

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH THE UNITED KINGDOM

1. In accordance with its terms of reference the Committee has conducted the consultations with the United Kingdom under Article XII:4(b) and Article XIV:1(g). The Committee had before it: (a) the basic document prepared by the secretariat on the basis of data supplied by the United Kingdom Government; and (b) documents provided by the International Monetary Fund. In conducting the consultations the Committee followed "the plan" recommended by the CONTRACTING PARTIES. The consultations were completed on 28 May 1959. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with the United Kingdom. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with the United Kingdom which was concluded on 19 December 1958¹. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the United Kingdom. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with the United Kingdom under Article XIV of the Fund Agreement, which consultation was concluded on December 19, 1958. The Fund has also provided a paper dated April 10, 1959 to supply background information on recent external developments of the United Kingdom. This paper, and the documentation from the last Fund consultation, have been distributed to the members of this Committee.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, the Fund draws the attention of the CONTRACTING PARTIES to the results of its most recent consultation with the United Kingdom under Article XIV of the Fund Agreement.

"With respect to Part II of the Plan, relating to alternative measures to restore equilibrium, the Fund draws attention to the results of the last Fund consultation with the United Kingdom. The Fund has no additional alternative measures to suggest at this time."

¹ See Annex III.

Opening Statement by the United Kingdom Representative

3. The full text of the opening statement of the United Kingdom representative is attached to this report as Annex I. The following is a brief summary of the statement.
4. The representative of the United Kingdom recalled that at the time of its previous consultations with the CONTRACTING PARTIES in 1957, the United Kingdom Government, in the shadow of an exchange crisis, had just taken far-reaching measures, including an increase in the Bank Rate to the high level of 7 per cent to safeguard the value of the pound. These measures had not been in force sufficiently long enough for the results to have become clearly apparent. The United Kingdom had not resorted to intensified quantitative restrictions. The measures taken in 1957 worked a transformation in the United Kingdom's internal and external position without involving the high unemployment and major loss of production which some feared and with a continued high level of investment both at home and overseas.
5. In 1958 the United Kingdom had a surplus on current account of £455 million. The United Kingdom reserves increased by £284 million and sterling holdings of other countries and international bodies rose by £54 million. The result was an improvement in the net monetary position of over £200 million.
6. In 1958 the terms of trade moved very much in favour of the United Kingdom. The prices of primary commodities were considerably down and export prices on the other hand fell only slightly. The measures taken in September 1957 restricted the demand for imports in 1958, whereas the demand for exports, in spite of falls in the incomes of primary producing countries and the recession in the United States and other countries, remained remarkably firm. A repetition of such extraordinarily favourable circumstances was unlikely although the United Kingdom expected to have a good surplus on current account again in 1959.
7. The United Kingdom reserves, although much higher than they were at the end of 1957, were still considered by the United Kingdom to be too low, taking into account the magnitude of liabilities. At the Commonwealth Economic Conference in Montreal in 1958, the United Kingdom had announced measures to increase the already considerable flow of capital to less-developed countries in the Commonwealth. Legislation recently had been passed to increase the scale of grants and loans to the dependent territories. It was considered necessary therefore to earn a current surplus of sufficient magnitude to cover these commitments as well as to provide for the necessary increase in reserves.
8. Referring to the suggestion made in the course of the 1957 consultations that the United Kingdom might be giving too high a degree of priority to the claims of investment over the claims of liberalization of imports, the representative of the United Kingdom stressed that the free flow of capital within the sterling area was one of the essential features of the sterling area system. The United Kingdom must also contribute to the supply of investment capital for the other under-developed countries of the world. All this would help to increase world trade and was an essential element in the growing strength of the United Kingdom's economic position which had made possible the policy of progressive liberalization of imports.

9. Throughout 1958 the process of liberalization continued. In July 1958 the United Kingdom removed the control on dollar chemicals and allied products used in industry, and merged the dollar and Relaxation Area quotas for apples. In August 1958 a quota for fruit from the dollar area was instituted. In October a clean sweep was made of controls on dollar imports of industrial, agricultural and office machinery and newsprint. Canned salmon was freed from the import control with the exception of that coming from the Eastern Area. Relaxation by dependent overseas territories on a wide range of dollar goods came into effect on 1 January 1959. As a result of all these successive moves almost all raw materials, basic foodstuffs and "tools of trade" were free from the import control.

10. At the end of the year the United Kingdom merged transferable and official sterling. In concert with a number of other European countries who had taken similar measures the new arrangements for monetary co-operation in Europe embodied in the European Monetary Agreement were brought into effect.

11. With external convertibility the remaining payments advantage in importing from one country rather than from another had disappeared. In these circumstances it was obviously in the interests of the United Kingdom to press on as quickly as possible with the removal of the remaining discrimination in the restrictions. As it would not be desirable to remove discrimination by intensifying the restrictions on imports from the Relaxation Area, clearly the only way open to the United Kingdom of reducing discrimination was by way of liberalizing dollar imports.

12. Complete and immediate removal of discrimination could, however, be costly, at least immediately. The immediate cost of bringing the dollar area into parity with the Relaxation Area might lie between £50 million and £100 million.

13. There were a number of special claims on the United Kingdom in 1959, such as part repayment of the 1956 drawing from the Fund, and the gold payment associated with the increase in the Fund quota. The United Kingdom's reserves amounted to £1,161 million. The potential International Monetary Fund drawing rights constituted a valuable second line of reserve, but speculators tended to look at the actual reserve figure in judging the strength of the United Kingdom. The continuance of a high level of unemployment in the United States, which represented an important market for United Kingdom exports, caused anxiety to the United Kingdom because of the restrictionist and protectionist pressures to which it gave rise. For all these reasons the United Kingdom felt bound to proceed with caution and not to risk having to take retrogressive action; the United Kingdom would continue to move forward progressively.

14. The United Kingdom representative referred to the declaration made by his Government at Montreal to the effect that it was its intention to proceed with the removal of controls from dollar sources and that, all being well, it hoped to make a start in 1959 with as wide a range of consumer goods and foodstuffs as possible. That policy remained unchanged and the Government expected that it would be able to give effect to the intention this year.

Questions relating to the External Reserves

15. The Committee discussed with the United Kingdom representative various questions relating to the balance-of-payments and reserve situation of the country. Members commented, and sought clarification, on a number of points in the opening statement of the United Kingdom representative. It was suggested by a member of the Committee that in discussing the position of the United Kingdom account must be taken of the heavy responsibilities of the United Kingdom as custodian of the common reserves of the sterling area which comprised a large number of under-developed countries and territories, many of which were in need of funds for development. It was also suggested that having regard to uncertain fluctuations in its terms of trade the level of import restrictions in the United Kingdom might turn out to be inadequate for the purpose of preserving stability in the sterling area. For these, as well as other reasons, contracting parties should reflect carefully before urging the United Kingdom to undertake further measures of liberalization. The United Kingdom representative reaffirmed that it was the policy of his Government to proceed with liberalization as rapidly as the balance-of-payments conditions permitted. The terms of trade were undoubtedly an important element in the balance of payments, and it might be noted that the terms of trade of the United Kingdom, having improved steadily throughout 1957, had stabilized at a better level in 1958. It could be expected that commodity prices would tend to harden during 1959 while United Kingdom export prices would continue to be competitive. The very good terms of trade experienced in 1957 and 1958 could therefore not be expected to continue. A member of the Committee pointed out that while the firming-up of commodity prices would have an adverse effect on the United Kingdom trade balance it would at the same time have a good effect on the external receipts of other countries in the sterling area; the resulting effects on the gold and dollar reserves of the sterling area would depend on the relative magnitude of these changes. The United Kingdom representative agreed that firm primary commodity prices could be beneficial to the rest of the sterling area.

16. In his opening statement the United Kingdom representative had referred to the commitment made at the Commonwealth Conference in Montreal to provide capital to under-developed countries of the Commonwealth in the form of Commonwealth assistance loans. A member of the Committee suggested that insofar as these loans would be linked with United Kingdom exports, the charge on the capital account would be defrayed by the exports created. The representative of the United Kingdom replied that insofar as Commonwealth assistance loans generated exports, these latter would be reflected in the current account surplus; but these exports might not be additional since it was not possible to say to what extent loans would generate new trade or finance existing trade. A member of the Committee also observed that even if such loans were tied to United Kingdom exports the funds that the recipient country would otherwise have to spend in paying for these goods would, by virtue of the United Kingdom loans, be released for making other purchases, possibly from other countries, including those outside the sterling area.

17. In reply to a question on the breakdown of sterling holdings, the representative of the United Kingdom gave figures which are included in the table in Annex II. A member of the Committee expressed the view that in discussing the reserve position in relation to the strength of sterling account should be taken not only of the reserves held by the United Kingdom, but also the resources of the IMF which were available to it.

The availability of this second line of reserve would naturally be taken into account by financial circles in estimating the strength of sterling and would be reflected in the general level of confidence in the currency. The fact that the International Monetary Fund had in 1958 provided large facilities to the United Kingdom would not be easily forgotten. In any case, a contribution to the Fund on account of an increase in quota should not be regarded as an adverse development for a country's external financial position. The representative of the United Kingdom was of the view that people engaged in speculation on the exchange market would not all be sophisticated enough to be concerned with such less tangible elements as the Fund resources; they would be more prone to take the gold and dollar reserves of the United Kingdom as a ready and direct indication of the strength of sterling. The value of the Fund resources lay principally in the added confidence that a government faced with balance-of-payments difficulties might derive therefrom in planning and applying measures from which immediate effects could not be expected.

18. A member of the Committee supported the United Kingdom representative's view regarding the importance of adequate reserves as opposed to relying on the facilities of the Fund. In his view increased reserves in the hands of the United Kingdom Government could be used for increased investments abroad, and this would not be the case in respect of resources in the hands of the Fund. This difference should be an important consideration in the view of the United Kingdom's responsibilities for the supply of capital to the under-developed regions in the Commonwealth; sterling was not a national but an international currency and it was the responsibility of the United Kingdom to take this into consideration when considering its commercial policy.

19. The United Kingdom representative stated that his Government was conscious of its responsibilities regarding the status of sterling, which was indeed an international currency. He agreed that drawing rights in the Fund constituted a useful supplement to the reserve holdings but felt that too much emphasis should not be placed on the relationship between the level of reserves and the United Kingdom capacity to invest in overseas development. Reserves were a cushion against fluctuations in the overall balance of payments.

20. Certain members of the Committee expressed the view that the remaining restrictions in the United Kingdom, far from contributing to the strength of the pound, constituted the last obstacle to greater confidence in the currency. With the present strength of sterling, restrictions would seem to serve no useful purpose. The United Kingdom representative pointed out that he had not argued that it was necessary to retain the present degree of restrictions in order to maintain the strength of sterling, but given that the present level of reserves was too low in the light of the claims upon them, the immediate cost of removing all restrictions could be disturbing. The removal of the remaining restrictions must be proceeded with gradually.

Internal Measures to Restore Equilibrium

21. A member of the Committee recalled that in 1957 the United Kingdom Government had adopted a number of drastic internal measures designed to protect the balance of payments which, as the United Kingdom representative indicated,

had worked a transformation of the economy. Since 1958 the United Kingdom policy had been directed towards the removal of restraints on internal demand; restrictions on credit and hire purchase had been relaxed and there had been reductions in the Bank Rate. He invited the United Kingdom representative to comment on the effects of these measures on imports and on the balance of payments. The United Kingdom representative stated that the paramount concern of his Government was to restore confidence in sterling as an international currency. This having been largely achieved it was possible to ease the measures taken in 1957 which were no longer useful in present circumstances. The Chancellor of the Exchequer had stated in his recent budget speech that although the United Kingdom could not hope for a repetition of events in 1958, there should be a respectable surplus in 1959 on current account which should cover investment abroad. Economic expansion would be certain to bring a higher import bill and this was likely to precede a recovery in exports. In these circumstances the competitiveness of United Kingdom exports was of paramount importance. The aim of the budget had been to keep down the cost of production and to retain the competitive position of exports.

22. Asked to comment on the possible effects of wage increases on the competitive strength of United Kingdom products and consequently on its balance of payments, the representative of the United Kingdom again referred to the recent budget speech in which the Chancellor of the Exchequer stated that: Retail prices had remained stable for the past twelve months. Wages had increased but at a very much slower rate than in preceding years. The general objectives of the budget had been to help keep the cost of living stationary; to achieve a lower unit cost of production and to retain a high rate of investment. In the view of the United Kingdom representative there was now a better prospect than for some time of achieving stability in wages and prices.

23. A member of the Committee thought that the internal measures taken by the United Kingdom, while effective in restoring equilibrium, might not be equally useful in maintaining equilibrium. The impracticability of retaining the high bank rate for any considerable length of time would seem to be a case in point. It was by virtue of the drastic internal measures that the United Kingdom was able to liberalize imports. The question was therefore whether there were measures available to keep the economy permanently on an even keel so that liberalization, once achieved, could be maintained.

Policy of Discrimination

24. The Committee discussed extensively with the United Kingdom representative the present policy of his Government regarding the continued use of discrimination and the prospects for its elimination. The representative of the United States referred to the opening statement of the United Kingdom representative in which he invoked unemployment and protectionist pressures in the United States as causes of uncertainty and reasons for caution. He said that he could not agree with the evaluation of the United States situation given by the representative of the United Kingdom. Moreover, to the extent there was still some unemployment from the recent recession that had not been

dissipated, there was an additional reason to be restive about the continued application of discriminatory restrictions against dollar goods. Certain members of the Committee felt that while it was true that there were in the United States, as there were in every country, protectionist pressures against imports, it would be wrong to say the United States policy had been generally illiberal or restrictive. Moreover the persistent use by European countries of discriminatory restrictions against dollar goods certainly did not help the United States Government in combatting protectionist pressures in the United States. The representative of the United Kingdom replied that he fully agreed that the United States Government had followed an enlightened creditor policy and that the continued and steady outflow of gold and dollars from the United States in recent years had been of great benefit to the world. The continued existence of unemployment in the United States was nevertheless a cause of anxiety for the United Kingdom principally because of the importance of the United States market to the United Kingdom although, admittedly, United Kingdom exports had continued to expand in spite of recent instances of protective pressures.

25. Certain members of the Committee recalled the view that had been expressed in many previous consultations that, while discrimination might have been justifiable in certain circumstances, there was no advantage in perpetuating it unnecessarily having regard to the added burden it always involved for the import bill; by depriving importers of the right to purchase from the cheapest source, a country was paying more than necessary for its imports. While agreeing to this as a general principle, the United Kingdom representative considered that in the case of the United Kingdom a complete removal of the discriminatory restrictions on dollar imports would result in an immediate upsurge of imports that could be substantial.

26. Certain members of the Committee expressed disagreement with the argument of the United Kingdom representative. They pointed out that the goods in question were already being freely admitted from non-dollar sources, that imports from the dollar area would be competing not only with United Kingdom domestic products but with supplies from other countries and that the dollar goods that might be replacing supplies from other sources must be cheaper and therefore costing less in foreign exchange. While there might be a shift in the pattern of sources of supply it was difficult to understand why there should be a large additional cost to the United Kingdom. In reply the representative of the United Kingdom stressed the difficulty of estimating the demand for certain dollar area consumer goods. In certain cases United Kingdom consumers, having been for so long denied particular products of dollar area origin, might treat themselves to exceptional purchases. Insofar as purchases might be financed from dis-saving or by foregoing consumption of other home produced goods there would be an increased disbursement of foreign exchange, the magnitude of which was difficult to assess. Many consumer goods produced in the United States had no comparable substitutes of European origin. As an example of the difficulty of making estimates the United Kingdom representative cited the case of canned salmon, the liberalization of which from the dollar area had cost the United Kingdom £12 million in two months instead of the estimated £4 million a year. Examples of possible substitutes were fibreglass and synthetic fabrics. In such fields liberalization for the dollar area might be costly, at any rate immediately.

27. Certain members observed that canned salmon was a most unusual case: the product was not available in substantial quantities from Relaxation Area sources; the popularity of this item in Great Britain was exceptional; and there happened to be a particularly good supply of this fish at the time. Rather than rely on this isolated experience the United Kingdom Government might be well advised to study the experience of other European countries some of which had completely or substantially eliminated their discrimination without difficulty.

28. Members of the Committee referred to the declaration made by the United Kingdom at the Commonwealth Conference at Montreal to proceed with removal of controls on dollar imports, and inquired whether the Government's position had been modified in any way by the move to convertibility at the end of 1958. Apart from the action taken by certain dependent overseas territories, no progress seemed to have been made at all in the reduction of the United Kingdom's dollar restrictions. Now that European currencies had become convertible for non-residents, had there not been a sense of urgency added to the declared intention to remove discriminatory restrictions?

29. The United Kingdom representative recalled that it had been his Government's consistent policy to move towards non-discrimination, that significant steps had been taken prior to the Montreal Conference, and that de facto convertibility of European currencies had been a fact for some years. The formal move to external convertibility represented the recognition of a stage of evolution, rather than any fundamental change of the general situation. On the other hand, the United Kingdom Government recognized that with the measures taken in December 1958 the remaining payments advantage in importing from one country rather than from another had disappeared. He assured the Committee that the intention announced by the United Kingdom Government at Montreal would be given expression.

30. One member of the Committee noted that the United Kingdom representative had spoken of a progressive programme. If this meant that progress would be in steps and the intervals between steps would be as long as the pause since the Montreal Conference, progress would be unduly slow.

31. A member of the Committee was of the opinion that the question of discrimination in import restrictions could not profitably be discussed without taking account of the supply side of the international market. To allow free importation from countries or areas where the goods in question could be supplied only in limited quantities or at uncompetitive prices clearly involved less risk of cost to the balance of payments than to liberalize the same imports from countries whose ability to produce the same goods in quantity might enable them to influence the market substantially. In such cases the elimination of import discrimination might benefit the exporting country to an extent which was insignificant as compared with the risks that might be involved for the importing country. Further, in the case of the United Kingdom, its responsibilities towards the under-developed countries and territories in the Commonwealth might well justify its buying from such sources whose prices might be higher than those of the dollar area countries but which were in greater need of outlets for their products.

32. Other members of the Committee, commenting on these views, noted that according to the basic principles of the international division of labour and economic allocation of resources, on which the GATT was founded, a contracting party should allow all contracting parties a fair opportunity to compete in its domestic market. Discrimination was allowed only in defined circumstances. The GATT had not envisaged the use of trade measures for providing assistance to particular countries, for which purpose provisions had been, and should be, made by governments through other means.

33. A member of the Committee thought that in making its currency externally convertible the United Kingdom had already made a great contribution to the promotion of multilateral trade. The increased access to European and other markets that was now provided for dollar goods implied greater competition and reduced markets for United Kingdom exports. Other things being equal a convertible pound would be more vulnerable and need greater protection than when it was unconvertible. The additional risks that had thus been assumed by the United Kingdom would seem at least to justify the maintenance of its present level of restrictions. Another member pointed out that convertibility had come out of a position of growing strength, not weakness, and that, moreover, since convertibility, the pound had continued to gain strength.

Systems and Methods of the Restrictions

34. In discussing the present system of the United Kingdom restrictions a member of the Committee commented on the fact that almost all of the United Kingdom restrictions appeared to be discriminatory. He wished to know what was the true magnitude of discrimination. The United Kingdom representative briefly described the general effect of the licensing system. Apart from a few foodstuffs and manufactured goods, all imports from countries outside the dollar area, the "Eastern Area" and Japan are free from restriction, and many of the restricted items were covered by quotas. For imports from the dollar area restrictions had been removed progressively from raw materials, basic foodstuffs, industrial chemicals and machinery; generally only consumer goods and foodstuffs remained under control. There were also a number of dollar quotas. For a wide range of consumer goods there was the Token Imports Scheme under which North American suppliers were permitted to export up to 30 per cent by value of their pre-war sales to the United Kingdom market. Consumer goods had been left as a group originally due to the difficulty of selecting specific products for liberalization.

35. A member observed that in the "basic document" a number of bilateral and global quotas were said to be designed to maintain traditional trade interests, and in the case of agreements with certain "Eastern Area" countries the quotas granted by the United Kingdom were described as not involving discrimination. He inquired whether such quotas indeed involved no discrimination in favour of a non-contracting party and against certain contracting parties. The United Kingdom representative stated that the lack of discrimination referred to in the "basic document" was in relation to countries of the Relaxation Area and not to all contracting parties. Bilateral quotas were used in order to secure

a reasonable spread of United Kingdom exports in the Eastern European countries where imports were subject to rigid direct government control. These quotas were relatively small and were somewhat comparable in significance to the quotas under the Token Imports Scheme available to North American exporters. Members of the Committee thought that if the trade involved was indeed small there should be no need to discriminate against contracting parties and that these bilateral quotas might be replaced by global quotas.

36. It was also suggested that all quotas now applicable to the Relaxation Area could be replaced by world-wide global quotas without additional burden of risk being involved for the United Kingdom. The United Kingdom representative explained that to widen access to existing global quotas without increasing them would diminish the share for countries already participating in the quotas, and this would be inconsistent with the United Kingdom's policy which was not to achieve a higher degree of non-discrimination at the expense of increasing the incidence of present restrictions on non-dollar countries. The member commented that this argument would imply that the United Kingdom should not place any additional items on its world-wide open general licence lest imports from non-dollar countries should be partly replaced by competitive dollar goods. The representative of the United Kingdom maintained that there was a logical distinction between the effects of liberalizing a dollar product and those of opening restrictive global quotas to additional countries without increasing them. In the latter case, the import provision being limited, a reduction was to be expected in exports of the original beneficiaries when an increased quota was opened to third suppliers, while this would not be the case when a product was placed on open general licence. Since it was the United Kingdom Government's objective wherever possible to promote the expansion of trade it considered that in practice quotas would have to be enlarged when they were made available to more countries.

37. Members of the Committee noted that although it would be obviously desirable if global quotas were increased as they were extended in country coverage, this point did not meet the basic question of the maintenance of discriminatory quotas.

38. One member referred to the recent combined global quota for fresh apples as a desirable way of reducing discrimination which might well have been applied more generally. He noted the difficulties seen by the United Kingdom in connexion with the selection of individual consumer goods for liberalization ahead of others. If this implied a very slow movement in the elimination of restrictions on the long list of consumer goods in general, it would be exceedingly disquieting. The representative for the United Kingdom referred to the declaration by the United Kingdom Government at Montreal, namely, that it was the intention to make a start with the elimination of controls on "as wide a range of consumer goods and foodstuffs as possible", and stated that due note would be taken of the remarks made by the Committee member. Another member of the Committee added that the United Kingdom's discriminatory restrictions applied also to products other than consumer goods; he mentioned a number of producer goods (including scientific apparatus, optical goods, gas and chemical plant, oil-refining plant, welding machinery etc.), and strongly urged the United Kingdom to give consideration to the removal of discrimination in all sectors.

39. Some members noted that negotiations were held recently between the United Kingdom and France to open additional bilateral quotas. They expressed concern that further arrangements of this nature should be entered into at a time when the United Kingdom had professed its intention to move away from discrimination. They asked whether the United Kingdom would accompany these moves by providing comparable access to other countries.

40. The United Kingdom representative emphasized that it was not the policy of his Government to disclose details of bilateral quotas. These quotas were in any event quite trivial in comparison with the total value of United Kingdom imports. The United Kingdom's general policy was to give priority in further liberalization to the progressive removal of dollar discrimination, but the Government would not regard itself as absolutely precluded from beneficial arrangements in Europe which would not have to be matched quota-for-quota with the dollar area. The United Kingdom Government would expect toleration for very small moves apparently away from the expressed principle of removal of discrimination when it was apparent that its policy as a whole was of removing discrimination. Some members felt that even if the quotas were small the basic principles involved were important. Exporters in the dollar area and many others believed that external convertibility would be followed by the elimination of discriminatory arrangements, and would be disturbed by this apparent backward step taken by the United Kingdom especially as the details had not been made public. In this connexion a member referred to the rules of Article XIII:3. In reply to a question on the relationship between the United Kingdom action and the provisions of the General Agreement, the United Kingdom representative felt the general policy of his Government being one of removal of restrictions it did not seem profitable to single out any particular quota or licence and attempt to relate it to any particular article of the Agreement.

41. In reply to a question concerning the sharing of quotas by newcomers the representative of the United Kingdom stated that established importers had been restricted very severely since 1951 and to permit newcomers would restrict their share even further. The problem would be gradually met when restrictions were progressively reduced.

42. A member of the Committee expressed concern for the position of countries which depended heavily upon the United Kingdom as a traditional outlet for their agricultural products. United Kingdom's agricultural policies in other fields than balance-of-payments import restrictions had had the effect of curtailing the volume of exports of efficient producers. Even under the present import régime in the United Kingdom these suppliers had seen their export earnings diminished as a consequence of abnormal competition from subsidized exports from other countries. As the United Kingdom's remaining restrictions were progressively abolished the scope for subsidized exports would be widened, and the difficulties for efficient producers would be accentuated. He requested that this point be brought to the attention of Committee II on the Expansion of Trade. The United Kingdom representative pointed out that his Government was fully aware of the problems raised by its agricultural policies for foreign exporters and would co-operate fully with other contracting parties in the forthcoming consultations on agricultural policy which resulted from an initiative of his Government.

43. Another member remarked that in view of the fact that imports of newsprint into the United Kingdom from one of the dollar area countries enjoyed preferential tariff treatment, the liberalization of paper from the dollar area might have unfavourable repercussions on the export earnings of his own country which was a principal supplier of paper and pulp.

Restriction in Dependent Overseas Territories

44. Members requested information on the extent to which individual colonial governments had followed the advice given in the report of the Montreal Conference concerning the relaxation of restrictions. The United Kingdom representative pointed out the difficulty of keeping abreast of developments in the large number of colonies, but supplied a summary list showing the present state of liberalization (see Annex IV) in the principal colonies. In reply to a question about the possibility of simplifying the nature of quantitative restrictions in the colonies, the United Kingdom representative thought that it was the variety rather than the complexity of the systems which brought difficulties to traders. He stressed that the variety of systems was unavoidable in view of the widely different circumstances and the diversity of problems faced by the various colonies.

45. A member enquired whether the United Kingdom felt that restrictions in the colonies should be based on United Kingdom balance-of-payments problems or on local problems. The representative of the United Kingdom noted that dependent territories shared a common quota in the International Monetary Fund with the United Kingdom. On the other hand, it was conceivable that when the United Kingdom ceased to base its own restrictions on balance-of-payments grounds the United Kingdom might find it necessary to resort to the provisions of Article XVIII with respect to some of its dependent overseas territories.

Effects of the Restrictions

46. The representative for the United Kingdom stated that, with the exception of restrictions imposed for animal health and similar purposes as permitted by the relevant provision of the General Agreement, existing United Kingdom restrictions were maintained for balance-of-payments reasons.

47. One member of the Committee called attention to the view repeatedly expressed by the CONTRACTING PARTIES that the maintenance of quantitative restrictions over long periods was likely to create situations which would be difficult to remove when the restrictions were no longer justified, and that contracting parties should take deliberate action to prevent the growth of uneconomic industries and vested interests. The United Kingdom representative referred to the statement contained in Part II of the "basic document" which described the policy of his Government on this point. That the United Kingdom Government had not been ignoring such advices of the CONTRACTING PARTIES might be seen from the fact that products which some three years ago had been thought to be possible candidates for a hard-core waiver were now on the free list.

48. The United Kingdom representative also noted that while it was possible that some difficulties might be met with when the United Kingdom ceased to justify its restrictions on balance-of-payments grounds and might cause it to resort to the hard-core waiver procedures, it was yet premature to attempt to give an indication of the products that might be involved. Until the question of identification arose, his Government considered it unwise to take any steps which might give industries false hopes which might lead them not to prepare themselves energetically for the coming competition.

49. Other members of the Committee expressed the hope that the United Kingdom Government, when the time came, would find little need for the hard-core waiver. On the other hand, they observed that the hard-core decision contemplated that a contracting party intending to make use of the waiver would make its application in advance of its emergence from the balance-of-payments difficulties.

General

50. Members of the Committee expressed appreciation of the earnest spirit in which the United Kingdom delegation participated in this exchange of views. The representatives of dollar area countries stated that their governments had not been unmindful of the serious problems that had been faced by many contracting parties and of the resolute efforts made to solve them. They therefore sincerely welcomed and appreciated the moves made by the United Kingdom Government in December 1958 to restore external convertibility. They particularly welcomed the reiteration of the intention of the United Kingdom Government to proceed with the elimination of controls on imports from dollar sources, but they could not disregard the question of timing. They hoped that the intentions expressed by the United Kingdom representative would be given expression in the near future.

- Annexes: I Opening Statement by the United Kingdom representative.
- II Balance-of-payments data supplied by the United Kingdom delegation (together with supplementary data supplied at the request of members of the Committee).
- III Result of the latest International Monetary Fund-United Kingdom consultation.
- IV Lists showing the extent of liberalization in dependent overseas territories.

ANNEX I

1959 CONSULTATIONS WITH THE UNITED KINGDOM UNDER ARTICLE XXII

Opening Statement by the United Kingdom Representative

This week witnesses the opening of the first round of consultations under the new procedures worked out at the review session of the GATT in 1955 and enshrined in Article XII:4 of the revised General Agreement which is now in force.

2. The United Kingdom took a prominent part in the negotiation of these revised provisions and it is perhaps not inappropriate that we should be among the first to consult with the CONTRACTING PARTIES under them. I need not remind the committee that the consultations under Article XIV:1 (g) on the discriminatory aspects of our restrictions in 1958 were commenced at the thirteenth session, but substantive discussions were postponed until now. These present consultations will therefore cover the two years.

3. The committee will remember that when the United Kingdom last consulted with the CONTRACTING PARTIES, under Article XII:4(b) of the unrevised General Agreement, in October 1957, we did so in the shadow of an exchange crisis. The United Kingdom Government had just taken far-reaching measures, including an increase in the bank rate to the high level of 7 per cent, to safeguard the external and internal value of the pound sterling, but these measures had not been in force sufficiently long for the results to have become clearly apparent. We did not resort to intensified quantitative restrictions as a way of solving our problems. Indeed earlier in the year, in spite of some deterioration in our balance of payments, we had in fact carried somewhat further the process of progressive liberalization of imports which had gone on continuously since the crisis of 1951/52. Now that we are further from the events of those days we can see that the measures taken in September 1957 worked a transformation in the United Kingdom's external and internal position without the high unemployment and major loss of production which some feared, and with a continued high level of investment both at home and overseas.

4. The present consultations come at a convenient time. There is a wealth of recently published material available for those who wish to study how this transformation was brought about. Students can read the Economic Survey, the Balance of Payments White Paper, and the National Income and Expenditure White Paper, all of which have been published in the United Kingdom in recent weeks. There is also the speech which the Chancellor of the Exchequer made to the House of Common on 7 April, when he opened his Budget for the current financial year. But the committee has available to it the valuable background papers prepared by the secretariat and the International Monetary Fund and although there is some additional information in these latter publications, I shall not attempt to take the committee through the formidable array of facts and figures which they contain. The

basic facts about the United Kingdom's external position in 1958 are simple:

- (i) we had a surplus on current account of £455 million;
- (ii) our reserves increased by £284 million;
- (iii) sterling holdings of other countries and international bodies which are an important part of our external liabilities rose by £54 million.

There was thus an improvement in our net monetary position of over £200 million.

5. By any standard this was, I think the committee would agree, a very good showing.

6. We must not, however, make the mistake of being too complacent. 1958 was in many ways an exceptional year. The terms of trade moved very much in our favour. The prices of commodities were considerably down. Export prices, on the other hand, fell only slightly. But that is not all. The measures taken in September 1957 restricted the demand for imports in 1958, whereas the demand for our exports, in spite of falls in the incomes of primary producing countries and of the recession in the United States and other countries, remained remarkably firm. We cannot hope for a repetition of such extraordinarily favourable circumstances, although we expect nevertheless to have a good surplus on current account again in 1959.

7. Moreover, our reserves, although much higher than they were at the end of 1957, are still too low, taking into account the magnitude of our liabilities and as is recognized in the Fund's consultations report require to be built up. We also have a commitment to invest overseas on a substantial scale, particularly in the sterling area. You will remember that at the Commonwealth Economic Conference in Montreal in 1958 we announced measures to increase the already considerable flow of capital to the less-developed countries of the Commonwealth and we have just recently passed legislation to increase the scale of grants and loans to the dependent territories. We must therefore earn a current surplus of sufficient magnitude to cover these commitments as well as to provide for the necessary increase in our reserves.

8. There was some suggestion in the course of the 1957 consultations that the United Kingdom might be giving too high a degree of priority to the claims of investment over the claims of liberalization of imports into the United Kingdom. I think it needs to be stressed that the free flow of capital within the sterling area is one of the essential features of the sterling area system. We must also play our part in the supply of investment capital for the other under-developed countries of the world. All this helps to increase world trade; is to the mutual benefit both of the United Kingdom and of the recipient countries; and is an essential element in the growing strength of the United Kingdom's economic position, which has made possible our policy of progressive liberalization of imports. It is doubtful if we can have one without the other. In any case over the years the record will not substantiate any charge that we give to investment overriding priority over liberalization.

9. Throughout 1958 the process of liberalization continued. It will be recalled that in 1957 we removed virtually all the restrictions remaining on imports of raw materials and removed restrictions also from a wide range of foodstuffs from the dollar area. In July 1958 we took the important step of removing the controls on dollar chemicals and allied products used in industry. In July also we merged the dollar and relaxation area quotas for apples and in August 1958 we instituted a quota for fruit from the dollar area.

10. Then at the time of the Commonwealth Economic Conference at Montreal we announced that we would make almost a clean sweep of controls on dollar imports of industrial, agricultural and office machinery, leaving only a limited range of machinery subject to control. We also announced that we would free canned salmon from import control with the exception of that coming from the Soviet bloc; and that we would also liberalize newsprint. Further we announced at Montreal that colonial governments would be invited to make relaxations of their restrictions on a wide range of dollar goods; this was subsequently done and in fact relaxations by the colonies came into effect from 1 January 1959. As a result of all these successive moves we reached the stage when almost all raw materials, basic foodstuffs and "tools of trade" were free from import control.

11. At the end of the year we also felt strong enough to merge transferable and official sterling; the transferable, American, Canadian and registered accounts became known as external accounts and sterling for overseas account was dealt in as a single market in London. At the same time, in concert with a number of other European countries who had taken similar measures, we brought into effect the new arrangements for monetary co-operation in Europe, embodied in the European Monetary Agreement. With this change the remaining payments advantage in importing from one country rather than from another has disappeared.

12. In these circumstances it is obviously in our interest to press on as quickly as possible with the removal of any remaining discrimination in our restrictions.

13. We could, of course, do this by deliberalizing imports from the relaxation area to bring the restrictions in line with our current restrictions against the dollar world. But this would obviously be very unpalatable and would have unpredictable consequences. We have never been pressed to remove discrimination in this way, and I do not imagine that we shall be pressed to do so today. The only way open to us therefore of reducing discrimination is by way of liberalizing dollar imports.

14. Here we come up against the fact that the complete and immediate removal of discrimination could be costly, at least immediately. It is by no means easy to foretell all the consequences of liberalization, but I hope the committee will credit us with an honest attempt to make an objective judgment, and admit that in this very difficult exercise the government of the importing country is at any rate in a better position than outsiders to assess those consequences. If I were pressed to name a figure for the immediate cost of bringing the dollar world into parity with the relaxation area, I would say that it would not be less than £50 million and not be more than £100 million.

15. There are a number of special claims on us in 1959, such as the part repayment of our 1956 drawing from the Fund, which we have already made, and the gold payment associated with the increase in our International Monetary Fund quota. At present our reserves amount to £1,161 million. In addition we have, of course, a valuable second line of reserves in our potential International Monetary Fund drawing rights. But speculators tend to look at the actual reserves figure in judging the strength of our position.

16. We have also to take into account the world economic situation. Here developments have been much better than most people expected. Our present and provisional view is that the recession has passed in the industrial countries and that they have now entered on a phase of soundly-based economic expansion, marching reasonably in step with each other. But it is early times yet to take the sort of definitive view which is necessary to justify a major move. We have seen too often in the past the way in which economic developments can begin to diverge from country to country and the external imbalances which that can produce.

17. Finally, the continuance of what, in spite of the improvement in the last few weeks, remains a high level of unemployment in the United States causes us anxiety because of the restrictionist and protectionist pressures to which it gives rise. The United States market is of tremendous importance to us.

18. For all these reasons we feel bound to proceed with caution. We cannot risk putting ourselves into a position in which we risk having to take a step back. We must continue to move progressively forward as we have done in the past.

19. Nevertheless, I would remind the committee of the Declaration made by Her Majesty's Government at Montreal, namely, that it is our intention to proceed with the removal of controls on imports from dollar sources and that all being well we hope to make a start this year with as wide a range of consumer goods and foodstuffs as possible. That policy remains unchanged and we expect to be able to give effect to the intention this year, but I regret that I am not in a position to tell you today how it will be carried out.

ANNEX II

OVERSEAS STERLING HOLDINGS

(£ million)

	<u>31 Dec.</u> <u>1945</u>	<u>31 Dec.</u> <u>1955</u>	<u>31 Dec.</u> <u>1956</u>	<u>31 Dec.</u> <u>1957</u>	<u>31 Dec.</u> <u>1958</u>
United Kingdom Colonies	n/a	844	870	883	881
Other Sterling Area Countries	n/a	2,035	1,986	1,817	1,737
Total Sterling Area Countries	2,397	2,879	2,856	2,700	2,618
Non-Sterling Countries:					
Dollar Area	34	58	37	35	48
Other Western Hemisphere Countries	163	9	32	31	24
OEEC Countries	351	213	193	260	372
Other Non-Sterling Countries	622	417	303	244	284
Total Non-Sterling Countries	1,170	697	565	570	728
Total ALL COUNTRIES	3,567	3,576	3,421	3,270	3,346
Non-Territorial Organizations	-	469	669	645	623
TOTAL	3,567	4,045	4,090	3,915	3,969

Sources: 1945 and 1955 - United Kingdom Balance of Payments 1946-1957
1956 to 1958 - United Kingdom Balance of Payments 1956-1958

ANNEX III

1959 CONSULTATIONS UNDER ARTICLE XII:4(b)

Results of the 1958 Consultation between the IMF and
the United Kingdom concluded on 19 December 1958

1. The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. In 1958 fixed investment in the United Kingdom has been at a record level, while consumption has increased moderately. However, as a result of a slight fall in exports and a reduced rate of growth in stocks, total demand in 1958 has been somewhat below the previous year's level. Unemployment increased in October to 2.3 per cent of the working population. The gross domestic product fell slightly in the first half of the year and the index of industrial production has been registering small declines in the following months. The strict fiscal and monetary policies pursued by the United Kingdom, aided by the fall in import prices, have brought the economy nearer to price stability than for some time past, but wages again increased more than productivity in 1958.
3. The United Kingdom Government has, within the framework of policies designed to maintain a strong pound and stable prices, taken steps to counter the contractionary forces operating in the economy. The credit squeeze has been eased, Bank Rate has been progressively reduced from 7 to 4 per cent, restrictions on hire purchase have been abolished, some tax stimulus given to private investment and the ceiling on public investment raised. The existence of unused capacity and some under-employment of the labour force give room for some expansion without disturbance to the balance of the economy, especially in view of gains in productivity. However, the Fund welcomes the indication by the United Kingdom Government that its monetary and fiscal policies will continue to be so framed as to avoid creating excessive demand and overloading the economy, and that it will use its influence to keep increases in domestic costs within the limits set by the need to maintain price stability and a healthy balance of payments.
4. In the year ending June 30, 1958 the United Kingdom achieved a current account surplus of £488 million. The rest of the sterling area reduced its sterling holdings by £301 million over the same period in order to finance its greatly increased current account deficit. Holdings of non-sterling countries showed little change in the second half of 1957, but rose by £77 million in the first half of 1958, partly reflecting increased confidence in sterling. These general trends in the movement of liabilities continued through the third quarter of 1958. The gold and dollar reserves, which benefited by a drawing on the Export-Import Bank loan in October 1957 and the deferment in December 1957 of service on United States and Canadian loans,

have risen steadily since September 1957. At the end of November 1958 they stood at £1,148 million, the highest level since September 1951. Exports have been falling slightly; and the current account surplus in 1958/59 is expected by the United Kingdom authorities to be substantially lower, though still sufficient to cover the United Kingdom's foreseen capital commitments. The Fund notes that the United Kingdom Government believes that a further increase in gold and dollar reserves is desirable.

5. The Fund welcomes the further progress made in 1958 in the relaxation of restrictions and the reduction of discrimination and the reaffirmation of the intention of the United Kingdom to make a further move toward convertibility of sterling as soon as it considers that conditions are suitable. Thanks to the measures taken, almost all raw materials and basic foodstuffs and a wide range of machinery are now free from restriction. The Fund also welcomes the stated intention of the United Kingdom Government to reduce discrimination further in 1959, as conditions permit. The Fund believes that progress in reducing discrimination is possible and desirable.

6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom.

ANNEX IV

LIST SHOWING THE EXTENT OF LIBERALIZATION
IN DEPENDENT OVERSEAS TERRITORIES

(a) Colonies which are known to have published a "Dollar
Liberalization" Open General Licence

KENYA
*TANGANYIKA
*UGANDA
ZANZIBAR
FEDERATION OF NIGERIA
*CYPRUS
*NORTH BORNEO
*BARBADOS
*BRITISH GUIANA
*JAMAICA
FIJI
*MAURITIUS

* These territories are known to have omitted certain items from their OGL's (for examples, see List III, which is not comprehensive).

(b) Colonies which have notified the United Kingdom of their
intentions to issue "Liberalization" Open General
Licences but from which no Notices have yet been
received

*GIBRALTAR	LEEWARD ISLANDS:-
MALTA	**ANTIGUA
ADEN	ST. KITTS
**SOMALILAND PROTECTORATE	MONTserrat
GAMBIA	WINDWARD ISLANDS:-
SIERRA LEONE	*ST. LUCIA
SEYCHELLES	**DOMINICA
BRUNEI	GRENADE
*SARAWAK	ST. VINCENT
BAHAMAS	
***BERMUDA	*TRINIDAD
*BRITISH HONDURAS	WESTERN PACIFIC
	NEW HEBRIDES
	TONGA

* These territories are known to have omitted certain items from their OGL's (for example see List III).

** In these territories OGL's are not issued for administrative reasons, but specific licences are freely issued on application.

*** Imports into Bermuda are controlled through the Exchange Control procedure. Items subject to restriction are placed on the "Deferred List", which is amended as necessary. The Deferred List is a very short one.

(c) Examples of Items known to have been omitted
from Liberalization

<u>GIBRALTAR</u>	Flour, margarine, precious and semi-precious stones.
<u>MAURITIUS</u>	Flour
<u>NORTH BORNEO</u>	Rice, plants and seeds, certain explosives and diamonds.
<u>SARAWAK</u>	Rice, plants and diamonds.
<u>BARBADOS*</u>	Rice, margarine, copra, palm kernels, soya beans, soaps and cleansing preparations and cotton seed and linters.
<u>BRITISH GULANA*</u>	Sheep and lambs, rice, maize corn and meal, starches, coconut meal and cake, margarine, hides and skins, oil seeds, charcoal, sand, bauxite, manganese, ore, opium, precious and semi-precious stones, aluminium and alloys - unwrought.
<u>JAMAICA*</u>	Rice, maize meal, cocoa powder, spices, margarine, copra, coir fibre and yarn, cut flowers, cement, wire nails tacks and staples, electric batteries, flour and electrical frequency sensitive machinery.
<u>ANTIGUA*</u> <u>(WINDWARD IS.)</u>	Maize and maize meal.
<u>ST. LUCIA*</u> <u>(WINDWARD IS.)</u>	Flour
<u>OTHER CARIBBEAN TERRITORIES*</u>	

* Oils and fats and their products, e.g. soap are restricted in all Caribbean territories

