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GENERAL AGREEMENT ON TARIFFS AND TRADE

COUNCIL

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REPORT OF THE WORKING PARTY ON THE UNITED KINGDOM TEMPORARY IMPORT CHARGES

1. In accordance with the decision of the Council of 30 October 1964, the Working Party met on 7 December to consult with the Government of the United Kingdom with respect to the temporary import charges imposed by the United Kingdom on 27 October in order to safeguard its external financial position and to correct its balance of payments. The Committee had before it the United Kingdom notification (L/2285), the terms of reference established by the Council (C/M/23), documentation supplied by the United Kingdom (W(64)2-4) and documentation supplied by the International Monetary Fund.

Consultation with the International Monetary Fund

2. Pursuant to the decision of the Council, and in accordance with Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation. The representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the United Kingdom; the statement appears in Annex I.

Opening statement by the United Kingdom representative

3. In his opening statement, the representative of the United Kingdom reviewed the circumstances that had led to the imposition of the temporary import charges. The text of the written statement on which his remarks were based appears in Annex II.

Nature of the difficulties and alternative corrective measures

4. The Working Party then turned to a discussion of individual points raised by the United Kingdom action, after first hearing a series of general opening statements. In order to present the debate in a somewhat more ordered point-by-point development, the proceedings are here reported in an order sometimes different from that in which they actually took place.

5. The Working Party agreed that there was no need to debate whether a very serious balance-of-payments difficulty existed. Some members however felt that the part played by capital movements had perhaps been more substantial than seemed to be implicit in the measures taken. This in turn led these members to question whether measures operating directly on capital movements might not appropriately be used. They considered that the volume of these capital movements could be adjusted to balance-of-payments capabilities within the framework of existing regulations and institutions. However, in the view of these members, the central question appeared to be whether the economy were not suffering from "overheating" which would call for measures of a different kind than those which were being taken, or for a different combination of measures. In this connexion, a drop in unemployment to a figure of 1.5 per cent or less and the rise in the number of unfilled vacancies to a level equal to or even slightly higher than the level of unemployment was cited. This seemed to suggest that measures to control demand should figure more prominently in the remedies undertaken. It was also mentioned that Italy and France had recently been coping with inflationary tendencies by internal measures. It was indicated that the United Kingdom ideas on control of internal demand appeared to be good, but too much depended on the future, and specific details were lacking. There also appeared to be some internal conflict in the measures proposed in that it might be difficult to effect an incomes policy without bringing pressure to bear on restrictive labour and price policies. Further, if overheating were not the cause of the difficulty, it was asked what was the difficulty in the view of the United Kingdom.

6. In reply the United Kingdom representative agreed that capital movements had played a considerable part in the 1964 deficit but these had been partly of a non-recurring character. Exchange controls are kept under constant review: the introduction for the first time of exchange controls on transfers within the sterling area would be a very serious step. He called attention to the undertakings given by the British Chancellor of the Exchequer that action would be taken in the forthcoming April budget, or if necessary before, to prevent any overheating of the economy.

7. The Government of the United Kingdom naturally felt that, in devising a programme to overcome its difficulties, it was prudent to look to the basic causes. It was therefore the United Kingdom Government's intention to pursue policies which would bring about a modernization of British production and marketing which would enable production and exports to expand. The deflationary action taken in 1961 had resolved the external difficulties only at the cost of a prolonged period of stagnation in output. The structural character of the difficulty combined with the need for immediate steps to meet the balance-of-payments difficulty had now led the United Kingdom to envisage remedies of two kinds, as outlined in the opening statement. In the short run, the temporary import charges would give some immediate relief to the balance of payments, the new taxes and rise in the bank rate, along with tighter commercial credit which would follow, would tend to dampen demand; a breathing space would thus be provided within which to make headway in implementation of the various measures of a longer-term character which would improve utilization of resources and increase productivity. In the course of the consultation the representative of the United Kingdom also called attention to action taken by the Governor of the Bank of England to ensure that commercial banks would also follow a more selective policy with respect to new

lending, so as to encourage exports and productive industry and discourage especially new loans for property development, personal and professional purposes and instalment buying. In this connexion the United Kingdom representative also pointed out that the new Government had been in office less than two months and long-term measures could only be fully worked out over a somewhat longer time. Further, among the longer-term measures already in view, one might distinguish some from which medium-term results could be expected, such as the review of the very large Government expenditures and an incomes policy, while others would frankly require a somewhat longer term in which to make themselves felt.

8. The question was then raised how the import charges, which the United Kingdom had repeatedly described as temporary, could be regarded as effective in overcoming this rather long-term internal problem. It was also noted that the import charges would actually be counter-productive and tend to delay those very structural changes which the United Kingdom regards as essential if they were maintained for any appreciable length of time, since they would inevitably make it less urgent for a given industry to take steps to improve its competitive position. So long as the import charges remained, moreover, foreign suppliers were bearing a burden created by the need for internal readjustments not yet made.

9. The representative of the United Kingdom concurred generally in the view that if the charges were unduly prolonged they could have damaging effects on the competitive spirit of British industry. This was why so much stress had been laid on their temporary character; an industrialist would be taking a great risk in relying on continuation of the charges. Meantime, one should not exaggerate the amount of reduction in imports in view; the estimated saving was at the rate of £25 million per month. The representative of the United Kingdom recalled that the charges had been imposed to provide a breathing space and emphasized that his Government were determined to do all that was necessary to bring payments into balance within the context of a liberal international trading policy.

10. With regard to alternative measures, the question was asked whether the IMF had had any other alternative measures to suggest; the reply was that at this time it did not. In reply to a further question the representative of the IMF said that the Fund statement on the import charges did not imply any judgment as to the type of measure used to reduce imports; the Fund's determination was limited to balance-of-payments and monetary reserves considerations referred to in Article XV:2 of the GATT.

11. There was a discussion of export promotion measures, including the export rebate. Some members questioned whether the rebate of internal taxes would in all cases be consistent with Article XVI of the General Agreement. The way in which calculations of the amount to be rebated would apply to individual products was another point on which reserve was expressed. It was noted that details of the scheme were not yet available. Some members felt that while it would not be possible to pursue the matter at this time, they would wish to revert to this question when fuller information became available. Some members thought that consideration of this matter was not within the terms of reference of the Working Party.

Nature of the measures taken and possible effects on economies of other contracting parties

12. The Working Party noted the statement by the representative of the United Kingdom as to the non-discriminatory application of the charges (see paragraph 26 of the United Kingdom note in Annex II), and the hope was expressed that this would continue to be the case when steps to reduce and eliminate the charges were taken.
13. With respect to the effects of the surcharges, the point was made by various representatives that the charges, if maintained for an extended period, could give rise to serious difficulties for the Kennedy Round. In reply, the United Kingdom representative reiterated his statement that the import charges were of a temporary character. He felt that the short United Kingdom exceptions list was an earnest of the good intentions of the United Kingdom in this matter. It was also pointed out that the United Kingdom linear offers in the Kennedy Round, which were tabled since the imposition of the surcharge, were based on the rates in effect before that imposition.
14. The additions to the list of items exempted from the charges which had been announced since the charges were first imposed were noted, and interest was expressed in the criteria which had been used in effecting these changes. Other delegates asked about the effect of changes in the level of inventories and wondered how the United Kingdom proposed to avoid the running down of stocks during the period of effectiveness of the charges being followed by a rapid build-up once they were removed.
15. The United Kingdom representative said that there was no generally recognized definition of unmanufactured raw materials. The main criteria for adding to the list of exempted products since the charges were imposed were: existence of anomalies on products that had only undergone elementary processing, provided that their inclusion in the exempted list would not create a further chain of "anomaly cases". He agreed that one of the likely effects of the charge would be to encourage the use of existing stocks. This would save imports. No doubt some importers would defer making some new purchases in the hope that the charges would be reduced or removed by the time they decided to buy.
16. The question was also asked why the United Kingdom could not make provision to exempt goods in transit, as Canada had done, and to exempt all goods under contract at the time when the new charges became effective. The representative of the United Kingdom replied that it was necessary to effect an immediate relief to the balance of payments. The effect of the surcharge in limiting import demand comes into play only at the time when users and consumers are required to pay the higher price. The exemption of goods in transit would have postponed this and so delayed the import-saving effect.
17. On the question of goods under contract, the United Kingdom representative explained that under the existing law any seller of goods was permitted to pass on to his customers as an addition to the contract price the amount of any new duty imposed subsequent to the date of the contract, in the absence of an agreement to the contrary. However, a price fixed on a duty-inclusive basis might be considered to be "an agreement to the contrary" under existing law; consequently legislation had been introduced to allow the addition of the charge

to the contract price notwithstanding that there is a specific clause in the contract that the price includes all customs duties. The possibility of exempting goods under contract had been carefully considered by his Government, who took the view that the above legislative provision should deal substantially with the cases of hardship to exporters. A blanket exception to cover all goods already on order on 27 October 1964 would delay the import-saving impact of the surcharges, and they had therefore decided that such an exception could not be granted. Most members of the Working Party considered that the proposed legislation was not sufficient to relieve the hardship to overseas suppliers; some added that it did not alter the policy of the United Kingdom Government under which no exemption from the surcharge is accorded on contracts concluded before 27 October. Even if exporters were to become legally entitled to recover the charges from importers, the commercial repercussions would remain unchanged. The representative of the United Kingdom stated that the views of these members of the Working Party would of course be transmitted to his Government.

18. Questions were also asked concerning the possibility of exemption of additional goods from the effects of the import charges. These related to three categories of goods:

- (1) goods of which less-developed countries are the principal or very substantial suppliers;
- (2) other goods having special significance for less-developed countries, such as hand-made products, where the harm to trade of less-developed countries would be far greater than the corresponding benefit to the United Kingdom balance of payments;
- (3) goods which were being shipped to the United Kingdom under quotas or other special arrangements to restrict the quantity of shipments.

19. The less-developed countries further explained that there is a sector of their trade subject to charges which, though small as a percentage of total United Kingdom imports, is often very important to the exporting country. Manufacturing is generally the most progressive sector in less-developed countries and a sector with which their development plans are especially concerned. Some of the new exports have not yet achieved an established place in the United Kingdom market, so that the charges may be very harmful; the fact that they are infant industries makes it especially difficult for them to withstand this new disadvantage in a major market. In other cases an industry may have exceptional social importance as the sole livelihood of a large segment of the population. It was felt that even if the result of additional exemptions for such cases were to increase the burden borne by the developed countries for so long as the charges

remain in force, the amounts in question could hardly prolong the duration of the charges. For less-developed countries with great shortages of foreign exchanges, even relatively small losses would be serious. Moreover, it would appear entirely consistent with recent efforts to help less-developed countries for the developed countries to assume a greater share of this new burden. Both the Action Programme and the new Chapter on Trade and Development had in fact looked to greater burden-bearing by those best able to pay, to the extent that this could be done within the limits of non-discrimination. What was asked here was not intended to be discriminatory, in the sense that the choice of items to be exempted would be those of which the less-developed countries are principal or substantial suppliers, but the exemption would not be limited to supplies from those sources only.

20. The case for goods already subject to quota, with which one developed country associated itself, presented the special feature that there was a double penalty on exporters who had already agreed to limit their shipments and who were now asked to pay added duty also. The quotas already gave positive assurance against any increase in imports, so that these imports had had no part in the recent increases in United Kingdom imports and posed no threat of increase in the future. Had the United Kingdom used quantitative restrictions it was felt that existing restrictions on goods already under quota would not have been intensified. The exporters of these products felt that they had simply been caught by the sweep of a larger action and consequently they suffered a double penalty the cost of which they were not able to bear, and they requested the immediate removal of the charges on products under quota.

21. A further suggestion was also made by the representative of a developed country with regard to the items which have been under quota. It was argued that if there were insuperable obstacles to relieving these items from double penalty by exemption, such as the price advantage involved in exemption quota suppliers, it would seem fair to eliminate the quotas for so long as the temporary import charges remain in effect.

22. The United Kingdom representative said that any exemption of quota goods and not of similar non-quota imports would create a price advantage to those exempted. He did not agree that application of the charges to quota goods involved a double penalty. The possibility of fulfilling the quotas still existed and the new handicap of the charges applied to quota and non-quota goods alike.

23. As for other goods of special interest to less-developed countries, the United Kingdom representative said that further modifications of the present exemption list were not excluded but it would raise many problems to alter the criteria. The exemption of food, raw materials and fuel meant that a large proportion of less-developed countries' trade was unaffected - about 91 per cent of total imports from such countries into the United Kingdom on the basis of 1963 trade. There was no disposition to underestimate the seriousness for

less-developed countries of the remaining 9 per cent. But it would not be possible to exempt goods imported specifically from less-developed countries and the exemption of further categories of goods from all sources would obviously narrow the range to which the charges applied and reduce their total import saving effect. Moreover exemption based on source of supply considerations would be likely to create anomalies in the treatment of related products. The United Kingdom would like to hear the views of other contracting parties on any proposals to give specially favourable treatment to imports from less-developed countries.

24. All members of the Working Party expressed sympathy for the plea of the less-developed countries, and some expressed the hope that, in the modification of the charges, consideration could be given to the plea of the less-developed countries without prejudice to the principle of non-discrimination. The view was expressed by the representative of another developed country that his country would be gratified if further modifications which would benefit less-developed countries could be found within existing criteria. He did wish to note, however, that neither the Action Programme nor the Chapter sanctions discrimination or departures from the most-favoured-nation principle. He did not interpret the request of the less-developed countries to involve departure from the most-favoured-nation principle, but the selection of commodities by reason of source would require intensification of restrictions on other items or maintenance for a longer period to the disadvantage of all contracting parties and would distort trade.

25. It was also brought out in the discussion that at the time when Canada had been in process of removing import surcharges consideration had been given to, among other factors, equitable treatment of the trade interests of Canada's trading partners, including those of less-developed countries. In this connexion, it was noted that when the balance-of-payments situation begins to improve, this is generally translated into action by making modifications which aim to permit additional amounts of foreign exchange to be spent on imports; the view was expressed that there would therefore be a possibility of selecting items in a way that would ease special hardship cases for less-developed countries without material interference in the rate of recovery of the country imposing the charges.

Conclusions

26. The Working Party, taking into account the findings of the International Monetary Fund, recognized that the United Kingdom was confronted with balance-of-payments difficulties of serious dimensions and that action was required to safeguard the balance of payments.

27. The Working Party took note of the reasons which the United Kingdom representative stated had motivated his Government's decision to use surcharges to restrict imports to safeguard the United Kingdom's balance-of-payments position. It was not disputed that the use of such charges, in so far as they increased the incidence of customs charges in excess of maximum rates bound under Article II, was inconsistent with the obligations of the United Kingdom under the provisions of the General Agreement. The Working Party agreed that it would be outside its terms of reference for it to discuss the substance of the question as to whether the use of surcharges was preferable to that of quantitative restrictions; its task was to concentrate its attention on the measures which the United Kingdom had in fact decided to take.

28. The Working Party welcomed the statement of the United Kingdom that the surcharges were being applied in a non-discriminatory manner (see paragraph 26 of Annex II) and that this principle would likewise be followed in the process of reducing and removing the surcharges.

29. The Working Party noted the assurance given by the United Kingdom representative that the surcharges were strictly temporary in character and that they would be reduced and abolished as soon as possible and his statement that it was intended that this process would begin in a matter of months.

30. As regards the nature of the United Kingdom's balance-of-payments difficulties, differences of opinion were expressed as to the relative rôle played by the various contributing factors and, consequently, as to the nature of measures best suited to meet the situation. The Working Party noted that measures were being taken and contemplated by the United Kingdom Government with a view to eliminating any undue pressure on the economy. The Working Party further noted that the bank rate had already been increased, and that the Government intended to keep the situation under close review and to take any other necessary measures, in particular in the fields of credit, public finance and incomes policy.

31. The Working Party was given to understand, however, that one factor in the United Kingdom's balance-of-payments difficulties was related to problems, partly of a structural nature, connected with its trade on the export side. The Working Party noted that some of the measures proposed by the United Kingdom, particularly those aimed at the rationalization of the economy and the modernization of industry, looked towards a solution of these problems. However, while some of these measures might have an effect within a reasonably short time, others were of a long-term character and some had not yet been formulated. The Working Party was concerned that the surcharges, if continued for too long, would afford protection to British industries and that this would run counter to these policies.

32. The Working Party did not feel able to judge whether the measures taken, and to be taken, would in fact be sufficient or become effective in time to enable the United Kingdom to remove the surcharges at an early date. The Working Party felt that, in view of the great importance it attached to the expeditious removal of the surcharges, and in view of the conclusions drawn in the foregoing paragraphs, it was necessary for the CONTRACTING PARTIES to continue to address themselves to this problem and that the consultation with the United Kingdom should be resumed at an early date and the United Kingdom invited to submit further information about the steps taken or contemplated in connexion with the reduction and removal of the surcharges. It was understood that this consultation in no way prejudiced the rights of contracting parties under the General Agreement.

33. Without prejudice to the general principle that such action should not have a detrimental effect on the overall objective of the United Kingdom in the elimination of its balance-of-payments difficulties, the less-developed countries felt that, particularly in the light of the stress repeatedly put on the need for an expansion of the less-developed countries' export earnings in successive meetings of Ministers, in the proposed new part of the General Agreement to deal with Trade and Development etc., high priority should be given to exempting from the surcharges products of which the less-developed countries were principal or substantial suppliers. Some members of the Working Party stressed the importance of maintaining the principle of non-discrimination in the process of reduction and removal of the surcharges. In their view, the selection of products for advance removal or reduction on the basis of the source of supply would be contrary to this principle. All members of the Working Party expressed sympathy for the plea of the less-developed countries and some members expressed the hope that, in the modification of the charges, consideration could be given to this plea without prejudice to the principle of non-discrimination.

34. Attention was drawn by the less-developed countries and one developed country to the fact that some of the products exported by them were already subjected to other controls and the imposition of the surcharges meant, in their view, that exports of such products to the United Kingdom were being doubly impeded. These countries urged that this anomaly should be removed.

35. The Working Party noted that the United Kingdom surcharges applied to goods imported under contracts concluded before 27 October 1964, the date on which the surcharges became operative, and that legislation was now under parliamentary consideration to enable overseas suppliers of goods imported into the United Kingdom under the terms of a pre-existing contract which bound them to pay all customs duties to make an addition of the amount of the surcharge payable to the contract price. The Working Party noted the explanations of the United Kingdom representative as to why his Government felt unable to exempt from the surcharges goods

contracted for prior to 27 October 1964. Most members of the Working Party considered that the proposed legislation was not sufficient to relieve the hardship caused to overseas suppliers, and requested the United Kingdom Government to reconsider this point. The Working Party noted that this request would be transmitted by the United Kingdom representative to his Government.

36. The Working Party noted the explanations given by the United Kingdom on the subject of the export rebates and the statement of the representative of the United Kingdom that these measures would be in conformity with Article XVI of the General Agreement and the Declaration of 19 November 1960 giving effect to the application of paragraph 4 of Article XVI. Some members of the Working Party indicated that they would wish to revert to the question of these measures when fuller information became available.

When the draft conclusions were under consideration in the Working Party, the EEC proposed to insert, before the last sentence of paragraph 27 above, the following amendment:

"The Working Party draws the situation to the attention of the Council, it being for the Council to draw the appropriate conclusions concerning the conditions for the exercise of rights of contracting parties under the General Agreement."

The EEC noted that the Working Party had rejected this amendment. Consequently, the Community was not able to approve this report.

ANNEX I

Statement by the Representative of the International Monetary Fund

The Fund invites the attention of the CONTRACTING PARTIES to the background papers dated June 22, 1964 and November 23, 1964 which it has transmitted for their information and use. It will be noted from the second of these papers that, at the end of October 1964, it was expected that the United Kingdom would experience in 1964 a deficit on current and long-term capital account of £700 million to £800 million. In the absence of corrective action, a reduced but still substantial deficit was also anticipated for 1965. While resources were available to the United Kingdom to finance this deficit, including a \$1 billion stand-by arrangement with the International Monetary Fund, action was required to safeguard the balance of payments. As part of this action, the United Kingdom has imposed certain import charges. These import charges do not go beyond the extent necessary at the present time to stop a serious decline in the United Kingdom's monetary reserves.

The United Kingdom has stated that the import charges are to be temporary. To assist in controlling domestic demand and in restoring the external position, certain taxes were increased. In addition, Bank rate has been raised from 5 per cent to 7 per cent primarily to strengthen the international position of sterling. The Government is pressing ahead with other steps including the establishment of an effective incomes policy and a review of public expenditure. The resolute implementation of these measures supplemented, if need be, by other domestic financial action should benefit the balance of payments position and so ensure that the need for the import charges is, in fact, temporary.

ANNEX II

Note by the United Kingdom Delegation

1. The CONTRACTING PARTIES were informed on 27 October 1964 that in order to safeguard the external financial position and correct its balance of payments and as part of its wider policies directed to the short-term and longer-term problems of the country's underlying economic situation, the United Kingdom Government had decided that it was necessary to restrict promptly, but temporarily, the quantity of imports coming into the United Kingdom. This memorandum is submitted to assist in the consultations decided upon by the Council at its meeting on 30 October. It first sets out in summary form the salient factors in the situation and the measures and policies which the United Kingdom Government is adopting to deal with it. The second section explains the temporary charges on imports brought into force on 27 October.

I

The balance-of-payments and external financial position

2. With the expansion of the domestic economy, the balance of payments of the United Kingdom began to deteriorate during the course of 1963, and in 1964 a serious deficit was developing. When the United Kingdom Government reviewed the position after coming into office on 16 October, it was expected that the deficit on current and long-term capital account was unlikely to be below £700 million and might reach £800 million over the full year.

3. The elements of the balance of payments in the first half of 1964 are set out in Table 9 of the International Monetary Fund document. There was a heavy deficit on visible trade of £215 million; the value of imports had risen sharply (partly as a result of higher prices, including those of primary products), but there was only a slight rise in the value of exports. Net invisible earnings were lower. The net outflow of long-term capital was at a high level, with an increase in net private investment abroad, a substantial decrease in net private long-term investment in the United Kingdom and increased Government lending under the aid programme. In total the identified deficit amounted to £341 million in what is normally the more favourable half of the year. The reserves were shielded during this period partly by unrecorded inflows, partly by a rise in overseas sterling area sterling holdings and partly by an inflow of short-term capital from the non-sterling countries.

4. Only partial information is as yet available about the subsequent months of 1964. Imports appear to have levelled off while exports slightly declined; the visible deficit averaged £51 million a month in the period July-October (on a balance-of-payments basis and seasonally adjusted) as against £44 million a month in the second quarter. Other preliminary information about the third quarter suggests that the deficit continued at a high level.
5. The strain on the reserves has been severe in recent months, and recourse has been made to short-term borrowing from Central Banks in Europe and America. The gold and convertible currency reserves stood at £837 million on 30 November, having declined by £129 million since the end of June. A drawing of the equivalent of \$1,000 million was made on 2 December from the International Monetary Fund under the United Kingdom's standby arrangement for that amount.
6. Over 1964 as a whole, total imports were expected to be at a rate about 15 per cent higher than in 1963, and imports of semi-manufactures and manufactures about 25 per cent higher than in 1963.
7. When the situation was reviewed in October, the deficit in 1965 was expected to be considerably smaller than in 1964, with the disappearance of a number of temporary factors. The visible balance was expected to improve and net invisible earnings to rise. The balance of private investment could be more favourable. But even so, both the deficit on current account and the total deficit would have been unacceptably large, especially following on the very large deficit in 1964.
8. In considering their action and policies in the light of this situation the United Kingdom Government have been determined to restore a strong balance of payments founded on a strong economy and to sustain the strength of sterling, which is of vital importance not only to the United Kingdom but to the economies of many other countries and the maintenance and development of world trade.
9. As the new Government made clear in their statement of 26 October, they had no alternative but to act at once. They had to take immediate steps to reduce the deficit and to limit recourse to further borrowings, while at the same time making an effective start on the task of dealing with the underlying problems. Their longer-term measures are described in paragraphs 15-23 below.

Control of demand: Fiscal and monetary policy

10. The Government consider that it is essential to keep home demand under proper control. The salient facts about the development of the economy in 1964 are given in the International Monetary Fund papers. Although unemployment has

continued to fall, probably reflecting a delayed adjustment to the rapid expansion in activity in 1963, both gross domestic product and industrial production have increased only slightly in 1964. The United Kingdom's economy is not overloaded in any general sense, though there are particular industries and regions whose capacity is fully engaged.

11. Thus recourse to deflationary action alone would have been inappropriate and its use on the scale which would have been necessary to bring the balance of payments into equilibrium by these means alone would have done serious damage to the development of the United Kingdom economy and to the ability of other countries to export to the United Kingdom in the long as well as the short run.

12. On the other hand the Government do consider that the pressure of demand is fully up to a desirable level and it would be contrary to their policy to let it go higher. Considerable steps have been taken to restrain home demand in order to accommodate an improvement in the balance of payments. The Chancellor of the Exchequer introduced as soon as possible in the new Session of Parliament his Autumn Budget of 11 November. This budget provided for immediate increases of revenue to match the increased pressure of demand likely to be caused by the net effect of the temporary import charge and of the new export rebate (see paragraph 16 below). This substantial increase in revenue at an annual rate of some £220 million (import charge \$200 million, petrol and derivatives £93 million less the export rebate £75 million) represents nearly 1 per cent of the national income and a very substantial disinflationary force. The Autumn Budget also provided for the financing of certain improvements in the social services taking effect in the main in the next financial year.

13. On 23 November the United Kingdom bank rate was increased from 5 per cent to 7 per cent. This action demonstrated the Government's determination to maintain sterling at its present parity. A progressive improvement in the balance of payments is to be expected as some of the factors adversely affecting both the current and capital account in 1964 lose their force and the measures already taken make their impact: the step of raising the bank rate by 2 points will reinforce these measures and give time for them to operate. Moreover the rise in the bank rate to 7 per cent will exert a general influence on the economy through the supply of credit. The commercial banks are already at a point where they are encountering pressure on their liquidity. This pressure will be increased by the change in bank rate, which should tend to reduce stockbuilding, including stocks of imported goods, and help to release goods for export.

14. As the Government has repeatedly made it clear, they will keep the situation under constant review and the Chancellor will take further measures to keep the economy in proper balance in his April Budget or earlier if this proves necessary.

Longer term remedial measures

Review of Government expenditure

15. First of all the Government are carrying out a strict review of all Government expenditure. The object is to relieve the strain on the balance of payments and to release resources for more productive purposes by cutting out expenditure on items of low economic priority. Government expenditure puts a strain on the balance of payments in two ways. First, directly by Government spending overseas, recently running at about £500 million a year; second, by pre-empting resources in the United Kingdom, both material and human, which need to be released in order to enable industry to modernize and expand rapidly so as to become more competitive. Although direct Government expenditure overseas will be reviewed, it is the second aspect which is thought to be of more fundamental importance; the aim here will be to cut out expenditure at home on objects from which the economic benefits are insufficient to justify the use of the resources employed.

Exports

16. It has been the failure of exports this year to continue their rapid rate of increase of 1963 which is a main element in the balance-of-payments difficulties. It is the Government's intention to reach and maintain equilibrium at the highest possible level of trade and it is directing all its energies to re-establishing the upward momentum of exports. It is examining all obstacles to exports, and ways of encouraging and helping exporters.

17. One measure announced on 26 October is the introduction of a scheme for rebate of certain indirect taxes levied during the course of manufacture of exports. We have tried to adapt to our own tax system the practice common to many other countries. Unlike the temporary import charges, this is not a short-term measure, but a reform which should help to remove one of the obstacles to our exports and thus give a somewhat greater incentive to our manufacturers to expand their export sales in the future, and lead to some shift of resources from home to export manufacture.

Incomes policy

18. High priority is being given to the achievement of an effective incomes policy. The Government has held discussions with both sides of industry at which broad principles for developing a policy were outlined. It proposes to advance quickly by three main steps. The first step will be to secure with both sides of industry an agreed statement of general intent. It is hoped that agreement on this statement by the parties concerned will be obtained this month, and that action to implement the policy will follow early in the New Year. The second will

be to settle machinery and procedures to keep under review trends and developments over the whole field and to deal with exceptional cases. The third step will be to agree on a normal annual rate of wage and salary increase consistent with sound economic growth and on a code of rules to determine exceptions. In order to facilitate this, the Government has already announced its intention to set up a price review body to examine price increases which appear, prima facie, to be against the public interest.

The national plan

19. In consultation with both sides of industry, the Government intends to prepare a national plan, covering the next five years, with the object of ensuring the fullest and most efficient use of national resources. The plan will influence all aspects of the Government's economic policy, including the level and composition of public expenditure, incomes policy, and policies concerned with the distribution of industry and employment between the regions. It is also intended that the plan should provide a framework for the production and investment plans of private industry. A national transport plan will also be worked out. Economic Development Committees for individual industries will play an increasingly important part in the working out of the plan.

Regional planning

20. The Government is embarking on a vigorous policy of regional development aimed at altering the geographical balance of economic growth, both by utilizing excess capacity in the under-developed areas and by relieving the strains in the more prosperous regions, particularly the south east. It is therefore setting up machinery to draw up regional plans within the framework of the national plan. The first step has been to check the continued growth of offices in south-east England, especially in London.

Efficient use of manpower

21. The Government intends to do its utmost to break down resistance to changing jobs by offering greater inducements. It is examining those ways of improving existing schemes which facilitate the transfer of labour from one locality and one occupation to another and is expanding facilities for training or retraining labour. It is working out details of a new scheme for severance payments.

Restrictive practices

22. Existing legislation on monopolies and restrictive practices is to be strengthened, and consideration is being given to whether powers should be taken to hold up any merger when there is a prima facie case against it. The abolition of resale price maintenance should also stimulate price competition. The

Government is bringing pressure to bear on those responsible for restrictive practices affecting the employment of labour.

Modernization and innovation

23. Great efforts are being made to stimulate innovation and the application of modern techniques to British industry and the Ministry of Technology has been set up to help in this field. In addition, the Government's Chief Industrial Advisor and the Economic Development Committees will seek to identify and remove the main obstacles to growth and higher efficiency.

II

Temporary charge on imports

24. For the reasons already set out, the United Kingdom Government decided that they had to take immediate and direct action on imports. The imposition of a temporary charge on imports was the only method which could be brought immediately into operation and would have immediate effect. The United Kingdom Government deeply regret the necessity for interfering with the natural flow of trade and intend to remove the charge as soon as possible. It remains their general policy to continue to work for the removal of obstacles to trade. Her Majesty's Government also regret that the need for immediate action precluded prior consultation with contracting parties. The CONTRACTING PARTIES were immediately informed of our action and the reasons for it, and while the temporary import charge continues in force Her Majesty's Government stand ready to enter into further consultations whenever the CONTRACTING PARTIES may desire.

25. Although the GATT provides for imports to be reduced by licensing controls, the United Kingdom Government feel that in present circumstances fiscal methods of limitation, through the temporary import charge, are likely to be the least damaging to international trade. Quantitative restrictions could have been imposed only on a narrower range of goods, especially consumer goods, and so would have borne far more heavily on these goods to achieve the necessary import saving. Because they are selective and prohibit trade outside the quotas, they would have involved more arbitrary and rigid restrictions than import charges. The 15 per cent import charge, on the other hand, does not restrict consumer choice by cutting off at an arbitrary point the quantities that may be imported, nor does it freeze the flow of trade in its existing pattern. In addition, it automatically provides a largely compensatory disinflationary effect.

26. The import charge is applied to all imports except food and feeding stuffs, fuel, unmanufactured raw materials for industry and those which have undergone elementary processing and unmanufactured tobacco. The details of items exempted are set out in Schedule I annexed to this paper. The charge applies to imports from all sources without discrimination, and covers rather more than a quarter of total imports into the United Kingdom.

27. Imports of the goods to which the charge is applied were about £1,312 million in 1963, and, on the latest information, would have been about £1,650 - £1,700 million in 1964 - an increase of about 25 per cent - and were expected to increase still further in 1965 had no action to restrict them been taken. Even after the imposition of the charge, imports of the goods concerned, taken as a whole, are expected to remain at a higher level in 1965 than in 1963. At a 15 per cent rate, the net reduction in total imports is expected at an annual rate approaching £300 million. The internal disinflation that the charge automatically provides is estimated to amount, with a 15 per cent rate, to an annual rate of about £200 million.

Administration of the charge

28. The legislative power for the charge has been provisionally furnished through a Resolution by Parliament; confirmation is being sought in a Finance Bill which is at present before Parliament. These powers are entirely separate from those providing for the protective tariff.

29. The charge takes the form of an ad valorem charge on the landed value of all goods, irrespective of their origin, imported on or after 27 October 1964, other than those specifically exempted. It will not be added on top of the landed value plus any protective duties where these are applicable by tariff classification or by statutory relief.¹

30. Goods already in a bonded warehouse on 26 October 1964 will not be liable to the charge but goods entered into bond after 26 October 1964 will be charged except where statutory reliefs are provided for.

31. The Finance Bill contains provisions for the remission or repayment of the charge on imported goods which are re-exported or used as material or components in the manufacture of goods which are then exported.

¹Broadly speaking, statutory reliefs from the charge are provided for goods used in building, repairing or refitting ships; goods used in production and repair, or in development under intergovernmental agreement, of large aircraft; goods for subsequent export or shipment as stores; goods for sale to persons entitled to receive them free of charge under diplomatic privilege; articles imported for non-commercial use in scientific research or the advancement of learning or art; goods specially designed for the educational, scientific and cultural advancement of the blind; certain goods, chiefly furs and carpets, the trade in which is carried out from bond and the major part of which is subsequently re-exported; and temporary importations.

Goods in transit and under contract

32. Goods in transit and under contract on 27 October are subject to the charge. The United Kingdom Government have carefully considered the representations made on this point and have sought from Parliament powers (Part II, Section 3(8) of the Finance Bill) which are intended to enable an exporter with a contract to supply goods with all duties paid to pass the temporary import charge on to his customer, regardless of the terms of his contract. This should deal substantially with the cases of hardship to exporters, and the Government have decided that they cannot go further than this and give relief more widely mainly for the benefit of their own importers. The urgent need to limit the size of the balance-of-payments deficit is the major factor determining this decision. The effect of the charge in limiting import demand comes into play only at the time when users and consumers are required to pay the higher price. A blanket exception to cover goods already on order or in transit would thus delay the import saving impact of the measure.

Possible effects of the charge on trade, and expected duration

33. H.M. Government have made it clear in repeated public statements that the import charge is strictly temporary, and that they intend to reduce and abolish it at the earliest possible moment. It is intended to provide a breathing space during which the other measures to remedy the balance-of-payments problem can take effect. The charge will be kept under review, and while it is not possible to fix precise dates for reducing or eliminating the charge, it is intended that this process will begin in a matter of months.

34. Any form of import limitation is bound to have some protective effect while it remains in force. Her Majesty's Government are conscious of this fact, and have specifically stated that the charge must in no way be regarded by United Kingdom producers as an additional measure of protection for them, and that no protective considerations will be taken into account in deciding how and when the charge is reduced and removed.

35. The strictly temporary nature of the scheme has been emphasized in the Finance Bill which provides that the rate of charge and the coverage of the scheme may moreover be reduced by Order at any time, subject only to negative resolution of the House of Commons. It also provides that the charge will automatically cease to be in force from the end of November 1965, unless the powers imposing it are extended by Parliament for a single further year.

36. The effect of the charge on imports of particular types of goods and on imports from particular countries will vary according to the elasticity of demand for the goods. Consumer choice is left entirely free. Figures of each

contracting party's exports subject to the charge, whether expressed as a percentage of the contracting party's exports to the United Kingdom or as a percentage of its total exports, are also no necessary guide to the extent, comparative or absolute, to which its exports will be affected in practice. Any forecast of the actual effects of the charge on individual contracting parties' exports must therefore be conjectural. The foregoing relates in the main to the trade of industrial countries. The exemption of foodstuffs and feeding stuffs, fuel and unmanufactured raw materials, has the effect that the exports of developing countries are not, in the main, subject to the charge.

Schedule 1Exempted Goods

<u>Description of goods (employing the Customs Tariff 1959)</u>	<u>Title of tariff Chapter, or summary of tariff heading</u>
Chapter 1 (all headings)	Live animals
Chapter 2 (all headings)	Meat and edible meat offals
Chapter 3 (all headings)	Fish, crustaceans and molluscs
Chapter 4 (all headings)	Dairy produce; birds' eggs; natural honey
Chapter 5 (all headings)	Products of animal origin, not elsewhere specified or included
Chapter 7 (all headings)	Edible vegetables and certain roots and tubers
Chapter 8 (all headings)	Edible fruit and nuts; peel of melons or citrus fruit
Chapter 9 (all headings)	Coffee, tea, maté and spices
Chapter 10 (all headings)	Cereals
Chapter 11 (all headings)	Products of the milling industry; malt and starches; gluten; inulin
Chapter 12 (all headings)	Oilseeds and oleaginous fruit; miscellaneous grains, seeds and fruit; industrial and medical plants; straw and fodder
Chapter 13 (all headings)	Raw vegetable materials of a kind suitable for use in dyeing or in tanning; lacs; gums, resins and other vegetable saps and extracts
Chapter 14 (all headings)	Vegetable plaiting and carving materials; vegetable products not elsewhere specified or included
Chapter 15 (all headings)	Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes
Chapter 16 (all headings)	Preparations of meat, of fish, of crustaceans or molluscs
Chapter 17 (all headings)	Sugars and sugar confectionery
Chapter 18 (all headings)	Cocoa and cocoa preparations
Chapter 19 (all headings)	Preparations of cereals, flour or starch; pastrycooks' products
Chapter 20 (all headings)	Preparations of vegetables, fruit or other parts of plants

<u>Description of goods</u> <u>(employing the Customs</u> <u>Tariff 1959)</u>	<u>Title of tariff chapter, or</u> <u>summary of tariff heading</u>
Chapter 21 (all headings)	Miscellaneous edible preparations
22.10	Vinegar and substitutes for vinegar
Chapter 23 (all headings)	Residues and waste from the food
24.01	industries; prepared animal fodder
Chapter 25 (all headings)	Unmanufactured tobacco
Chapter 26 (all headings)	Salt; sulphur; earths and stone;
Chapter 27 (all headings)	plastering materials, lime and cement
	Metallic ores, slag and ash
	Mineral fuels, mineral oils and
	products of their distillation;
	bituminous substances; mineral
	waxes
* Bromine and iodine within 28.01	
* Silicon, selenium and	
tellurium within 28.04	
* Mercury within 28.05	
* Arsenic trioxide within 28.11	
Methane within 29.01	
31.01	Guano
Natural sodium nitrate	
within 31.02	
* Basic slag within 31.03	
All goods within 31.04	Mineral or chemical fertilizers,
except potassium chloride	potassic
(analytical reagent quality)	
Fertilizers within 31.05	
consisting of natural potassium	
nitrate together with natural	
sodium nitrate	
* 32.01	Tanning extracts of vegetable
	origin
* 32.04	Colouring matter of vegetable
	origin or animal origin
* All goods within 35.01	Casein, caseinates and other casein
except casein glues	derivatives
* 35.02	Albumins, albuminates and other
	albumin derivatives
* Edible gelatin within 35.03,	
37.04, 37.05, 37.06 and	
37.07	Exposed film and plates
* Flux calcined diatomite	
within 38.03	
* 38.05	Tall oil
* 38.06	Concentrated sulphite-lye
* Calcined bauxite within 38.19	
40.01	Natural rubber

<u>Description of goods</u> <u>(employing the Customs</u> <u>Tariff 1959)</u>	<u>Title of tariff chapter, or</u> <u>summary of tariff heading</u>
40.03 and 40.04 ...	Reclaimed and waste rubber
41.01	Raw hides and skins
Leather within 41.02, 41.03, 41.04 and 41.05, other than dressed leather	
41.09	Leather parings and waste
43.01	Raw furskins
44.01 to 44.12 ...	Wood, not planed or further manufactured
45.01 and 45.02 ...	Natural cork and waste cork
47.01 and 47.02 ...	Paper-making materials (pulp and waste paper)
49.01 to 49.07	Books, newspapers, maps, charts, manu- scripts, typescripts, stamps, etc.
Trade advertising material within 49.09 and 49.10, being material the primary purpose of which is to stimulate travel outside the United Kingdom.	
Trade advertising material within 49.11, being publications, illustrated or not, the primary purpose of which is to stimulate study or travel outside the United Kingdom, or to advertise exhibitions held outside the United Kingdom.	
Printed matter within 49.11 being -	
parts of books or booklets in the form of printed pictures or illustrations not bearing a text, or printed documents, printed diagrams and printed architectural, engineering and similar industrial designs or plans, not being trade advertising material.	
Photographic prints within 49.11 imported in a packet not exceeding 8 ounces in gross weight which does not form part of a larger consignment.	

<u>Description of goods</u> (<u>employing the Customs</u> <u>Tariff 1959</u>)	<u>Title of tariff</u> <u>chapter, or summary</u> <u>of tariff heading</u>
50.01, 50.02 and 50.03 ...	Silk worm cocoons, raw silk and silk waste
53.01	Sheep's or lamb's wool, not carded or combed
53.02	Other animal hair, not carded or combed
53.03 and 53.04	Waste of sheep's or lamb's wool or of other animal hair
53.05	Sheep's or lamb's wool, or other animal hair, carded or combed
54.01 and 54.02	Unspun flax and ramie
55.01, 55.02, 55.03 and 55.04	Raw cotton, linters and waste; cotton, carded or combed
57.01, 57.02, 57.03 and 57.04	Unspun hemp, jute and other vegetable textile fibres
Chapter 63 (all headings)	Old clothing and other textile articles; rags
*71.01 to 71.10	Pearls, synthetic and natural, precious and semi-precious stones and precious metals not fully manufactured
71.11	Waste and scrap of precious metals
Chapter 72	Coin
*73.01	Pig iron, cast iron and spiegeleisen, in pigs, blocks, lumps and similar forms
73.02	Ferro-alloys
73.03, 73.04 and 73.05 ...	Iron and steel waste, scrap, shot, grit and powder
74.01 and 74.02	Copper matte; unwrought copper, copper waste and scrap; master alloys
75.01	Nickel mattes; unwrought nickel, nickel waste and scrap
Unwrought nickel electroplating anodes within 75.05	
76.01	Unwrought aluminium and waste and scrap
77.01	Unwrought magnesium and waste and scrap
Waste and scrap beryllium within 77.04 and unwrought beryllium within 77.04	
78.01	Unwrought lead; lead waste and scrap
79.01	Unwrought zinc; zinc waste and scrap
80.01	Unwrought tin; tin waste and scrap
Chapter 81 (all headings)	Certain base metals employed in metallurgy and articles thereof

Description of goods
(employing the Customs
Tariff 1959)

Title of tariff
chapter, or summary
of tariff heading

Aircraft within 88.02 of a maximum total weight exceeding 18,000 lbs. (maximum total weight to be that authorized in the certificate of airworthiness in force in respect of the aircraft or, if there is no such certificate in force, ascertained in such manner as the Commissioners may direct).

Ships and other descriptions of goods within 89.01, 89.02 and 89.03, if of a gross tonnage of 80 tons or more (ascertained in accordance with the Merchant Shipping Acts or, if not ships with a gross tonnage under those Acts, ascertained in such manner as the Commissioners may direct).

Fishing vessels within 89.01 of the kind commonly known as Danish-type seiners with a fuel carrying capacity of not less than 500 gallons.

89.04

Vessels for breaking up

Sound recordings not produced in quantity and not for general sale, within 92.12

Chapter 99 (all headings)

Works of art, collectors' pieces and antiques

Notes: (i) Items marked thus * have been included in the list of exempted goods during the course of debate on the legislation, since if they were made to bear the charge, major anomalies would be created.

(ii) Her Majesty's Government has proposed to Parliament, for the next stage of debate on the legislation, that the following items should also be exempted from the charge on the same grounds:

35.01 Essential oils

38.07 Spirits of turpentine and other turpentic solvents

38.08 Resin and resin acids