

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SECOND REPORT OF THE WORKING PARTY ON THE UNITED KINGDOM IMPORT DEPOSIT SCHEME

1. The Working Party set up on 25 November 1968 to examine the Import Deposit Scheme introduced by the United Kingdom submitted its first report in document L/3193.
2. At the meeting of the Council on 29 October 1969 the representative of the United Kingdom announced that his Government had decided to extend the Import Deposit Scheme, which initially would expire on 5 December 1969 for a further period of twelve months, the rate of the deposit to be reduced from 50 to 40 per cent. The Council decided to reconvene the Working Party and to invite the International Monetary Fund to report on its findings after its consultations with the United Kingdom.
3. The Working Party met on 21 January 1970. It had before it background material provided by the IMF containing information on the balance-of-payments position of the United Kingdom and recent economic developments.
4. The Working Party heard a statement by the representative of the IMF, of which the full text is reproduced in Annex I. In the view of the IMF, there had been a considerable improvement in the foreign trade accounts of the United Kingdom. The United Kingdom authorities had, however, informed the Fund that the balance-of-payments position had not yet improved sufficiently to allow for the termination of the Import Deposit Scheme. They had stated that the operation of the Scheme would be kept under constant review and that it would be eliminated, perhaps in stages as the balance-of-payments surplus was consolidated. The Fund concluded that the effect of the Import Deposit Scheme did not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position. However, if the achievement of the balance-of-payments objectives should become compatible with some easing of policies within the overall financial programme, the Fund hoped that priority would be given to phasing out the Import Deposit Scheme, a step which would strengthen international co-operation on trade barriers.
5. The representative of the United Kingdom thanked the Fund for its evaluation of the situation, which was similar to that recorded when the Scheme was first considered in the GATT. He explained that the Import Deposit Scheme had made a small but important contribution to the improvement in the balance-of-payments position of the United Kingdom. Although the United Kingdom economy had moved in a favourable direction in the first three quarters of 1969, these encouraging signs were still comparatively recent. To abandon the Scheme would have released a considerable volume of liquid funds at a time when the United Kingdom's reserves had not yet reached a sufficiently high level. The Scheme was still contemplated as a short-term

measure and it would be phased out or terminated as soon as the situation permitted. He added that the abolition of the restriction on the travel allowance could be considered as a first step by the United Kingdom Government to abolish existing restrictions on trade and payments.

6. Members of the Working Party expressed their appreciation of the recent recovery of the United Kingdom economy but regretted that this improvement had not been sufficient to warrant the abolition of the Import Deposit Scheme. They urged the United Kingdom to give priority attention to the desirability of gradually phasing out the restrictions. They pointed to the findings of the Fund according to which such a step would strengthen international co-operation on trade barriers.

7. The representative of one developing country expressed his disappointment that products of particular interest to developing countries had not been exempted from the Scheme. He attributed the important decline in his country's exports of one major product to the maintenance of the Scheme. He reiterated the necessity for an early exemption from the Scheme of products of vital importance to developing countries.

8. The representative of the United Kingdom recalled that when the Scheme was first introduced some exceptions in the category of products of interest to developing countries had been made. Furthermore, he drew attention to the fact that only two fifths of imports into the United Kingdom were affected by the Scheme. The United Kingdom Government had seriously considered whether further products of interest to developing countries could be removed from the list, but because of difficulties with regard to definition, it had been concluded that all efforts should be directed to a phasing out of the Import Deposit Scheme as such, rather than exempting special products. He promised however to report to his Government the views expressed in paragraph 7 by the representative of a developing country.

9. Another member was still of the opinion that measures of this kind were contrary to Article XI of the General Agreement, but might be justified under Article XII. The Import Deposit Scheme would be discussed in one of the working groups established under the Committee on Trade in Industrial Products together with other similar non-tariff barriers and his delegation wanted to revert to the matter in detail at the meetings of that group.

10. In answer to a question when the Scheme would be abandoned, the representative of the United Kingdom stressed again the United Kingdom's willingness to terminate the Scheme as soon as possible, but explained that it was difficult to set a time-table.

11. The Working Party decided that its report should be ready for consideration by the Council at its meeting on 12 February. It was agreed that a further meeting might take place after the discussion in the Working Group 5 of the Committee on Trade in Industrial Products, probably in June.

Annex I

STATEMENT BY THE REPRESENTATIVE OF THE INTERNATIONAL MONETARY FUND
ON 21 JANUARY 1970

The Fund invites the attention of the CONTRACTING PARTIES to the supplementary background material dated 9 December 1969 which it has transmitted for their information and use.

The introduction in November 1968 by the United Kingdom of an import deposit scheme was part of several measures designed to secure a more rapid improvement in the United Kingdom's balance of payments.

Following substantial deficits in earlier years, the balance of payments of the United Kingdom has been in surplus in the first three quarters of 1969. There has been a considerable improvement in the foreign trade accounts; seasonally adjusted data indicate that the value of imports was virtually flat during the first three quarters of 1969 and exports, after a pause early in the year, increased markedly. At the same time, there were large net receipts from current invisibles and in the first three quarters of 1969 the current account was in surplus by approximately £230 million, on a seasonally adjusted basis; included in this surplus is an amount of £105 million as an allowance for net under-recording of exports. There were inflows of long-term capital in both the second and third quarters of 1969, reflecting in part special transactions, which offset a net outflow in the first quarter. As a whole, the current and long-term capital accounts were in surplus in the first three quarters of 1969 by some £225 million on a seasonally adjusted basis.

To some extent, this surplus was offset by outflows of short-term funds from London which occurred when foreign exchange markets were unsettled. There was further rebuilding of sterling balances of overseas sterling area countries and almost the whole of the amounts drawn by the United Kingdom under the medium-term facility agreed at Basle in September 1968 was repaid. There was little net change in the first three quarters of 1969 in official gold and foreign exchange reserves and in the United Kingdom's position in the Fund. In the January-September 1969 period the United Kingdom made substantial repurchases from the Fund in respect of earlier drawings. The Fund approved a standby arrangement for the United Kingdom, effective 20 June 1969, for a period of one year for the equivalent of \$1,000 million (£417 million). Under this standby arrangement the United Kingdom purchased the equivalent of \$500 million (£208 million) in June 1969 and the equivalent of \$175 million (£73 million) in September 1969.

United Kingdom authorities have informed the Fund that the possibility of allowing the import deposit scheme to terminate had been carefully considered. Although there had been a marked improvement in the balance of payments in recent months, the authorities felt that the abolition of the scheme at this time would be premature. Although there was no firm evidence, it was thought that the scheme might have attracted something to the order of \$500 million of foreign financing

which was very useful in view of the net reserve position; the gold and foreign exchange reserves amounted to some \$2.5 billion at end-September 1969, but official short-term foreign indebtedness (including purchases from the Fund) stood at approximately \$7 billion. However, effective 5 December 1969, it had been decided to reduce the amount required to be deposited with customs from 50 per cent to 40 per cent of the value of imports covered by the scheme. The authorities have said that the operation of the scheme would be kept under constant review and that it would be eliminated, perhaps in stages, as the balance-of-payments surplus was consolidated.

In these circumstances, and particularly taking into account the size of official short-term foreign indebtedness, much of which has been outstanding for some time, the Fund believes that the effect of 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. However, if the achievement of the balance-of-payments objectives should become compatible with some easing of policies within the overall financial programme, the Fund hopes that priority would be given to phasing out the import deposit scheme, a step which would strengthen international co-operation on trade barriers.

Annex II

STATEMENT BY THE REPRESENTATIVE OF THE UNITED KINGDOM
ON 21 JANUARY 1970

I reported to the GATT Council on 29 October last that Her Majesty's Government had decided to take new powers to extend the Import Deposit Scheme for a further year until 5 December 1970 but at a reduced rate of deposit of 40 per cent instead of the previous 50 per cent. The Council then agreed to seek further advice from the IMF and we have just heard their view. As I understand it, the Fund's finding that in conjunction with other measures, do not go beyond the extent necessary to achieve a reasonable strengthening of the United Kingdom's reserves, is similar to that recorded when the Scheme was first considered in the GATT: and I welcome it as providing a basis on which we can reach a satisfactory conclusion in this Working Party.

When I made my statement in October I referred to the considerable improvement in the British balance of payments which was already evident at that time: and I repeated the determination of Her Majesty's Government to continue to their economic policies to achieve and sustain a healthy balance-of-payments surplus. I am glad to be able to report to this Working Party that the trend in our trade figures during the last quarter of 1969 continued to be favourable, with on average a small surplus each month on visible trade; and this, combined with the substantial amounts earned on invisibles, means that we continued substantially in surplus in our balance-of-payments current account. Other factors in the economy also moved in a favourable direction.

Nevertheless, although these are welcome signs, they are still comparatively recent. In October I quoted the Chancellor of the Exchequer as saying that we had reason for cautious optimism about our progress but that this did not mean the time had come to relax. We still hold this view. Had we allowed the Import Deposit Scheme to lapse last December it would have released a considerable volume of liquid funds and this would rapidly have brought consequences for our balance of trade and our reserves. We felt then and we still feel that it would have been foolish suddenly to abolish this Scheme which provides a modest but useful contribution to our economic objectives.

The Working Party will agree that the British Import Deposit Scheme was never permanent in its conception. When it was first introduced we took powers for twelve months only: and the extension is for a further twelve months maximum. It has always been our wish and intention to eliminate the Scheme as soon as it is safe to do so. An indication of our attitude is the fact that we decided to reduce the rate of the deposit, and more recently the announcement that we were ending the travel restrictions which had also been in force is another sign of our willingness to relax our current measures just as soon as we can.

The temporary nature of the Scheme is also recognized by the IMF, which links continuance of the Scheme to the recent developments in our balance of payments as well as to our official foreign debt in the short term. The Fund

expressed the hope that if some relaxation of our present restrictions becomes possible within our overall economic policies, priority would be given to phasing out the Scheme, a step which would strengthen international co-operation on trade barriers. We certainly recognize the need for such co-operation, and would share the Fund's hope that continuing good progress towards our balance-of-payments objectives will make further relaxations in the Scheme possible.

At the October meeting of the Council the representative of India expressed his disappointment that it had not been possible to make further changes to the product coverage of the Scheme to give exemption to products of interest to developing countries. It will be recalled that when the Scheme was first introduced some exceptions of goods in this category were made, for example, hand-made knotted carpets, coir yarn, mats and matting and jute sacks and bags were exempt. In accordance with the undertaking we gave in the Working Party at the beginning of last year we carefully considered before continuing the Scheme whether we could make further changes but it was thought preferable, once the decision was taken to introduce some relaxation by reducing the rate of deposit, to extend the benefit of this as widely as possible over the whole field of products subject to the Scheme. Further changes of product coverage to help developing countries would involve us in great difficulties of definition and would not in our view have provided the same proof of our intention to dismantle the Scheme as a whole as soon as we could.