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UNITED KINGDOM TEMPORARY IMPORT CHARGES

Report of the Working Party

1. In accordance with the Decision of the Council of 18 December 1964, the Working Party met on 4, 5 and 11 March to resume the consultation with the United Kingdom concerning the temporary import charges imposed in October 1964.
2. A comprehensive statement by the representative of the United Kingdom, which is contained in Annex I to this report, was presented to the Working Party, together with an analysis of trade developments in the months since the temporary import charges were first imposed. Attention was called to the announcement by the United Kingdom, contained in L/2364, that the import charge would be reduced from 15 to 10 per cent on all goods subject to it entered with the United Kingdom Customs on or after 27 April 1965. The representative of the United Kingdom reiterated his Government's unreserved intention that the import charge shall be strictly temporary and shall be removed as quickly as possible.
3. On the invitation of the Chairman, the representative of the International Monetary Fund made a statement to the Working Party concerning the balance-of-payments position of the United Kingdom; this statement is reproduced in Annex II to this report.
4. After hearing these opening statements, the Working Party welcomed the United Kingdom's decision to reduce the import charge by 5 per cent, and expressed the hope that the remaining 10 per cent could be eliminated shortly. One member of the Group interpreted this decision as giving an indication of the seriousness of the United Kingdom's intention to remove the charges completely as soon as possible. One member of the Working Party expressed the view that since 27 April 1965, the date on which the reduction would become effective, would be six months from the date of the imposition of the charges, it might, therefore, be questioned whether the charges would be removed completely in time to justify their being described as strictly temporary.
5. The Working Party then divided its review into three parts on the basis of the various elements in its terms of reference: first, the nature of the balance-of-payments difficulties; second, the alternative corrective measures which might be available; and third, the measures taken and their effects on the economies of other contracting parties, including prospects for the removal of the charges.

The balance-of-payments situation, developments in recent months, and prospects for the immediate future

6. The representative of the United Kingdom in his statement had called attention to developments in the principal items of the United Kingdom balance of payments: an improvement in the trade balance due to a 2 per cent decline in imports in the last quarter of 1964 and some recovery in exports, continued net invisible earnings at about the same level in the fourth quarter as in the third, and some net reduction in the capital outflow. Although much remained to be done to restore equilibrium in the balance of payments, he noted that, thanks to the energetic measures taken last autumn, together with the IMF drawing and the \$3 billion credit, the crises in confidence had been successfully overcome. Figures for February 1965 showed the first increase in United Kingdom reserves since last May, notwithstanding the fact that some repayments had been made with respect to the emergency credits. Production in the United Kingdom had increased, unemployment had now fallen to a very low level, and the Government was hopeful that imports might be held down during 1965 and that exports might continue to increase.

7. The United Kingdom representative was asked whether any target for levels of imports and exports was envisaged by the United Kingdom Government as a condition for the removal of the charges. The United Kingdom representative said that no such specific targets were in mind. The United Kingdom must of course aim for the future at something much nearer balance in trade. Invisible income was no longer able to support as large a trade gap as had been the case pre-1914 and to a lesser extent in the inter-war period. So far the charges had not yet made a significant contribution to the improvement in the balance-of-payments situation. The Government had, nevertheless, decided that it should make the 5 per cent reduction as evidence of good faith.

8. It was also noted that United Kingdom production had increased considerably and that unemployment had now reached a very low level. The question arose as to whether, since all resources were now fully employed, increasing production could help exports, since the new production was mainly going to satisfying domestic demand. The United Kingdom representative agreed that demand in the United Kingdom was at a high level and that there was clearly a very active economy. These factors were in the process of being assessed in relation to the forthcoming budget. He said that he was sure that the Working Party would understand his delegation's inability to indicate at this stage what the Government might eventually decide to do in this area, the question of the level of internal demand was very much in the mind of Ministers.

9. Questions were also asked concerning the basis on which the United Kingdom opening statement predicted a continued rise in exports accompanied by a marked reduction in imports. In this connexion it was noted that apart from an expected growth in exports to North America, notably because of increased sales of aircraft to the United States, there appeared to be no factors in prospect more favourable than those existing in 1964. On the import side likewise, the various details given did not seem to indicate any great likelihood that there would be a reduction in imports, apart from an expectation that prices might be lower. Some representatives felt that higher industrial activity in the United Kingdom might tend

to increase imports of capital equipment as well as of food and raw materials. In reply, the United Kingdom representative stated that it had not been the intention to indicate any dramatic change; however, certain features had been particularly unfavourable in 1964 and it was hoped that these would disappear. For example, exports to countries experiencing a period of disinflation had been exceptionally low; similarly on the imports side stock-building should be less, the import charge should have some effect and food prices should be lower. As regards invisibles, about which delegates had also enquired, it was explained that a smaller increase in Government expenditure abroad was expected, together with less net expenditure on shipping, although such savings would be small.

10. On the basis of the foregoing discussion, some members of the Working Party commented that developments so far appeared to reflect little beyond the working of measures which had been announced at the meeting of the Working Party in December. It was recognized that the United Kingdom budget was in the process of formulation and that the United Kingdom could not be expected to indicate at the present time what measures might be taken in the budget. However, the importance of a budget containing measures which restrained domestic demand and freed resources for exports was stressed. It was considered that such a budget was essential not only for the surcharges to be eliminated at the earliest possible date, so that the burden of the United Kingdom's balance-of-payments difficulty was not placed primarily on international trade, but also to assure the health of the United Kingdom economy.

Alternative measures

11. Some doubts were expressed as to how it was possible to reconcile the strict review of Government expenditure and the increase in public expenditure amounting to approximately 4 1/4 per cent a year over the next five years which were referred to in the United Kingdom statement; doubt was also expressed as to whether it would be easy to restrain domestic demand if at the same time Government expenditure continued to expand. In reply, the United Kingdom delegate stated that to expect a drastic change in the rate at which Government expenditure had been expanding would be unrealistic as some growth in public expenditure in the social and production sectors would have to continue. The review of the situation now in progress in the United Kingdom was intended to ensure that expenditures would be as restrained as possible, especially in the short term, and should reflect the right priorities. The decision to curtail defence expenditure illustrated the Government's intentions in this area. The growth of Government expenditure envisaged would, he said, be slightly above the rate of the last five years taken together but somewhat below the current rate. The Government were well aware that this would involve holding back expansion of the private sector if the restraint needed to improve the balance-of-payments situation was to be assured.

12. In reply to a question whether, if the diversion of defence production into other activities involved additional imports of defence material, the balance of payments would be improved, the United Kingdom representative said that this was a matter for judgment but the resources liberated when the cost of imported material was substantially lower should provide more than counterbalancing import savings or exports.

13. In response to a question about the extent to which the budget might contain anti-inflationary measures, the representative of the United Kingdom assured the Working Party that the question of the level of internal demand was very much in the mind of Ministers. The emphasis would also be on economy in public finance. Some major expenditures were in prospect but the Government had definitely accepted the implication of such expenditures for the private sector. The desire to maintain public spending and to keep up capital investment needed for structural change would certainly make restraint on private spending essential.

14. Members of the Working Party emphasized the importance they attached to the successful implementation of the incomes policy. In answer to questions on incomes policy, the representative of the United Kingdom emphasized the serious nature of the statement of intent in December and the meaningful character of the machinery established early in February to implement that declaration. Thus, very great progress had already been made, and the third stage, now under study, was intended to provide guidance concerning the amounts of increase in prices and incomes which would be consistent with national policy. For the present, the objective was to seek a voluntary commitment by all parties to the process of stabilization. Other ways would obviously have to be considered if this voluntary approach was ineffective, but the Government was very hopeful of attaining fundamental improvements following the present lines of action.

Effects of the measures

15. In his statement the representative of the United Kingdom had indicated that his Government had, after careful consideration of the views expressed in the Council in December, found that it would not be possible to meet requests for special modifications in favour of the less-developed countries without substantially narrowing the coverage of the charge or running into other difficulties. The announced 5 per cent reduction had therefore been adopted for application to all imports subject to the charge. The United Kingdom representative indicated that any possible exceptions would either have had to be discriminatory in the sense of applying to some countries' trade and not others or, alternatively, would have had to include a large amount of trade coming from developed countries and so narrow considerably the scope for a general reduction of the charge. A check of imports of all the goods subject to the charge on the Action Programme list revealed that, of total imports amounting to above £150 million, only about £59 million came from less-developed countries. A similar check on the additional list of items selected for priority study indicated that of total imports valued at £120 million only about £20 million came from less-developed countries. There were very few products subject to the charge of which imports come preponderantly from less-developed countries. There were administrative and practical difficulties in exempting from the charge individual products selected on any such arbitrary basis. Moreover, the United Kingdom Government were compelled to have regard to the possible creation of inconsistencies in the coverage of the charge. The United Kingdom representative again explained his Government's attitude on products

already subject to quantitative restrictions. He also explained, in commenting on the suggestion that basic materials of interest to less-developed countries might be exempted, why his Government had decided in announcing the 5 per cent cut not to depart from the criteria by which products had been originally selected for the charge.

16. Several members of the Working Party expressed their disappointment that special consideration had not been shown for the trading interests of the less-developed countries in the light of the conclusions of the Council. The 15 per cent surcharge on their exports of manufactures had been a hard blow to their industries. The burden was disproportionately heavy in the case of industrial products already subject to quantitative restrictions in the United Kingdom. The argument that it was not possible to accord special treatment to exports of less-developed countries "without substantially narrowing the coverage of the charge" was in their view not convincing. Referring to the point made by the United Kingdom that exemption from the surcharge of all items on the GATT Action Programme list would have benefited developed more than less-developed countries, the representatives of the less-developed countries explained that the products on which priority of consideration could be given by the United Kingdom were those of which they were the principal suppliers and those which had social implications in less-developed countries (e.g. hand-made products, and products of cottage industries). They considered, therefore, that their request was limited in character and would not materially affect the United Kingdom's balance of payments nor prejudice the possibility of a general reduction in the rate of surcharge. Exemption from the surcharge in the case of these products would have been fully in accord with the hope expressed by the Council when adopting the Working Party's report on 18 December and with the spirit of the new Part IV of the General Agreement. The least the United Kingdom should have done was to abolish the surcharge on products of which the less-developed countries were the principal suppliers to the United Kingdom market, including those which had social implications in such countries. They also considered that the same action should be taken by the United Kingdom with respect to exports from less-developed countries already subject to quantitative restrictions in the United Kingdom and certain exports of semi-manufactures which might be considered as basic industrial raw materials.

17. The Working Party then discussed the considerations underlying the earlier report adopted by the Council. The Working Party noted that the request by the less-developed countries for special consideration of products of which they are Principal suppliers to the United Kingdom, including products having social implications, had now been clarified and thus limited. Without prejudice to the early removal of the restrictions as a whole and without prejudice to the principle of non-discrimination as embodied in the General Agreement, the Working

Party felt that, because of the limited scope of the request of the less-developed countries, compliance with their request would not reduce the coverage of the charge substantially. Since the attitude taken by the Working Party was largely a recognition of the desirability of meeting the needs of less-developed countries, any special treatment in the reduction and removal of the surcharges limited to products of interest to less-developed countries which the United Kingdom might feel able to give in the light of the views expressed in the Working Party should not be considered by the United Kingdom might feel able to give in the light of the views expressed in the Working Party should not be considered by the United Kingdom's other trading partners as creating a justification for them to press for special treatment for their own trade. The United States representative could not associate himself with the views of the Working Party expressed above regarding the granting of special treatment by the United Kingdom to less-developed countries. He reiterated the position of his Government on this issue and the reasons for this position, as set forth in the previous report of the Working Party (C/50) and the minutes of the Council discussion thereon (C/M/24). Some members of the Working Party expected that any marginal advantage to developed countries would not be systematically conferred on one or two such countries. The United Kingdom representative stressed that he could not commit his Government to any specific course of action. However his Government would naturally consider the views expressed by the Working Party.

18. To an enquiry whether it was as yet known how individual countries had fared under the surcharge, the United Kingdom representative replied that for the most recent period individual country import figures were not yet available on a seasonally adjusted basis.

19. Several delegations expressed views concerning the working of the surcharge tending to show that in many instances the surcharge had not had much effect other than to increase prices to United Kingdom purchasers. A good many instances had been reported in which exporters were absorbing the charge by accepting lower profit margins (especially where large supplier firms were involved) in the interest of retaining markets which had been built up over a long period of time and at considerable expense. In other cases, the importer was helping to absorb the charge. In both situations, it was noted, there was inevitably some discrimination against the position of the small trader, who may be unable to meet this competition. In this respect, it was pointed out that it would be unfortunate if temporary measures should have unfavorable effects of a continuing nature. Certainly, where the charge was being completely absorbed without resultant price increase, very little benefit was accruing to the United Kingdom balance of payments. In fact, it would appear to some that whenever imports continued to enter, even though sold at increased prices, the major part of the potential benefit of the charge to the United Kingdom balance of payments was lost. Hence, while it appeared that the charge was less of an obstacle to trade than third countries had feared at the outset, it appeared by the same token to be less important that it be retained. The feeling was expressed that the charge had served its main purpose in providing an immediate response to the exchange crisis and that it could now be removed, before it began to have long-term effects of a protective character. In reply, the representative of

the United Kingdom indicated that a test check of the operation of the charge had been made. It had been found that in the main it increased the final price to consumers, though as might be expected there were cases where the exporter had reduced his prices to the importer or the importer had not passed it on. The United Kingdom representative said he felt that three months' trade returns were an inadequate basis on which to make a judgement concerning the effectiveness of the charge; in Canada, he understood, a longer time had been required. He did, however, agree as to the undesirable effects of such a measure in the long run.

20. Some attention was also directed to the question of criteria for removal of the charge and to the problems which might be faced in that connexion. In response to questions, the representative of the United Kingdom again indicated that it was not possible to specify the conditions in which the charge could be removed. In the judgement of United Kingdom authorities further improvement in trade was necessary; it was their policy to keep internal demand under control and any further necessary measures would be taken to that end. The United Kingdom representative repeated his assurance that the charges would be removed as quickly as possible.

21. Mention was also made of the question of United Kingdom export rebates on which details had not been available in December. Although more information was now available such information was still inadequate on too many points for an appreciation of all the aspects of such rebates to be possible; it was understood that further information would be given on request. It was indicated by one member of the Working Party that a request might be made at some time in the future for the establishment of a working party which might examine the relevant provisions and interpretations of the General Agreement and existing tax rebate systems, including the United Kingdom system, in relation to those provisions and interpretations.

22. It was clear to the Working Party that the United Kingdom balance-of-payments difficulties still persisted and were likely to continue for some time; the effects of the surcharge on the balance of payments appeared uncertain but some improvement in the situation seemed to have occurred. Much of the Working Party's discussion had inevitably been inconclusive in character; it was not known what measures the United Kingdom Government might decide to take in the forthcoming budget, and it was still too soon to ascertain the full effects of the surcharges. In these circumstances the Working Party recommends to the CONTRACTING PARTIES that it might appropriately resume its consultation with the United Kingdom sometime after the budget is presented to take into account further development of the situation and that, in the meanwhile, the Working Party's present report should be considered an interim report.

ANNEX IOPENING STATEMENT BY THE REPRESENTATIVE
OF THE UNITED KINGDOMPart I: The United Kingdom Economic Situation and OutlookThe state of the economy

1. At the meeting of the Working Party in December my colleagues and I outlined the salient factors in the United Kingdom economic situation as they appeared at that time. Now, as more statistical evidence has become available, we have a somewhat clearer picture of the course of the economy during 1964. There seem to have been three main phases: in the early months of the year a continued expansion of output; in the middle months a slowing down, although fixed investment went on rising fast, because both exports and consumers' expenditure slackened; and in the closing months a marked increase in demand brought about by a revival in exports and consumers' expenditure while investment continued to rise. Gross domestic product, in real terms, was running in the fourth quarter of 1964 at something like 4 per cent above the corresponding quarter of 1963. This compares with a growth rate of 5 per cent from the second half of 1962 to the second half of 1963, when there was spare capacity to take up. The increase of demand in the closing months was in fact met wholly from home production, which was growing more than seemed to be the case when we discussed the situation three months ago. Imports actually fell slightly.

2. It would seem likely that this increase in production is being maintained in the first months of 1965. Unemployment has fallen somewhat further to a seasonally adjusted rate in February of 1.4 per cent. It is too early for the impact of the measures to restrain demand already taken and announced by the United Kingdom Government to be adequately reflected in the statistics, but I should like to draw particular attention to the fact that from mid-December to mid-February bank advances to private borrowers fell sharply, their first significant check since September 1961. It will be recalled that tighter measures to moderate the expansion of bank credit were brought to the attention of the Working Party last December. These are now having their effect.

3. This is a particularly difficult moment for us to give to the Working Party an appreciation of the prospects for the domestic economy in 1965. It is during the last weeks of the financial year that the final analyses of the situation are being made in preparation for the policy decisions in the Budget next month. These analyses must be on the basis of present policies, and thus any presentation must necessarily be subject to revision in the light of future policy changes. On present trends and indications of business sentiment we would expect a continuing rise in fixed investment, but probably with some slackening later in the year. This is one of the crucial elements in the situation the magnitude of which it is not possible to assess at this stage. There will be some increase in public authorities' consumption. We envisage an improvement in exports, and only a very modest advance in personal consumption. Thus real gross domestic product will continue to rise during 1965 but rather more slowly than during 1964; the prospective rate of growth might be roughly in line with the underlying growth of productive potential.

The balance of payments

4. The balance of payments, although still in heavy deficit, has begun to improve. On a seasonally adjusted basis, the balance of trade improved by nearly £30 million between the third and fourth quarters of 1964. Complete figures are not yet available for the rest of the balance of payments. But net invisible earnings may have been at about the same level in the fourth quarter as in the third, so that a similar improvement may have taken place in the current account as a whole. The net outflow of long-term capital was also reduced (on an unadjusted basis and probably also if allowance is made for the seasonal pattern).

5. The deficit on current and long-term capital account over 1964 as a whole will probably prove to have been as previously expected within a range around £750 million, interest and principal payments on North American loans amounting to some £60 million having been deferred. The positive balancing item over the early part of the year is likely to have been largely offset by a strongly negative movement in the period of crisis. Thus the balance of monetary movements over the year as a whole may not be very different from the identified deficit.

6. Whereas over the first three quarters of the year the deficit was largely financed by inflows of short-term capital and the impact on reserves in the third quarter was only moderate, the position in the last months of the year was very different. There were heavy withdrawals of funds from London as well as adverse "leads and lags", and the total strain on reserves and borrowing facilities was

extremely severe. The steps which had to be taken to surmount the immediate crisis are familiar. Bank rate was increased from 5 to 7 per cent. Central bank assistance arranged before the election was paid off out of a \$1 billion drawing on the International Monetary Fund; and fresh short-term facilities in an unprecedented amount of \$3 billion were arranged. The Government's ability and determination to maintain the exchange rate were put beyond question.

7. There should be a substantial improvement in the balance of payments in 1965 compared with 1964. Imports should fall, partly because of lower stock-building. The effect of the temporary import charge cannot be estimated precisely. As yet there is little firm evidence to go on. Taking into account the reduced rate of charge from 27 April next, the best estimate we can make is that the charge might reduce imports by about £200 million compared with what they would otherwise have been in 1965. Exports may be expected to continue to improve. The prospects for world production and trade, though not as buoyant as in 1964, should nevertheless allow an appreciable increase in exports and the measures to stimulate exports should begin to take effect. Invisible earnings are expected to improve, so that the deficit on current account should be substantially reduced. The net outflow of long-term capital, which was abnormally high last year, should be substantially smaller.

8. In sum, we expect a substantial improvement in the balance of payments in 1965 compared with 1964. Whilst present trends suggest that the deficit is unlikely to be eliminated in 1965, there are as yet too many unknown factors to hazard a more precise forecast.

Appraisal of the trade position

9. Imports have been falling back in recent months. Much of the reduction has been in food imports but a smaller part is probably attributable to the first effects of the temporary import charge. After rising strongly in 1963 and again in the first half of last year, import continued at a very high level although there was little further increase. Then, in the three months November-January, the monthly rate fell back by 2 per cent below that in the previous three months.

10. Within this overall reduction, imports of food, beverages and tobacco fell by 5 per cent in value between the two three-monthly periods. There was also a moderate easing back in imports of the broad categories of goods subject to the temporary import charge. Among particular categories of goods, imports of finished manufactures were down by 4 per cent between the two three-monthly periods, with capital goods showing little change and the reduction primarily

in consumer goods. Imports of chemicals were 9 per cent less over the same period and other semi-manufactures 7 per cent less, the latter category including paper, iron and steel and textiles. The reduction in imports in recent months has been mainly in arrivals from the sterling area, though there were also small reductions in imports from Western Europe, mostly in imports from the EEC with those from EFTA countries only slightly lower on the three months to three months comparison.

11. I now turn to the prospects for imports this year as they appear at present, looking in turn at the main categories. Food imports have fallen back recently; their future movement depends on factors such as world prices and crops in the United Kingdom. Fuel imports rise fairly steadily from one year to another. Neither food nor fuel imports are affected by the temporary import charge which applies only to about one third of total imports. Imports of industrial materials are likely to fall back; the effect of rising consumption as activity continues to expand may be more than offset by a significantly lower rate of stockbuilding than in 1964, (reflecting the import charge and credit restraint). For finished manufactures, some further growth would be expected as consumers expenditure and fixed investment continue to increase but the import charge is likely to restrain this growth, especially for consumer goods. Over the whole field of imports and allowing for lower prices, there should be a marked reduction in the total import bill compared with 1964.

12. Exports by the United Kingdom have recovered in recent months, after some slackening in the middle of last year. There was a marked slowing down in the growth of demand in EEC countries during last year, partly because of disinflationary measures in some of them. The United Kingdom felt this particularly sharply in a fall in exports to Italy while a weakening in exports to other EEC countries developed in the course of the year. There was some small recovery in exports to EEC countries in the latter part of last year and this contributed to the overall recovery in United Kingdom exports. The previously strong growth in exports to EFTA countries slowed down in the second half of 1964.

13. Exports to the Overseas Sterling Area continued to grow in the second half of 1964 against a background of continued growth in those countries' export earnings; exports to North America also increased. On the other hand, exports to the Soviet Union and Eastern Europe fell back in the second half of the year, and the total for 1964 was considerably down on 1963.

14. The general outlook for world trade remains reasonably favourable. We expect to see a recovery in 1965 in exports to Western Europe. Exports to North America are expected to continue to grow in 1965 against a background of continued economic expansion in the United States and including an increase in United Kingdom exports of aircraft to the United States. Imports of primary producing countries should continue to rise. All in all, we expect our exports to grow appreciably in 1965.

Longer-term remedial measures

15. As the Working Party are aware, the British Government has put in hand a major programme of policies and measures to improve the efficiency and competitive position of the economy. We outlined these longer-term measures in December, and the Working Party will wish to be aware of the progress being made in their introduction and implementation.

Review of Government expenditure

16. The strict review of Government expenditure is being pursued vigorously in the fields of both defence and civil expenditure. In particular, the Government have taken some difficult decisions in relation to military aircraft viz. the cancellation of plans for the development of the P1154 and the HS.681 which are evidence of their determination to act in the public sector so as to release scarce resources, especially skilled manpower, for increased production of exports.

17. The Government have also considered the longer-term course of total expenditure in the whole public sector including central Government expenditure. They have decided that the growth of public sector expenditure between 1964-65 and 1969-70, excluding the investment of the nationalized industries, must be related to the prospective increase in national production. For this purpose they propose to limit the average increase in public sector expenditure, taking one year with another, to 4 1/4 per cent a year at constant prices. They recognize that this decision implies some containment of the rise in private sector expenditure.

Incomes policy

18. The Joint Statement of Intent on Productivity, Prices and Incomes, foreshadowed in the previous United Kingdom note was signed by representatives of the Government, the TUC and the employers' organizations on 16 December. This covered undertakings to make a consistent attack on obstacles to efficiency, whether on the part of management or of workers, and co-operation with the Government in giving effective shape to the machinery to be set up to review the joint movement of prices and money incomes of all kinds and to examine particular cases.

19. The second stage of the British Government's initiative in respect of prices and incomes policy was completed early in February when representatives of both labour and the employers agreed on the machinery to be set up to undertake this work. This will be done by a new Prices and Incomes Board with members appointed by the Government, to be divided into two panels, one covering prices and the other wages, salaries and other money incomes. Appointments to this body will be made shortly.

20. The third stage is to determine the "norm" for increases in money incomes and the criteria for assessing individual cases for both prices and incomes. These will be the subject of further discussions between the Government and representatives of management and unions and will be considered by the National Economic Development Council.

The national plan

21. Work on the national economic plan briefly mentioned in the December note has gone ahead in the new Department of Economic Affairs. The plan will be an overall indicative blue-print of the economy aiming at a rate of growth of nearly 4 per cent per annum up to 1970. Requirements are now being calculated on the basis of the chosen rate of growth, and detailed calculations of the implications of this rate for various industries are being done, industries themselves being consulted. The plan will be implemented by direct Government action in the public sector where the Government has authority. In the private sector, it will operate on a basis of co-operation between the Government, private industry and labour at all levels. It is expected that an "Outline Plan" will be ready in March: a full version is expected to be completed by late summer.

Regional planning

22. The national plan will be both supplemented and implemented by the institution of Regional Economic Planning Councils and Boards. The Department of Economic Affairs has already been setting up Regional Economic Planning Councils in each region consisting of local representatives of industry, labour and local Government, which will assist in drawing up regional plans and will advise on their implementation. The Regional Economic Planning Boards consisting of officials will co-ordinate the regional work of the various Government departments concerned in their implementation. The Government believe that these arrangements will provide for the possibility of balanced development of national resources throughout the country.

Exports

23. The Government are continuing to examine all obstacles to exports and ways of encouraging and helping exporters. The Government realize that the effectiveness of an export drive must depend on the efficiency of industry and its vigour in seeking to promote exports and on its ability to compete on costs.

24. In addition to the export rebate scheme previously announced, other measures for the further stimulation of exports were announced on 27 January. These included improved credit and insurance facilities for exporters, the improvement of commercial representation overseas, the encouragement of collective marketing arrangements, market research and trade missions, and a drive in the United Kingdom to make firms more export conscious. Particular attention is being paid to the problems of small and medium firms with an export potential which have not hitherto participated in the export of British goods. A number of new Export Councils have been set up to stimulate export initiatives and improved arrangements in respect of particular areas. The Economic Development Committees for particular industries will also be concerned with the expansion of exports.

Efficiency in industry

25. A whole range of measures and activities to improve efficiency are in hand or operative.

26. The Joint Statement of Intent already mentioned (paragraph 18) includes an undertaking by both management and unions to encourage and lead a consistent attack on the obstacles to efficiency, whether on the part of management or of workers and to strive for the adoption of more rigorous standards of performance at all levels. Other important objectives are the quicker development and wider application of technology in the factories, training in new skills, the increased mobility of labour and the rationalization and standardization of products.

27. A new Ministry of Technology has been formed whose concern is to see that the resources of the State are used to speed up the application of research and development to the modernization of British industry and which has special responsibility for certain industries, including machine tools, electronics, telecommunications and computers. The Ministry is also taking an active interest in automation.

28. The principal machinery for the joint attack on industrial questions are the Economic Development Committees for particular industries ("Little Neddies"), of which nine have already been set up. It is expected that in all about twenty will be established. These Committees will pinpoint the weaknesses of their own industries, recommend measures to rectify them by the industries themselves, or jointly with the Government and will have a prime responsibility for encouraging export performance. Measures of rationalization and standardization will be pursued both by the Government and by industries in the individual Economic Development Committees.

29. The Government is taking action to introduce severance pay, together with new training and re-training facilities for workers in order to bring about the necessary mobility of labour that is essential to a changing industrial economy.

Part II: Relaxation of the Charge

30. The Working Party will be aware that a statement was made to the House of Commons by the Chancellor of the Exchequer on Monday, 22 February about the future of the temporary import charge. This statement was as follows:-

"When the Government announced the introduction of the import charge on 26 October 1964, we made it clear that this was a temporary measure needed to restrain imports while other steps were taken to strengthen the economy and the balance of payments. It was our intention to keep the charge under review.

We have now decided that enough progress is being made to enable us to reduce the charge after it has been in operation for six months. The rate will accordingly be reduced from 15 per cent to 10 per cent on all the goods subject to the charge entered with the customs on or after 27 April.

The Government believe that this notice of a reduction next April will remove uncertainty and will confirm that it is not our policy to rely on the charge as a permanent feature of our economic arrangements. We have been in close touch with Commonwealth and other governments affected both bilaterally and in international organizations."

31. As the Chancellor made it clear, the United Kingdom Government, in reaching their decision to reduce the rate of the charge from 27 April, have taken full account of the representations made to them by other governments and of the views expressed in the discussions at the meeting last December of this Working Party and in the GATT Council. Since the most important objective is to reduce and eventually to remove the charge as quickly as possible, they came to the conclusion that the best first step was to make a substantial overall reduction in the rate.

32. These considerations have governed the Government's attitude on the views on several points which were discussed in the Working Party. They gave careful consideration to the views expressed by this Working Party, as adopted by the GATT Council on 18 December, on the possibility that priority could be given to exempting from the charge products of which the less-developed countries are principal or substantial suppliers. They found that it would not be possible to meet requests for special modifications, whether from domestic or overseas interests, without a substantial narrowing of the coverage of the charge which it would not have been possible to combine with a general reduction in the rate.

On the other hand, to have picked out only a few cases for special treatment would have involved considerable and obvious difficulties. The Government therefore decided that the best course in the circumstances was to apply a 5 per cent reduction in the rate of the charge to all chargeable imports from all sources and not to single out particular products of interest to less-developed countries for specially favourable treatment. The products of these countries will, of course, benefit from the general reduction.

33. The Government have also carefully considered the views expressed by the GATT Working Party on the application of the temporary import charge to goods imported under contracts concluded before 27 October 1964. As was explained to the Working Party last December it was essential, in view of the urgency of the situation, that the charge should make an immediate impact, and exemption of goods already ordered would have defeated this object. This remains the prime economic justification for the United Kingdom Government's decision which they regret they are unable to change. The continuance of the charge on goods covered by such contracts is an element of their decision to reduce the general rate of the charge from 27 April next.

34. As foreshadowed at the previous meeting of the Working Party, the Finance (No.2) Act 1964, which contains the authority for the charge, provides that the foreign exporter would be able to avoid liability to pay the temporary charge as if it were an import duty under his contract. Much depends, however, on the terms of individual contracts and traders may feel it desirable to take legal advice.

35. The United Kingdom Government have also carefully considered the views expressed in the Working Party on the application of the charge to goods already subject to other forms of import restraint. They have very much in mind the fact that such restraints are applied to imports by means of protective duties as well as by physical controls. The purpose of the temporary charge is to restrain imports for balance-of-payments reasons and the existence of protective measures whether by tariff or otherwise is not in the view of the United Kingdom Government a justification for exemption from the charge.

36. In conclusion, I would again draw the attention of the Working Party to the unreserved intention of the United Kingdom Government that the import charge shall be strictly temporary and that it shall be removed as soon as possible. The reduction in its rate on 27 April is a significant step in this direction.

ANNEX II

STATEMENT BY THE REPRESENTATIVE OF THE INTERNATIONAL
MONETARY FUND

Since the Fund provided its statement to the CONTRACTING PARTIES in December 1964, data on merchandise trade for November through January have become available. After allowing for seasonal variation, exports were about 2 per cent higher, and imports about 2 per cent lower, in this period than in the three months to October 1964. Imports rose in November and then declined over the two following months together by about $4\frac{1}{2}$ per cent. It is still too early to judge the new underlying trend in the external trade accounts. Gold and convertible currency holdings declined by £55 million to £821 million in the three months to the end of January 1965; during this period, the United Kingdom received substantial financial support, including a drawing of the equivalent of \$1 billion from the Fund. Detailed balance-of-payments data for the period since the third quarter of 1964 are not available.

It would appear that there has been some improvement in the balance of payments position since the imposition of the import charges. The United Kingdom authorities have recently announced that, effective on 27 April, 1965, the charges are to be reduced from 15 per cent to 10 per cent; but the balance-of-payments position remains difficult, and calls for caution in formulating future policies.

