RESTRICTED

L/2676
25 July 1966

Limited Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

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

The fifth meeting of the Working Party on United Kingdom Temporary Import Charges was held on 9 June. At that meeting the Working Party took note of the United Kingdom announcement that the surcharge was to be discontinued after 30 November 1966 (L/2651) and of a United Kingdom statement that it was not intended to replace the surcharge by any other measure of direct import restraint on the demise of the charge. Accordingly, the Working Party decided to prepare this final report to the Council for submission when the surcharge is no longer in effect. No recommendation is made, but the Working Party felt that it would be appropriate to record briefly the history of the surcharge and to set down certain understandings and views of members.

On 27 October 1964, the CONTRACTING PARTIES were informed by the United Kingdom (L/2285) that in order to safeguard the external financial position of the United Kingdom and to correct its balance of payments and as part of wider policies directed to the short-term and longer-term problems of the country's underlying economic situation it had been decided to impose a charge of 15 per cent ad valorem on all imports from all sources except for certain listed foods and raw materials. The United Kingdom invoked the provisions of Article XII of the General Agreement as justification for restricting imports, even though it recognized that the type of restraint on imports there envisaged was the use of quantitative restrictions. The United Kingdom authorities explained that in their view the elaborate administrative machinery required to re-establish import licensing would be unnecessarily disruptive of trade, especially as the surcharge was intended strictly as a temporary measure to be reduced and abolished as soon as the balance-of-payments situation might permit.

At the Council meeting at which this matter was first considered, on 7 December 1964 (C/M/23), widespread sympathy was expressed for the difficulties facing the United Kingdom Government and approval was expressed for the promptness with which the British Government had acted to safeguard the balance of payments, even though many members were not able to support the use of this particular measure.

In order to provide an opportunity for full and if necessary repeated consultation with the United Kingdom, but bearing in mind that Article XII envisaged that any necessary restraint on imports would be by way of quantitative restrictions, a special Working Party was established which was given the following terms of reference:

> "Consultations shall be promptly initiated with the United Kingdom as to the nature of the balance-of-payments difficulties, the nature of the measures taken, alternative corrective measures which may be available and the possible effect of the measures taken on the economies of other contracting parties.
>
> "The consultations shall be carried out promptly and a report shall be submitted to the Council which shall meet as soon as possible to consider such action as may be appropriate in the light of the report."

Beginning in December 1964, the Working Party carried on consultations with the United Kingdom at four separate meetings.[1] Between the first and second meetings the United Kingdom announced a reduction of the surcharge from 15 to 10 per cent ad valorem effective in April 1965. At each of the first four meetings the Working Party consulted with the International Monetary Fund, which contributed background material and gave the Working Party the benefit of its judgment concerning the serious decline of United Kingdom monetary reserves and the measures taken to correct it. The announcement that the charge would lapse after 30 November 1966, made in May 1966, came some time after the fourth meeting of the Working Party.

For the fifth and final meeting, therefore, it did not appear appropriate to resume the consultation. Instead the Working Party confined itself to receiving the United Kingdom announcement and to giving instructions for the preparation of this report. At this meeting the United Kingdom representative also assured the Working Party that his Government has no intention of replacing the surcharge by any other measure of direct import restraint on the demise of the charge. This assurance was of course not to be interpreted as a hard and fast undertaking of indefinite duration or as a commitment not to use direct measures if for example the balance of payments once again deteriorated seriously.

Whilst it would serve no useful purpose to repeat in detail the debates which took place on the various issues involved, the Working Party felt that it might be useful to record the main issues which had been discussed and to set down certain understandings as to characteristics of this case.

---

[1] See C/50, L/2395 and Corr.1, L/2446 and L/2540.

Perhaps the most important consideration in reassuring members as to the consequences of the United Kingdom action was the fact that the surcharge had from the outset been justified only as a temporary transitional measure designed to give immediate help in a unique situation and that the United Kingdom had from the beginning emphasized the intention of reducing and eliminating the charge as soon as the balance-of-payments situation might permit. Many members remarked favourably at the fifth meeting on the decision of the United Kingdom to announce termination of the measure.

All of the United Kingdom statements to the Working Party and much of the questioning in the meetings emphasized the view that the underlying causes of the United Kingdom's recognized difficulties lay not so much in excess imports as in a lack of growth and modernization of the economy, particularly in the export sectors, and in inadequate efforts to divert increased resources into export industries and away from consumption. Hence, the most serious criticisms of the import surcharge raised questions about the appropriateness of a measure which addressed itself to what was regarded as a symptom only. In answer, the United Kingdom representative described an array of internal measures in hand but emphasized that while they were expected to restore equilibrium in due course none could be expected to produce the immediate stemming of outward payments that was required. All agreed in welcoming the end of the surcharge and reliance on internal measures as a means of completing the restoration of equilibrium, the more so as the importance of a strong United Kingdom economy to the international community at large was fully recognized.

The less-developed countries, throughout the meetings, advanced their special case for preferred treatment with respect to application of the surcharge. In their view, it had been agreed in the drafting of Part IV that less-developed countries should not be expected to bear as large a share as others in solving international trade problems, yet the United Kingdom measure, by making no exception for goods supplied by them, in effect forced them to pay their full share in resolving internal British problems by accepting reduced sales or reduced profit margins or both. They felt that the surcharge worked special hardship in two particular situations. First they cited the case of cotton textiles already subject to special quantitative restrictions when imported into the United Kingdom and urged that application of the surcharge to such products amounted to a double penalty. Certain developed countries which export cotton textiles joined in the plea for special treatment in this sector. Further, the less-developed countries argued, there would be products of which they as a group were principal suppliers. Such products might be exempted from the surcharge, they felt, either when imported from less-developed countries only or regardless of source in recognition of their special need to maintain and expand their export earnings. As a minimum, they felt that the second case should be accepted as a basis for exemption from the surcharge. The United Kingdom representative stated that his Government was reluctant to embark on a

course which would necessarily have a discriminatory effect and which, to the extent that it favoured more importation, would postpone the time when the surcharge could be reduced and removed. In this, he was strongly supported by the United States representative, who felt it most important that the measure be removed at the earliest possible moment and pointed out that final removal would be delayed by any exemptions from surcharge, of which the first might not necessarily be the last.

Another matter considered in the early stages was the inclusion within the scope of the surcharge of goods imported under contracts concluded prior to the imposition of the surcharge; representatives of many countries took exception to this feature. Members pointed out that the incidence of the surcharge was not uniform, depending as it did on the terms of the particular contract, and the time involved; distant suppliers were also being penalized more severely in that their contracts tended to be made farther ahead. The United Kingdom representative pointed out that any easement would inevitably lessen the effectiveness of the measure and that his Government considered it important to obtain a maximum impact in the shortest possible time.

In reviewing other measures taken by the United Kingdom to overcome the difficulties, reference was made to the export incentive measures instituted in the autumn of 1964, and at the last meeting interest was expressed in the new Selective Employment Tax. While on the one hand some doubts were expressed concerning the consistency of some of the export incentives with the provisions of the General Agreement, it was agreed on the other hand that any question of that kind fell outside the terms of reference of the Working Party.

In concluding the fifth meeting of the Working Party, note was also taken of the likely effect of the advance announcement by the United Kingdom of the ending of the surcharge. The reasons for the early announcement were appreciated but at the same time it was noted that a likely consequence would be a slowing of imports in the months between May and November, followed by a sudden increase once the surcharge is removed. Such an increase, it was hoped and expected, would not be followed by the institution of new obstacles to importation.