

GENERAL AGREEMENT ON  
TARIFFS AND TRADENo. 31  
CP.5/K/SECRET/16  
5 December 1950  
ORIGINAL : ENGLISH

## CONTRACTING PARTIES

DRAFT REPORT OF WORKING PARTY K  
ON CONSULTATIONS UNDER ARTICLE XII: 4(b)I. INTRODUCTION

1. In accordance with the terms of reference agreed upon by the Contracting Parties, the Working Party initiated consultations with Australia, Ceylon, Chile, India, New Zealand, Pakistan, Southern Rhodesia, and the United Kingdom under the provisions of Article XII:4(b). The Working Party also consulted with the International Monetary Fund on behalf of the Contracting Parties in accordance with Article XV (2). The Working Party had before it the documents supplied by the International Monetary Fund for each of the countries entitled "Background Information". In addition the International Monetary Fund provided reports on each of the countries, the factual portions of which are for convenience annexed to this Report, and the conclusions summarised below. The countries with whom consultations took place submitted statements as to their position and made certain comments on the material submitted by the Fund. These statements, and others submitted to the Working Party, have been distributed as separate documents (see references in footnote).<sup>(1)</sup>

2. The consultations on the import restrictions of the countries concerned were, in conformity with the discussion in the plenary session, not limited to the situation as it existed at the time the matter was first on the agenda of the Contracting Parties. In this connection, the representative of Australia associated himself with the position taken by the representative of the United Kingdom when this matter was discussed in the plenary meeting. He stated that the Australian Government considered that consultations ought to be confined to the circumstances existing when the intensification of restrictions which had given rise to the consultation took place. However, the Australian Government, like the United Kingdom Government, were prepared to proceed with these consultations in the light of current circumstances without prejudice to their contention. In these circumstances, the Working Party considered it unnecessary to discuss the matter further. The Working Party noted special circumstances which had led to the postponement of the consultations with the acquiescence of the contracting parties concerned. It agreed that normally all consultations initiated under Article XII should be expeditiously carried out.

(1)

The references in the footnote to G.TT/SECRET/CP.11 will indicate that it was submitted jointly by Australia, New Zealand, India, Pakistan, Ceylon, Southern Rhodesia and the United Kingdom.

3. On the basis of the material before the Working Party there was a full and frank exchange of views relating to the matters referred to in Article XII: 4(a). The opinions expressed in this exchange of views on restrictions against hard currency countries are set out in Sections II and III of this Report.

## II. INTERNATIONAL MONETARY FUND

4. The representatives of the International Monetary Fund stated that on the basis of the factual material presented by the Fund to the Contracting Parties, the Fund had concluded that in the case of the United Kingdom, Australia, New Zealand and Ceylon the present level of reserves and the current rate of earnings made feasible a progressive relaxation of restrictions. In each case this opinion was qualified to the effect that caution in the degree and rate of such relaxation was justified having regard to the extent to which current demand for imports is being controlled by the existing restrictions, and in the case of the United Kingdom, Australia and New Zealand, to the adverse reaction on net earnings which may arise from the economic and financial burdens undertaken to cope with the international situation.

Moreover, in the case of the United Kingdom, caution was also required having regard to the undesirability of any serious decline in reserves from the present level. In the case of Australia and New Zealand, the extent to which the improved position could be made the basis of a relaxation of restrictions also depended in part on the convertibility of their non-dollar (especially sterling) earnings and reserves. A special factor in the case of Australia was the indicated large inflow of foreign capital.

5. As regards Southern Rhodesia, the International Monetary Fund had not been able to reach a judgment as to the feasibility of relaxing restrictions until more information was available, particularly as to capital movements. It appeared, however, to the International Monetary Fund that Southern Rhodesia might be able to undertake some reduction of discrimination against hard currency imports, although such relaxation would probably involve some additional restrictions against soft currency imports.

6. In the case of Chile, the International Monetary Fund pointed out that the present international situation might reasonably be expected to maintain the demand for Chile's principal exports and improve the balance of payments situation in the remainder of 1950. However, it was the Fund's opinion that the level of reserves and the degree of domestic stability which could be achieved in Chile in a short time did not yet make feasible a further general relaxation of restrictions.

7. In the case of India, the Fund representatives pointed out that there had been some recent relaxation of overall import restrictions, including restrictions against dollar imports, which were resulting in a significant use of present reserves. The current indications were that under prevailing conditions, including the trade difficulties with Pakistan, India might again be experiencing a balance of payments deficit, including a dollar deficit. The Fund was of the opinion that, under these conditions, India did not appear to be in a position to undertake further substantial relaxations of import restrictions.

8. With respect to Pakistan, the Fund reported that the present import restrictions of Pakistan were intended to cope with various balance of payments factors affecting Pakistan's reserve position, particularly with those special factors arising out of government purchases in the United States, and trade difficulties with India. Until these factors were reduced in importance and the conditions improved, Pakistan did not appear to be in a position to relax its import restrictions.

### III. VIEWS EXPRESSED IN THE WORKING PARTY

9. As regards Chile, India and Pakistan, note was taken by the Working Party of recent relaxation by these countries and in no case was it suggested that further relaxation of the general level of the restrictions under discussion was appropriate at this time. In the consultation representatives of these three countries explained the steps which their Governments were taking to overcome the special difficulties which they were encountering, and members of the Working Party expressed the hope that their situation would improve sufficiently to permit further relaxation to be undertaken.

10. The Canadian and United States representatives expressed the opinion that the time had come for Australia, Ceylon, New Zealand, the United Kingdom, and Southern Rhodesia to begin the progressive relaxation of their respective restrictions on imports from the dollar area. Emphasis was laid, in the first four of these cases, on the sharply and steadily improving dollar balance of payments positions of these countries since the devaluation of their currencies in September 1949. Southern Rhodesia has maintained a small but consistent gold and dollar surplus for some years. In the case of Ceylon, this favourable movement in current dollar accounts has materially increased a consistent dollar surplus. In the cases of Australia, New Zealand and the United Kingdom, the latter including its dependent overseas territories, 1949 dollar deficits have been transformed into substantial and increasing 1950 dollar surpluses. During the same period, the gold and dollar reserves of the United Kingdom, which also serve as gold and dollar reserves for countries which hold reserves in London, have been rising rapidly, quite apart from any increase attributable to extraordinary foreign assistance. In the case of all of these countries, current export returns and the various factors affecting prospects in the coming year are predominantly favourable for continued improvement in dollar earnings. The Canadian and the United States representatives called attention to the substantial increase in productive capacity in the United Kingdom, the high prices for major exports of many of these countries, the increasing availability of needed imports in soft currency areas at prices competitive with prices in the dollar area, the high level of demand in the dollar area with the prospect that this will continue and probably increase, the effect of devaluation upon the competitive position of these countries' exports in dollar markets and the effects to be anticipated from the investment of time and effort which has been put into the United Kingdom's dollar export drive.

11. The Canadian and United States representatives recognised that, in the case of each of these countries, caution in the degree and rate of relaxation was justifiable in the light of various uncertainties, particularly the net impact of rearmament programmes on the dollar positions of Australia, New Zealand and the United Kingdom. In the case of the five countries,

caution was likewise justified in view of the difficulties of determining the amount of demand for imports which is being controlled by the existing restrictions. Nevertheless, it was the opinion of the Canadian and United States representatives that, with all due caution, it was now possible for Australia, Ceylon, New Zealand, the United Kingdom and Southern Rhodesia to begin the progressive relaxation of their restrictions against imports from the dollar area.

12. The representatives of all the Commonwealth countries whose import restrictions were the subject of the consultation, whether members of the Working Party or not, submitted that their action in restricting dollar and other hard currency imports was directed towards protecting and building up the gold and dollar reserves of the sterling area. The representative of the United Kingdom felt that, while those members of the Working Party who had expressed views on the possibility of the relaxation of restrictions by the Commonwealth countries concerned, had said that they were well aware of and had given full consideration to the existence of the sterling area, they did not give adequate weight to the common interest which the individual countries must have in protecting and strengthening the central reserves of the sterling area as a whole. [ In this connection the United Kingdom representative pointed out that the reference by the Fund to relaxation depending "in part on the convertibility of the non-dollar (especially sterling) earnings and reserves" did not convey a correct impression of the nature of sterling area relationships. ] Nor did the views referred to earlier in this paragraph give sufficient weight to the need for further strengthening of the central reserves. There had been a great improvement in the reserve position in the past 12 months, but those reserves were still inadequate in relation to the demands that might be made upon them. This conclusion had been arrived at by Commonwealth sterling area Ministers when they met for economic and financial talks in London in September, 1950. The events of recent years had shown the effects on the sterling area system which could follow from comparatively minor changes in world economic conditions. A further strengthening of the reserve position was essential to ensure reasonable financial stability and to provide the basis upon which substantial progress could be made towards the declared objectives of fully multilateral world trade and the eventual restoration of sterling convertibility.

13. In this connection the United Kingdom and Australian representatives felt that undue weight had been given to the favourable factors in the developments of the past 12 months and that insufficient attention had been paid to the adverse factors operating in the present situation, the full force of which would not be felt until 1951. It was pointed out that the surplus in the sterling area's balance of payments with the dollar area which had prevailed since late in 1949 accounted for less than one-third of the increase in the sterling area's reserves since devaluation. Receipts under the European Recovery Programme and other external assistance were declining sharply and it was quite impossible at present to forecast what the position in this respect would be in 1951. Account must also be taken of the fact that some part of the recent increase in reserves was attributable to the speculative movement of capital into the United Kingdom.

14. The representatives of the United Kingdom, Australia, New Zealand and Ceylon also pointed out that the improvement in sterling area dollar earnings was closely related to the development of the United States stockpiling programme, which would not continue indefinitely, and to the exceptionally high prices brought about by the unsettled international situation. The representative of the United Kingdom pointed out that the full impact of higher prices for dollar imports and of growing shortages of non-dollar supplies had not yet been felt.

15. The United Kingdom representative also stressed the burden which the additional defence programme and other measures associated with it would place on the United Kingdom economy. This programme would necessarily involve increased dollar imports and, as the diversion of productive capacity became fully effective, would impair United Kingdom export capacity. Every effort would continue to be made to maximise both dollar earning and dollar saving exports but there was no doubt that the rate of progress would be slowed down over the next two or three years. The arrangements for an equitable distribution of the burden of defence between the members of the North Atlantic Treaty Organisation were still under consideration. There were therefore great uncertainties in the outlook for 1951.

At the meeting of Commonwealth Ministers referred to in paragraph 12 above it was considered that increased dollar expenditure would inevitably take place and that the formula for restricting dollar imports in general to 75% of the 1948 level was out of date. All the sterling area Governments concerned had agreed that the effort to strengthen the position and stability of sterling could not be relaxed and that they must continue to maintain strict economy in dollar imports.

16. In their concluding remarks, the representatives of all the countries whose restrictions were the subject of the consultation said that they had taken full note of the views expressed by other members of the Working Party and that they would be given due weight in the consideration of future policy in regard to restrictions on dollar imports.

17. The representatives of the United Kingdom and Australia, and New Zealand, in the course of its consultation, expressed concern at the fact that the International Monetary Fund had presented the Contracting Parties with conclusions on the feasibility of relaxations in import restrictions by the countries concerned in the consultation. A consultation under Article XII: 4(b), as opposed to the consideration of a complaint under other provisions of the Agreement, was essentially the occasion for a full and frank exchange of views on the situation of the country or countries concerned, and the purely consultative character of proceedings under Article XII: 4(b) must be preserved. Otherwise, they felt, the whole future of the General Agreement might be endangered. In such consultations it was wholly inappropriate for the Fund to present conclusions.

18. The United States representative called attention to the unanimous agreement in the Working Party that the Fund should not merely present the Contracting Parties with a mass of undigested statistics and he felt that when an international institution was asked to participate in a consultation the form in which it expressed its views was a matter for it to decide. He stated that quantitative import restrictions under Article XII were only acceptable under the GATT to the extent that they were justified by financial necessity and that the opinion of the Fund expressed in its reports on the question of the feasibility of relaxation was, therefore, clearly appropriate in a full consultation with the Fund under article XV of the General Agreement.

IV. RECOMMENDATIONS

The Working Party recommends that the CONTRACTING PARTIES:

- (a) take note of this Report
- (b) request the representatives of the contracting parties concerned to report to their governments the views expressed herein and any further views which may be expressed in the discussion of the Report by the Contracting Parties, and
- (c) record that the consultations resulting from the invitation to consult issued at the Fourth Session are concluded with the adoption of this Report.