

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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FIRST REPORT OF THE WORKING PARTY ON UNITED KINGDOM IMPORT DEPOSITS

1. The Working Party on United Kingdom Import Deposits, established by the CONTRACTING PARTIES at their meeting on 25 November 1968, was asked,

"To examine the Import Deposit Scheme introduced by the United Kingdom and its implication; to present a first report to the Council by 21 January 1969, and to continue to be available for consultation as necessary."

2. The Working Party began its task at a meeting on 9 December, at which time it heard a full statement by the representative of the United Kingdom. In his statement, the representative of the United Kingdom emphasized that the import deposit scheme was viewed as part, and part only, of a package of measures necessary to accelerate progress in bringing the United Kingdom balance of payments into surplus. Very substantial increases in indirect taxation and a heavy additional restriction on credit were other essential parts of this package. The United Kingdom had made every effort, in this connexion, to take account to the fullest extent possible of the interest of its trade partners, adopting even this limited measure reluctantly. The measure had been notified to the CONTRACTING PARTIES at the earliest possible opportunity and the United Kingdom had agreed to participate fully in the discussions in the Working Party. Detailed information had been made available in L/3140 and its addenda and further details would be provided as soon as they became available.

3. Subsequently it was decided, in agreement with the representative of the United Kingdom, that there should be consultation with the International Monetary Fund in accordance with the provisions of Article XV, and an invitation for such consultations was accordingly sent to the Fund on 8 January. These events made it impossible, however, for the Working Party to complete its work by the time originally foreseen, and the Chairman so reported to the meeting of the Council on 21 January.

Consultation with the International Monetary Fund

4. At a meeting of the Working Party held on 31 January, the Working Party carried out the consultation with the International Monetary Fund. The statement presented by the representative of the International Monetary Fund, the full text of which appears in Annex 1 to this report, concluded as follows:

"In these circumstances, the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position."

5. Members of the Working Party thanked the representative of the International Monetary Fund for the Fund's statement on the balance-of-payments position and measures taken to achieve a strengthening of the United Kingdom's reserve position.

Operation of the United Kingdom measure

6. At a meeting of the Working Party on 12 February, there was a discussion of the measures taken by the United Kingdom and of the trade effects of those measures.

7. It was noted that the United Kingdom had imposed the import deposit scheme for a period of one year, during which the rate of deposit might be reduced but not increased. The point was made that as this measure had been presented to the CONTRACTING PARTIES as a necessary means of improving the foreign exchange reserves of the United Kingdom, assurance would be appreciated that the United Kingdom intended to relax or remove the measure within a year from its introduction. The representative of the United Kingdom stated that the import deposit scheme had been introduced for a period of one year only and would if circumstances allowed, be terminated or alleviated before the expiry of that period.

8. It was also noted that the import deposit scheme was intended, among other effects, to contribute, along with certain fiscal and credit measures, to a reduction in the level of current spending. This effect was to be obtained in the case of the import deposits, by withdrawing funds from the private sector to a cumulative amount of some \$500 million after six months. In this connexion, members asked whether the funds collected as deposits were to be used as governmental revenue during the period they were held and whether other borrowing requirements from the private sector would consequently be reduced by the same amount. This method of operation was confirmed. A member of the Committee observed that it seemed that the measure would in that case have a less restrictive effect upon current spending than would have been the case if the funds had been genuinely sterilized. Under actual arrangements the Government would presumably simply alter the source of funds borrowed from the private sector and would use the proceeds of the deposits to contribute to meeting current expenditures. It was explained by the representative of the United Kingdom that the level of public expenditure was already under firm control, and that the import deposit scheme would reduce the Government's need to borrow, above all from the banking system, in order to finance that expenditure (and that it would hence also reduce the level of the public debt). In their view, the scheme would consequently result in a significant contraction of private sector liquidity, and so would reinforce the "squeeze" on that sector's expenditure.

9. Attention was also drawn to the terms of the Customs (Import Deposits) Act 1968, circulated as L/3140/Add.4 which referred to the import deposit as a duty of customs, and clarification was sought as to the interpretation of this term. The United Kingdom representative explained that this description followed the form laid down in existing legislation, but that import deposits were wholly different from actual duties in that they would be refunded as to 100 per cent of their value to the original depositors after 180 days.

10. Further details were also sought as to the criteria upon which exceptions would be allowed to the rule that United Kingdom importers would not normally be allowed to borrow in foreign countries the funds needed for import deposit, as stated in L/3140/Add.5. The representative of the United Kingdom said that this rule related to the operation of exchange controls, a matter both highly technical and necessarily subject to some administrative discretion, given the general purposes involved.

11. One further technical clarification related to the procedures and criteria for exemption of re-exports, as it might appear that an extension of the cases subject to exemption would have been preferable to the creation of an area in which traders were subject to possibly arbitrary decisions of customs authorities. The representative of the United Kingdom explained that relief from deposit could be secured, inter alia, where re-exported goods had been subject to deposit, either because it had been impossible to satisfy customs authorities at the time of importation that the goods in question would be re-exported or because of difficulty in specifying the amount which would be re-exported.

12. In reply to another question, the representative of the United Kingdom explained that the amendment to regulations shown in L/3140/Add.3/Corr.1 did not constitute a discrimination but was due to care taken by the United Kingdom not to claim advantages in the European Free Trade Association countries which might not prove to be acceptable to them. Under the Stockholm Convention, goods cannot obtain the benefit of both drawback of customs duties and EFTA treatment. The United Kingdom had originally warned its traders that refund of import deposit might disqualify British exports from EFTA treatment on this ground, but had issued the amended regulation after EFTA partners had agreed that the refund of import deposit was not a drawback of customs duties.

Effects of the restriction

13. Turning to the question of the choice of the goods to be subjected to import deposit requirement, members of the Committee noted that most but not all agricultural and food products seemed to have been exempted and that the same might be said for raw materials; they asked on what criteria the lists had been drawn up. Products not exempted about which special concerns were voiced included alcoholic beverages, plants other than foods, certain chemicals including calcium carbonate, cotton textiles (especially greys), plywood, newsprint and materials such as synthetic rubber, dressed lumber and dressed leather (where the competitive materials - natural rubber, undressed lumber and undressed leather - were exempt from deposit requirement). A special difficulty existed with respect to cotton textiles, especially the grey goods which were principally supplied to the United Kingdom by developing countries; as exporters of these products had already accepted voluntary restraints on the quantity of their exports, an import deposit requirement seemed to them to constitute an unfair second penalty. The representative of the United Kingdom said that generally speaking the lists had been modelled on those used for application of the surcharge which

had been in force some years ago. He stated that he would try to obtain a statement concerning the criteria which had been used.¹ He noted, however, that his Government had been careful to relieve developing countries of extra burden to a large extent by exemption of certain products which might logically have been made subject to deposit requirement. In reply to the suggestion that the status of these products might be made the subject of review within the year, he noted that the provision for review related not to hardship which might be caused to individual suppliers but to the financial and monetary position of the United Kingdom. He noted also that the greater the consideration given to particular products, the greater was the likelihood that difficulty would arise because of the favouritism shown to some. It was important to preserve a broad effort to improve the balance-of-payments position and for this purpose to keep the measure applicable to all products other than food and raw materials.

14. There were various statements concerning the effects of the import deposit requirement on particular countries' trade, and the point was made that it was still early to assess adequately the full trade impact of the measure. One member of the Working Party noted that 35 per cent of his country's important export trade to the United Kingdom consisted of manufactured goods subject to import deposit, and that this sector included some of the products which had shown the most dynamic trend in recent years. It was beyond question that this trade would be adversely affected. Another member noted that 25 per cent of his country's trade was directly affected, a substantial proportion being the cotton goods already discussed. It was obvious that a restrictive effect on trade was expected through the increased cost of importation.

15. Some members of the Working Party expressed the view that the restriction on foreign borrowing was discriminatory in that the United Kingdom suppliers would be able to borrow in other sterling area countries, although the same facility was now denied when the source of supply was outside the sterling area. The representative of the United Kingdom in his reply recalled that a country which was not in the sterling area would inevitably be subject to different treatment in the operation of exchange control. He noted that a variety of sources of credit was still available and suggested that no real hardship was likely to result to foreign suppliers of competitive and needed goods.

General

16. The Working Party met for the fourth time on 14 March. After consideration and adoption of the text of the Conclusion, the following observations were recorded. The delegation of the Federal Republic of Germany stated that, like other contracting parties, it had supported the Conclusion of the Working Party, which it considered to represent a fair appreciation of the individual case. The delegation welcomed submission of trade policy measures of this kind to an

¹ Such a statement was subsequently submitted. It is reproduced in Annex 2.

effective examination by GATT. As far as the general question of applying measures with regard to foreign trade was concerned, particularly in cases of balance-of-payments disequilibrium, the delegation felt that such problems could not be solved in a satisfactory way by "conclusions" on a case-by-case procedure alone. The question would, in its view, require an overall examination within the competent international organizations. Such an examination should include for example not only restrictive measures but also those of a positive nature, i.e. trade-expanding measures, and certainly not only on the side of deficit countries but also on the side of surplus countries. The delegation of Japan stated that it had agreed to the adoption of the Conclusion on the assumption that the proposed wording did not prejudice a possible discussion on the interpretation of Article XII of the General Agreement which might be held in the future.

Conclusion

17. The Working Party examined the import deposit scheme introduced by the United Kingdom on 27 November 1968 (L/3140 and its addenda) in the light of the findings of the International Monetary Fund that "the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position". Taking into account this finding, the Working Party concluded that the United Kingdom import deposits were not more restrictive than measures that an application of the provisions of Article XII of the General Agreement permits.

18. The Working Party agreed that this Conclusion was without prejudice to the rights of contracting parties under the General Agreement.

19. The Working Party took note of the United Kingdom's statement that the import deposit scheme had been introduced for a period of one year only and would, if circumstances allowed, be terminated or alleviated before the expiry of that period. In any review of the measure by the United Kingdom, special attention will be given to the interests of the developing countries.

20. The Working Party will keep the matter under review and will meet again before 1 July 1969.

ANNEX 1

Statement by the Representative of the International
Monetary Fund, 31 January 1969

The Fund invites the attention of the CONTRACTING PARTIES to the background material dated January 15, 1969 which it has transmitted for their information and use.

The introduction by the United Kingdom of an import deposit scheme was part of several measures taken in November 1968 which are designed to secure a more rapid improvement in the United Kingdom's balance of payments. These measures, which also included an increase in indirect tax rates and action to limit the expansion of bank credit, followed on action taken since the devaluation of the pound sterling in November 1967, primarily aimed at eliminating the balance of payments deficit on current account and attaining a substantial surplus in 1969.

Complete balance of payments data for 1968 are not yet available but data for the first three quarters of that year indicate some improving trends in both the foreign trade deficit and in net earnings from current invisible transactions with a consequential reduction in the net deficit on current account. However, the deficit for the period January-September 1968 remained large. The long-term capital accounts (net) were in deficit in the first half of 1968 and there was an exceptional small surplus in the third quarter. Taking into account other capital movements, exchange adjustments and unidentified transactions, the deficit to be financed in the first nine months of 1968 was £777 million. This amount was financed largely by purchases from the Fund and increases in official liabilities in sterling and in foreign currencies. On November 29, 1967 the Fund approved a standby arrangement for the United Kingdom effective for one year to November 30, 1968 authorizing the United Kingdom to purchase up to the equivalent of \$1,400 million. The full amount was drawn on June 19, 1968.

Recently published statistics show official holdings of gold and convertible currencies as \$2,422 million on December 31, 1968, somewhat lower than a year earlier. These holdings were low in relation to the United Kingdom's external liabilities in sterling (net) which in September 1968 amounted to the equivalent of about \$14,000 million. To some extent these liabilities represent short- and medium-term foreign obligations which the United Kingdom has incurred as a result of drawings on facilities designed to support the balance of payments.

In these circumstances the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position.

ANNEX 2

United Kingdom Memorandum on Problem of Product Coverage

One basic purpose of the import deposit scheme is to effect a reduction in domestic liquidity. This effect depends upon three main variables: the total value of goods covered, the rate of deposit, and the period of deposit (there is also of course the scale of overseas financing of the deposits). The longer the list of exempted goods, the higher the rate and/or the longer the period would have had to be in order to produce a given result. Taking all these aspects of the matter into account, the United Kingdom Government decided that this desired result could best be achieved by requiring a 50 per cent deposit for six months on all goods with the broad exceptions of basic foods, feeding stuffs, fuel and those raw materials which had not been subjected to more than an elementary processing outside the United Kingdom. The exempted goods represent about two thirds by value of United Kingdom imports and are all in a broad sense essential. The detailed schedule of exemptions was prepared on this basis. It takes no account of whether supplies of particular goods and materials are available from domestic sources. If the deposit requirement had been limited to items available domestically, the scheme would have had a protectionist effect.

It was recognized that the product of one industry may be the raw material for another, and that all attempts to draw a dividing line inevitably result in certain apparent anomalies; however, it was above all essential to arrive at broadly defensible and workable definitions, and to secure a product coverage for the scheme on a sufficiently wide basis to avoid the necessities of a higher rate of deposit or a longer period of retention. The schedule of exemptions was therefore framed on the basis of broad concepts, in as practicable a way as possible, and within the headings of the United Kingdom Customs Tariff. These exemptions apply to goods of the descriptions specified, without regard to the source of supply. Thus the scheme is strictly non-discriminatory, though naturally those countries whose exports to the United Kingdom consist mainly of foodstuffs and raw materials subject only to elementary processing are least affected. The United Kingdom Government decided to exempt also a limited number of items for various special reasons; the more important of these, and the reasons for their exemption, were:

Certain coir and jute manufactures and hand-knotted carpets - because these are imported mainly from developing countries and are of special importance to their economies;

Books, newspapers and certain trade advertising material - because of UNESCO agreements covering those goods.