RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

L/2458/Rev.1
30 September 1965
Limited Distribution

Original: English

INDIAN IMPORT LEVY

Statement by the Representative of India to the Council on 12 July 1965

Revision

"In the Director-General's airgram No. GATT/AIR/457 dated 22 April 1965, the communication received from the Government of India on the imposition of a regulatory duty of 10 per cent ad valorem on all imports into India with the exception of foodgrains, fertilizers, pesticides, books etc., was circulated. The Director-General thought that the Council representatives may wish to have the advice of the Balance-of-Payments Committee on the balance-of-payments aspect of the matter which led the Indian Government to impose the duty. In his airgram GATT/AIR/458 dated 22 April 1965, the Director-General suggested that the Committee on Balance-of-Payments Restrictions could consider this matter in the month of May. As, however, the Finance Bill which provided for the imposition of the regulatory duty was still under the consideration of the Indian Parliament, the Director-General was advised that the matter should be considered at a later date. As, however, the Committee on Balance of Payments would reconvene during the autumn it was thought that we should take the opportunity of this Council meeting to make a short statement which might help in the detailed examination of this question by the Committee on Balance of Payments.

In the GATT document L/2447 of 23 June 1965, a copy of the statement made by the Indian Finance Minister in Parliament on 17 February 1965 has been circulated. I do not propose to repeat the basic reasons which have led the Government of India to take several fiscal and other measures to deal with the extremely difficult foreign exchange position in which India finds herself at present. I propose to add only a few salient points.

Since the first announcement, raw jute has been exempted from the levy, while regulatory import duty is not charged on crude petroleum, it is levied on petroleum products other than kerosene.

The import levy is part of a series of other measures taken at the same time and aiming at restoring fiscal and monetary balance in the economy in the wake of a rapid deterioration in the balance-of-payments situation. The other measures include the raising of the Bank Rate from 5 to 6 per cent, stiffening of the terms of Reserve Bank's lending to the scheduled banks with a view to checking credit expansion, a review of all demands for imports against free foreign exchange and a request to the members of the Aid India Consortium to give the maximum possible assistance for non-project imports. I regret to say, in passing, that the response to this last request for non-project assistance has not so far been particularly heartening.

The background to these measures was a rapid deterioration in India's balance-of-payments position. During the first half of 1964-65 (April-September) there was a decline of Rs550 million in India's foreign exchange reserves. The rate of decline was twice as large as that in April-September 1963. Even more disturbing was the fact that the decline in reserves continued beyond September 1964, i.e. during the period when normally there is accretion to reserves. Taking the entire period from April 1964 to the end of January 1965 there was a decline of Rs88 crores (Rs880 million) in foreign exchange reserves and at the end of January these reserves, excluding gold, amounted to only about Rs100 crores (Rs1,000 million) which was equivalent to less than one month's imports.

The levy of customs duty at the rate of 10 per cent on all imports, with certain exceptions, must be viewed in this general context. The principal rôle of this import surcharge is to promote tendencies in the Indian economy which would ultimately have a beneficial impact on the balance-of-payments situation. While quota restrictions have been employed in recent years, to achieve economies in foreign exchange expenditure on imports, we feel that the regulatory duty too will ultimately have a beneficial effect on our efforts to save on imports in so far as it will help us to achieve a more efficient utilization of imports. It is too early yet to assess the effects of the action we have taken but there is reason to believe that our expectations are not likely to be belied.

The import policy for commercial imports which should have been announced in the month of April was delayed till 1 July 1965 for making a review of the situation and deciding on revised priorities. On 1 July 1965, the Government of India have been able to announce the import policy for only a partial sector of the import trade. Quotas for established importers on a number of items have had to be reduced. In regard to actual users - which, in India, mean the industries importing for their own requirements - the policy will be announced on 15 July 1965.

India recognizes that the long-term objective of policy must be to secure internal price stability and to stimulate investment and production especially in those lines which help restore a balance in her external payments position. Considerable emphasis is, therefore, now being given to stimulation of agricultural production and to the question of export promotion. At the same time internal demand is sought to be restrained through fiscal and monetary devices. The Budget for 1965-66 not merely avoids deficit financing but seeks to realize a nominal surplus in Government accounts. The Reserve Bank has consistently followed policies of general and selective restraints on credit expansion by the banking system. The income tax at all levels has been reduced with a view to stimulate productive activity and personal savings. Selective concessions have also been given to the corporate sector, especially to the priority industries. Government policies have been reoriented to attract the flow of private capital and technical know-how from abroad.

The regulatory duty which has been imposed by the Government is a part of a package of measures designed to control inflation and improve the balance-of-payments position. The duty is applied in a non-discriminatory manner. It is meant to strengthen the economy by conservation and augmentation of foreign exchange resources. Throughout the period of our difficulties we have been in close touch with the authorities of the International Monetary Fund. With the help and assistance of the Monetary Fund, the Consortium members and other friendly contracting parties, we are sure that the crisis we are in will be overcome. It is however too early to say whether any further steps are necessary to deal with the serious situation we find ourselves in.

The Indian delegation agrees with the Director-General that a detailed examination of the balance-of-payments situation and the compensatory levy should be made by the Committee on Balance of Payments. It is for this reason that I have not given more details at this stage. We are willing to participate in a meeting of the Balance-of-Payments Committee during autumn when more detailed information will be provided in answer to such points as may be raised by other contracting parties."