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For Immediate Attention

EB/CGATT/72/1

June 8, 1972

To: Members of the Committee on Liaison with the CONTRACTING PARTIES to the GATT

From: The Committee Secretary

Subject: Preparation for Consultation with the CONTRACTING PARTIES to the GATT

The attached paper sets forth the recommendations of the staff regarding preparation for forthcoming consultations with the CONTRACTING PARTIES to the GATT. Unless a member of the Committee requests a meeting of the Committee to consider this matter by the close of business on Tuesday, June 13, 1972, these recommendations will be deemed approved by the Committee for submission to the Executive Board and it will be so recorded.

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads

June 8, 1972

To: The Chairman of the Committee on Liaison with the CONTRACTING PARTIES to the GATT

From: The Director, Exchange and Trade Relations Department

Subject: Consultation with the CONTRACTING PARTIES to the GATT

In a letter reproduced as Attachment A, the Director-General of the General Agreement on Tariffs and Trade extends to the Fund an invitation to consult with the CONTRACTING PARTIES in connection with their consultation with Argentina, Finland, New Zealand and South Africa on balance of payments restrictions, and to examine a request by the Government of Uruguay for a further extension of the waiver relating to its import surcharge system. It is intended to recommend to the Executive Board that the Managing Director be authorized to accept this invitation and designate Mr. Edgar Jones, Director of the Geneva Office to represent the Fund during consultations to be held in Geneva for a two-week period beginning June 19, 1972.

In accordance with the procedure set out in EBD/56/102 (8/29/56) and EBD/61/110 (9/1/61), the Fund has transmitted to the CONTRACTING PARTIES background papers and the Executive Board decisions pertaining to the most recent consultations held with Finland, New Zealand and South Africa. In the case of Argentina special authorization by the Executive Director concerned has been obtained and in the case of Uruguay authorization is being sought to transmit the papers on Recent Economic Developments even though the consultations under Article VIII and Article XIV respectively have not as yet been concluded.

It is expected that the GATT Committee on Balance of Payments Restrictions will request the Fund's view with respect to the consulting countries. It is recommended that, in reply to such requests the Fund representatives should be guided by the statements set forth below.

Argentina

"The Fund invites the attention of the CONTRACTING PARTIES to the paper on Argentina--Recent Economic Developments, dated March 15, 1972, which has been transmitted to the CONTRACTING PARTIES.

In 1971 there was a sharp deterioration in both the current and the capital accounts of the balance of payments, and the overall deficit (including the allocation of SDRs) totaled about SDR 570 million, compared with a surplus of about SDR 300 million in 1970. There was a further SDR 180 million deficit in the first four months of 1972. Gross official reserves, which stood at SDR 673 million at the end of 1970, fell to SDR 267 million at the end of 1971 and to SDR 209 million at the end of April 1972.

Exports declined by almost 4 per cent in 1971 as a result of a bad wheat crop and a decline in shipments of beef and other livestock-related products as farmers retained stock in response to rising prices. Imports rose by 12 per cent in 1971 with particularly substantial gains in imports of capital goods and petroleum. The increase in imports was a response to rising inflationary expectations and to the reactivation of the economy after a brief slowdown late in 1970. During the second half of the year, the authorities took several measures to discourage imports, including a temporary tightening of payments regulations, the imposition of a 15 per cent surcharge between November 1971 and February 1972, and the complete prohibition of imports of certain nonessential goods.

During the period April-September 1971, the authorities followed a policy of small frequent adjustments of the exchange rate. On September 20, 1971, a dual exchange market was created in which the official rate remained pegged at $a 5.00 per U.S. dollar, while the financial rate moved in response to supply and demand. At the end of 1971, the financial rate was $a 8.25 per U.S. dollar, and in May 1972 it was $a 9.90 per U.S. dollar. Mixing arrangements, whereby specified proportions of exchange relating to trade transactions were to be negotiated in the financial market, were introduced along with the splitting of the market. In October 1971, 20 per cent of exchange for most exports and imports was to be negotiated in the financial market, and this proportion was raised to 30 per cent in December, 43 per cent in February 1972, and 64 per cent in March.

In the middle of May 1972, the prohibition of imports of certain nonessential goods was extended indefinitely, and other less essential imports were shifted entirely into the financial market. At the same time, the Central Bank prohibited the sale of exchange for imports with less than 180-day financing except with the approval of the Central Bank. Argentina also levies a tax on sales of exchange for tourism, and prohibits remittances of profits, dividends, and royalties. However, those who are entitled to make such remittances are permitted to subscribe with pesos to interest-bearing, dollar-denominated bonds which are freely negotiable at home and abroad."

The Fund believes that at the present time the general level of import restrictions of Argentina which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves.

Finland

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of March 1, 1972 taken at the conclusion of the most recent Article XIV consultation with Finland particularly to paragraphs 3 and 6 which read as follows:

'3. The value of exports, which rose sharply in 1969 and 1970, rose only slightly in 1971, partly because of the strikes and partly reflecting weaker demand conditions. The value of imports rose somewhat more strongly. As a consequence, the current account, which showed a surplus of $20 million in 1969, showed a deficit of $239 million in 1970 and about $340 million in 1971. Reserves, which had increased sharply in the previous three years, continued to rise largely as a result of long-term borrowing. At the end of December 1971 the gold and foreign exchange reserves of the Bank of Finland amounted to the equivalent of $714 million.'

'6. Following action by the U.S. authorities in the exchange field in August 1971 the Finnish authorities along with the authorities of many other Fund members no longer undertook to apply the minimum buying rates previously established for the U.S. dollar, and in December a central rate for the U.S. dollar was established of Fmk 4.10 per US$1, representing a 5.6 per cent depreciation from the par value of the markka expressed in terms of gold. This action was appropriate in the light of Finland's balance of payments position. It should permit the authorities to preserve the gains that have been made in the liberalization of trade and payments and the Fund hopes that efforts will be made to achieve further reduction in the reliance on external restrictions.' "

New Zealand

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 31, 1972 taken at the conclusion of the most recent Article XIV consultation with New Zealand and particularly to paragraphs 4 and 5 which read as follows:

'4. New Zealand continues to have difficulty in obtaining access to markets abroad for some major farm products. However, prices for most primary products have risen in 1971, and despite rising import prices the long-term deterioration in the terms of trade was arrested. In the year ended January 1972, export receipts rose by 10 per cent and import payments by 8 per cent with the current account showing a surplus of \$NZ 48 million. Official reserves are now at a comfortable level; in the 12 months to January 1972, they rose by \$NZ 173 million to a total of \$NZ 511 million, equivalent to some six months of merchandise imports.

'5. The Fund welcomes the action taken by New Zealand in June 1971 to liberalize restrictions on payments and transfers for current international transactions. A substantial range of imports remains subject to quantitative restrictions for which in its relations with GATT the New Zealand Government claims balance of payments reasons. In June 1971, the Government decided that tariffs would replace import licensing as the main measure of protection. Accordingly, a major review is being undertaken, designed to accomplish such replacement within five years. The Fund hopes that the review of the protective system will be accelerated and believes that the present balance of payments and reserves position are strong enough to permit a substantially faster rate of progress in liberalization of quantitative restrictions.'

South Africa

"The Fund invites the attention of the CONTRACTING PARTIES to the Supplementary Background Material dated May 24, 1972.

In 1971, despite a slower pace of activity and easing pressures on the labor market, wages and prices continued to rise rapidly and the current account deficit remained exceptionally large. At R 1,005 million the deficit was some R 160 million larger than in 1970, and equal to about 7 per cent of GDP at current prices. The increase in the value of imports, which had been rather more moderate in the first half of 1971, became quite rapid again in the second half, in part reflecting anticipatory purchases caused by uncertainties in the international currency markets after August 15, 1971, and fears of a tightening of import controls. Because of weak markets for wool, diamonds, and nonferrous metals, the growth in merchandise exports was only 4 per cent in 1971; but the value of "net gold output" was nearly 10 per cent larger than in 1970, owing to substantial price increases in the private gold market. Despite a substantial further net inflow of capital, particularly in the first half of the year, the official reserves fell sharply during 1971. At the end of November 1971, they stood at SDR 567 million representing about two months' imports.

In November 1971, the South African authorities decided to arrest a further deterioration in the balance of payments by tightening quantitative import restrictions. On December 21, 1971, in the context of the general currency realignment, the rand was devalued from R 25 to R 28.5 per ounce of fine gold, i.e., a devaluation of 12.3 per cent.

In early 1972, the current account deficit of the balance of payments declined. While imports were marginally lower, export earnings rose, mainly because of improving demand and rising prices for sugar, wool and diamonds. Gold prices on the private market have risen sharply. There has also been a large inflow of private capital in early 1972 and official reserves have been on an upward trend since end-December. By end-March 1972 they amounted to $842 million (or SDR 777 million), including the allocation of SDR 34 million on January 1, 1972.

South Africa has recently relaxed some of the restrictive measures imposed in November 1971. The Fund welcomes this action and believes that the recent balance of payments and reserves developments should soon allow South Africa to eliminate the remaining measures taken in November 1971 to intensify import restrictions, and to resume the process of further liberalization."

Uruguay

"The Fund invites the attention of the CONTRACTING PARTIES to the paper on Uruguay--Recent Economic Developments, dated June 9, 1972 which has been transmitted to the CONTRACTING PARTIES.

Uruguay's balance of payments showed deficits in 1970 and 1971 equivalent to SDR 35.5 million and SDR 38.2 million, respectively, as measured by the decline in the net international reserves of the banking system, and taking into account the allocation of SDRs. At the end of 1971, the net international reserve position of the banking system was negative and equivalent to SDR 66 million, including SDR 42 million in commercial arrears accumulated during 1971. The balance of payments deterioration continued through the first quarter of 1972 with a further foreign reserve loss of SDR 12.5 million (or SDR 19.8 million before the allocation of SDRs). The Government of Uruguay, which assumed office on March 1, 1972, took a number of measures affecting the exchange and trade regime. A dual exchange rate system was introduced with a pegged commercial rate for exports, imports, and government transactions and a freely fluctuating financial rate for invisibles and tourism; the commissions on the sale of foreign exchange, which had been imposed in 1971, were eliminated and import surcharges were reduced. The exchange and trade system of Uruguay still contains a number of restrictive practices including payments arrears, limits on sales for tourism, special import deposit requirements, prescription of terms of payment, import prohibitions, and import surcharges. Also, transfers for profits, dividends, technical assistance payments, and amortization of loans do not have access to the exchange market.

"The Fund believes that at the present time the general level of import restrictions and import surcharges of Uruguay which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves."

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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Dear Mr. Schweitzer,

I wish to confirm, as we have advised through your Mission in Geneva, that the Committee on Balance-of-Payments Restrictions will meet for a two-week period beginning Monday, 19 June, to carry out consultations with the Governments of Argentina, Finland, New Zealand and South Africa on their import restrictions, and to examine a request by the Government of Uruguay for a further extension of the waiver relating to its import surcharge system.

A further meeting of the Committee is envisaged for the latter part of the year to conduct a similar consultation with Iceland. Consideration is being given to the timing and arrangement for the other consultations due in 1972, and I should like to assure you that any decision in this regard will be communicated to the Fund at the earliest possible moment.

Pursuant to paragraph 2 of Article XV of the General Agreement, I should like to invite the Fund to consult with the CONTRACTING PARTIES in connexion with the aforementioned matters.

Yours sincerely,

/s/

O. Long
Director-General

Mr. P.P. Schweitzer,
Managing Director,
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