilateral arrangements contained indicative commodity lists or target quotas which, in conditions where restrictions extended over a wide range of imports and where there was scope for the exercise of administrative discretion, could give rise to apprehension in the minds of other contracting parties regarding the impact of such arrangements on their trade interests.]

[The CONTRACTING PARTIES in drawing up this report recognized that apart from discriminatory restrictions justified under Article XIV of the General Agreement, trade continued to be subject, in many instances, to discrimination for other than financial reasons. The report, therefore, does not cover all the discriminatory elements in world trade.]

[The CONTRACTING PARTIES reaffirmed their position as stated in the Tenth Annual Report on the Discriminatory Application of Import Restrictions (BISD, 8th Supplement, page 73), that the removal of discrimination applied under Article XIV was a vital step towards the achievement of the objectives of the General Agreement and the expansion of international trade. They welcomed the [substantial] progress which had been made during the past

year towards dismantling quantitative restrictions and particularly discriminatory restrictions maintained for balance-of-payments reasons. The CONTRACTING PARTIES noted that discriminatory restrictions applied under Article XIV of the General Agreement appeared in many instances to be no longer justified on financial grounds. They urged contracting parties applying discriminatory restrictions to eliminate these as quickly as possible.]