

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED
LIMITED C
GATT/CP.4/22
6 March 1950

CONTRACTING PARTIES
Fourth Session

ORIGINAL: ENGLISH

INTENSIFICATION OF IMPORT RESTRICTIONS UNDER ARTICLE XII

Statement submitted by the United Kingdom Delegation

INTRODUCTORY NOTE

At the third session of the Contracting Parties at Annecy in 1949, the United Kingdom Delegation brought to the attention of the Contracting Parties, in connection with Article XII (4)(b) of the General Agreement, the emergency measures taken by the United Kingdom in July, 1949 to halt the decline in their gold and dollar reserves, pending the working out of a revised programme of imports for the dollar area, and offered to provide further information in due course as to the revised programme. Information is contained in the following statement.

I - THE STERLING AREA GOLD AND DOLLAR DEFICIT IN 1949

1. During 1948 steady progress was made in the reduction of the gold and dollar deficit of the sterling area which fell from £1,024 million in 1947 to £423 million in 1948; in the last two quarters of 1948 the deficit was £76 million and £93 million. The deficit during the first quarter of 1949 was £82 million but in the second quarter the situation took a serious turn for the worse and the deficit rose to £157 million in that quarter. The salient figures showing the various elements responsible for the increase in the dollar deficit are given in the White Paper on the United Kingdom Balance of Payments, 1946-1949 (Cmd. 7793), but the following summary describes the main factors responsible for the deterioration.

(a) The gold and dollar deficit on account of the United Kingdom itself rose from £126 million in the period July/December, 1948, to £153 million for the first half of 1949. The main causes of this increase were:

- (i) A sharp fall in the value of exports to the U.S.A., particularly during the second quarter. The monthly rate of exports was as follows:-

U.K. Exports to U.S.A.

(in £ million)

| 1948 | | 1949 | | | |
|------|----------|-------|-----|------|-----|
| Year | 1st Qtr. | April | May | June | |
| | 5.5 | 5.3 | 3.3 | 3.6 | 3.0 |

- (ii) More important and more immediate in its impact was the worsening in the United Kingdom invisible

account and other transactions. These include such items as receipts from the sale of oil and diamonds in the dollar area and an increase in financial outgoings.

- (b) The deficit on account of the Rest of the Sterling Area increased from £8 million in the second half of 1948 to £43 million in the first half of 1949. This was largely the result of reduced earnings from exports of raw materials, both from the Colonial territories and from independent sterling area countries, for which demand had been falling severely for several months. The monthly rate of imports into the U.S.A. was as follows:

U.S. Imports from the Rest of the Sterling Area

(in \$ million)

| | 1948 | 1949 | | | |
|--------------|------|----------|-------|------|------|
| | Year | 1st Qtr. | April | May | June |
| <u>Total</u> | 91 | 91 | 86 | 78 | 75 |
| Of which: | | | | | |
| Rubber | 18.0 | 14.9 | 11.7 | 10.2 | 9.8 |
| Wool | 12.5 | 10.4 | 4.5 | 4.8 | 7.9 |

As a result of action taken by South Africa to meet her own balance of payment difficulties gold sales to the United Kingdom, in reimbursement for South Africa's net deficit with the non-sterling area financed through London, were sharply reduced in the first half of 1949 compared with the second half of 1948. At the same time, total dollar imports by the other sterling area countries were showing a tendency to rise.

- (c) Gold and dollar payments to countries outside the dollar area on behalf of the whole sterling area increased from £35 million in the last half of 1948 to £43 million in the first half of 1949.

2. In the face of the heavy increase in the gold and dollar deficit it became necessary to take emergency action to halt the decline in the United Kingdom gold and dollar reserves. As a short-term measure the United Kingdom in June, 1949 applied a standstill to new commitments in the dollar area pending the working out of a new reduced import programme. It was announced at the same time that the United Kingdom was planning for the time being on the assumption that dollar imports would have to be reduced to a level 25% below that of 1948. The standstill on new commitments in the dollar area did not affect existing contracts and commitments, or import licences already issued. Exceptions were also made in particular cases where purchases were necessary on seasonal grounds or where failure to make small purchases would have had disproportionate effects on production or dollar earnings. The standstill could not have any immediate effect on the gold and dollar reserves, owing to the lag caused by previous commitments, which remained unaffected.

At the same time action was being taken to reduce dollar imports by the Colonies.

3. The deficit continued during July, August, and early September at the high rate of the second quarter and totalled £555 million to 18 September, when the £ sterling was devalued from U.S. \$4.03 to U.S. \$2.80 to the £. A new survey of the dollar position was made following the devaluation and though it was impossible to reach firm conclusions about the future so soon after a change of such fundamental importance, His Majesty's Government in the United Kingdom decided that there was no reason to alter the decisions taken earlier, viz. that the United Kingdom's imports from the dollar area should be limited to approximately 75% of their value in 1948. The new dollar import programme announced in October provided for imports at the rate of some \$800 million in the second half of 1949 and \$600 million in the first half of 1950. Details are given in Part II below.

4. This decision to operate on a reduced dollar programme was taken despite the expectation that the immediate result of devaluation might be a considerable improvement in the dollar position, largely of a temporary nature. This improvement has in fact taken place. From 18 to 30 September there was a surplus of U.S. \$16 million and in the fourth quarter of 1949 a deficit of U.S. \$31 million, but although it is not possible to separate with any accuracy the continuing element in the improvement from the temporary or abnormal elements, it is probable that these have been of roughly equal importance in reducing the deficit.

5. United Kingdom gold and dollar holdings (U.S. \$1,688 millions at 31 December) are considerably below the level at the commencement of E.R.P. (\$2,241 million at 31 March, 1948) and compare with over \$4 billion (or over \$10 billion at present prices) in 1938, when the United Kingdom had very substantial investments as well. So long as these reserves remain so far below the level which can be regarded as adequate for supporting the great volume of trade between the sterling and dollar areas it is essential for the United Kingdom to programme dollar imports on a most conservative basis.

II - THE DOLLAR IMPORT PROGRAMME

6. The preceding section shows the changes in the gold and dollar position of the sterling area up to the end of 1949. In the light of this situation the United Kingdom Government announced in October, 1949 that it would be necessary to limit dollar imports in 1950 to an annual rate of about \$1,200 m. (compared with dollar imports of \$1,576 m. during the 12 months ended 30 June, 1949). Accordingly a programme has been drawn up for the first half of 1950 providing imports from dollar sources of about 600 m.

7. It must be pointed out that this programme does not consist of a series of firm commitments; it is rather a set of decisions to guide Government buying policy and the licensing of private imports during the period. It is liable to revision if circumstances change. In particular, the programme rests on two important assumptions...

- (a) that the dollar prices of the commodities concerned remain at approximately their current level;
- (b) that a high level of economic activity and demand is maintained in the dollar area - an assumption of the utmost importance in its implications for the dollar earnings of the sterling area.

8. The expected reduction in dollar imports does not represent simply the intensification of import restrictions. A very large part of the reduction can be ascribed to the following four factors, all of which would tend to reduce dollar imports substantially quite apart from any change in import restrictions -

- (a) The effect of devaluation is to divert imports from dollar to non-dollar sources, or to home production; not only have imports from non-dollar sources become relatively cheaper, but certain kinds of non-dollar materials will naturally be substituted for dollar materials. Thus it is expected that within certain limits the metal using industries will automatically tend to use more steel and less non-ferrous metals.
- (b) The restoration of production in Europe and the Far East is in any case lessening the previous abnormal dependence on the dollar area as a source of supply for essential imports.
- (c) As a result of the fall in commodity prices during early 1949, current dollar prices of many United Kingdom imports from the dollar area are substantially lower than they were during 1948/49.
- (d) During 1949 United Kingdom stocks of many imported commodities were tending to increase; during the 6 months April to September, it is estimated that stocks of the main import commodities, including many dollar commodities, rose by £100 m. (At constant prices). It will be possible to reduce certain stocks during 1950 without running them down below a safe working level.

9. Basis of the dollar import programme

In drawing up the programme the following objectives were aimed at: food imports are based on the maintenance of current rations; raw material imports are based on providing the raw materials necessary for the expected increase in output and productivity, but on the basis of the greatest economy in their use and the elimination of all avoidable waste. Special attention is given to the maintenance of supplies for the export trade, particularly to hard currency areas. In every case account was taken of the expected level of domestic production and of the probable supply, at reasonable prices, from non-dollar sources.

10. The following table taken from the Memorandum on the United Kingdom Position in 1950/51 submitted to O.E.E.C. in December, 1949 compares imports from the dollar area in the year 1949/49 and 1949/50. The figure for 1949/50 takes account of the higher rate of imports of some commodities in

the second half of 1949.

| Commodity | in \$ million | |
|---|---------------|---------|
| | 1949-49 | 1949-50 |
| Bread grains | 356.1 | 331.0 |
| Sugar | 79.6 | 106.8 |
| All other foods and agricultural products | 144.6 | 96.1 |
| Tobacco | 46.8 | 93.5 |
| Chemicals | 43.6 | 44.9 |
| Crude oil* | 20.2 | 20.7 |
| Petroleum products* | 144.0 | 112.8 |
| Steel-making materials | 16.9 | 14.8 |
| Steel | 13.3 | 19.7 |
| Copper | 53.2 | 34.0 |
| Zinc | 31.7 | 19.0 |
| All other non-ferrous metals | 144.0 | 116.4 |
| Raw cotton | 128.0 | 98.7 |
| Other textiles | 22.0 | 7.9 |
| Timber | 69.4 | 59.8 |
| Pulp and paper | 43.1 | 22.2 |
| All other raw materials | 36.1 | 35.7 |
| Equipment | 134.0 | 131.2 |
| Other manufactures | 18.0 | 23.9 |
| Total | 1,544.6 | 1,389.1 |

* Excluding imports from the dollar area not paid for in dollars.