

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2098

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Limited Distribution

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON INDIAN IMPORT SURCHARGES

1. On 31 July 1963 the Government of India advised the CONTRACTING PARTIES that it had introduced a surcharge at the uniform rate of 10 per cent of the existing duties on all imports. The Executive Secretary was advised that the Government of India would be prepared to discuss this matter with the CONTRACTING PARTIES inasmuch as the surcharge was applied to items included in the schedule of tariff bindings annexed to the General Agreement. Since one of the purposes of this measure was said to be the prevention of a worsening of the balance-of-payments position of the country, arrangement was made for the matter to be considered in the first instance by the Committee on Balance-of-Payments Restrictions, and the International Monetary Fund was invited to consult with the CONTRACTING PARTIES pursuant to Article XV:2 in this connexion.
2. The Committee discussed this matter with the Indian delegation on 5 December. For this purpose, it had before it the secretariat note setting out the Indian notification (L/2060), and background material provided by the IMF. From these it noted that the surcharge was imposed in conjunction with other measures to meet the difficult financial situation caused by heavy demands relating to defence and its impact on the economy. These measures included a comprehensive savings scheme, surcharges on income and excise taxes, the latter being imposed on both domestic and imported products.
3. The representative of India explained that, owing to the emergency situation necessitating substantial increases in defence spending, budget expenditure for 1963-64 had been increased to Rs. 3,670 million from the level of Rs. 5,050 million in the previous financial year. To meet this phenomenal rise in expenditure, local taxes, including income and super taxes, had been greatly increased. The import surcharge was designed to raise revenue as well as to absorb excess profit arising from the shortage of imported goods. The import surcharge, together with the countervailing excise levied on imports, was expected to produce about Rs. 260 million, or slightly less than one tenth of the total Rs. 2,660 million to be raised by all the new and increased taxes and levies. The Committee was also informed that the compulsory savings scheme, surcharges on income and excise taxes, and the gold control measure, had all been modified or adapted since their introduction in the emergency, but none of them had been discontinued.

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4. The representative of India further explained that although this uniform increase by 10 per cent of existing tariffs did have the effect of widening the margins of preference, these increases in margins were of insignificant magnitudes. For products bound under Article II of the Agreement, the increases were in no case more than 0.6 per cent ad valorem and slightly exceed the margins existing on the base date of 10 April 1947 only in some cases. For unbound items the increases were in no case more than 1 per cent ad valorem; such increases had not enlarged the margins of preference beyond those which existed on 10 April 1947.

5. Concerning the balance-of-payments effects of the surcharge the Committee noted the statement of the International Monetary Fund in which it was said, inter alia "the general level of the various restrictive and import surcharge measures currently applied by India does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves". The representative of India stated that although the surcharge was originally designed to have some impact on imports, the actual effect had proved to be mainly in its contribution to budgetary revenue. In view of the very severe restrictions on imports in India, which permitted the importation only of highly essential products indispensable to the economy, the surcharge had naturally not had the effect of causing any significant reduction in imports. The Committee considered that, as described by the Indian representative, the surcharge could at most have only marginal effects on the balance of payments.

6. While all the members of the Committee who participated in the discussion expressed the view that the budgetary measures, including the import surcharge, were of assistance in meeting the situation described by the representative of India, they noted that the terms of reference of the Committee limited it to advising the CONTRACTING PARTIES only on the balance-of-payments aspects of the question. Having regard to the very limited relationship between the surcharge and India's balance of payments the Committee considered that it could not submit any substantive recommendations in this context.