

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## WORKING PARTY 5 ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

### UNITED KINGDOM IMPORT RESTRICTION AND DISCRIMINATION

#### (Summary of United Kingdom statement to the Working Party)

1. The following statement covers both United Kingdom recent measures of intensification of import restriction and the continued resort of the United Kingdom to discrimination, i.e. it relates to the consultations under both Article XII:4(b) and Article XIV:1(g) of the Agreement. In accordance with the statement made by the United Kingdom Delegation at the meeting of the CONTRACTING PARTIES of 7 October, the statement is meant to cover all import restrictions irrespective of whether they apply to dollar imports or so-called "additional imports" from soft currency areas.

#### Intensification of Import Restriction

2. It is thought that the requirements of the Working Party can be best met by endeavouring to answer three main questions on United Kingdom import restrictions:

- (1) Why did the United Kingdom intensify import restrictions?
- (2) In what manner were the imports reduced?
- (3) What were the effects of these restrictions on the balance-of-payments?

#### Question (1):

3. As the need for import cuts arises from balance-of-payments difficulties, it is necessary to give an account of the balance-of-payments of the United Kingdom since 1949. A proper description cannot be given without reference to the movement of the balance of payments of the Sterling Area as a whole, because the gold and dollar reserves are the central reserves of the Sterling Area. A summary need only be given because the information compiled by the Fund provides more detail and also the White Paper CMD.8666 on the United Kingdom Balance-of-Payments (1949 to 1952) provides adequate detail up to 30 June, 1952. Nor is it necessary to describe the working of the Sterling Area system as this has been done in earlier Consultations under the GATT.

4. The best measure of the great change in the payments position of the United Kingdom is that of the movement of reserves. The following table shows the wide fluctuation in reserves since 1949:

|                  | <u>£ million</u> |
|------------------|------------------|
| 31 December 1949 | 1,688            |
| 31 December 1950 | 3,300            |
| 30 June 1951     | 3,867            |
| 31 December 1951 | 2,335            |
| 30 June 1952     | 1,685            |

The table shows a fall in the gold and dollar reserves during the year ending 30 June 1952 of 2,182 million dollars, i.e. a loss of over 56% of the peak reserves held at 30 June 1951.

5. The movement of the current balance of the United Kingdom, as one would expect, follows a similar pattern; as also the current account of the rest of the Sterling Area. The United Kingdom balance-of-payments is summarised in the following table:

|                                  | <u>£ million</u> |                 |                             |
|----------------------------------|------------------|-----------------|-----------------------------|
|                                  | <u>1950</u>      | <u>1951</u>     | <u>1952</u><br>(first half) |
| Imports f.o.b.                   | 2,372            | 3,494           | 1,598                       |
| Exports and re-exports<br>f.o.b. | <u>2,226</u>     | <u>2,715</u>    | <u>1,519</u>                |
| Trade balance                    | -146             | -779            | -79                         |
| Invisible payments (net)         | <u>404</u>       | plus <u>313</u> | plus <u>106</u>             |
|                                  | plus 258         | -466            | plus 27                     |
| Defence aid                      | <u>-</u>         | plus <u>4</u>   | plus <u>57</u>              |
| Current balance                  | plus 258         | -462            | plus 84                     |

The table shows that United Kingdom exports in 1951 were some 21% above 1950 in value, but imports increased by over 40% over 1950 in value and not invisible earnings fell by over 22%. The table shows that the total change in the United Kingdom current balance during 1951 was £720 m. A major factor giving rise to this change was the outbreak of hostilities in Korea. This led to a sharp increase in prices, especially the price of Sterling Area raw materials. The Korean development necessitated an expansion in expenditure on defence, which in turn had a dislocating effect on the United Kingdom economy. On the rest of the Sterling Area side the large growth in income generated by the increases in price had their effect after prices fell, and Sterling Area imports expanded rapidly, while earnings from exports were falling. At the same time import cost inflation in the United Kingdom generated a wage inflation, which in turn led to greatly expanded demand for imports. But part of these imports, owing to

liberalisation on the OEEC sector, were not under control, with the result that the value of imports from OEEC countries rose from a total of £573 m. in 1950 to a total of £925 m. in 1951. The cost and volume of imports from the dollar area also rose sharply.

Question (2):

6. During the latter part of 1951 it became apparent that corrective action would have to be introduced in order to bring down the deficit on current account and stem the drain on reserves. This took the form of import cuts, disinflationary fiscal measures and measures to expand exports. Initial action on imports took the form of deliberalising certain imports from so-called soft currency countries which had been liberalised during the preceding year or so. A wide range of Open General Licences were revoked and quotas imposed in their place. These quotas were global, i.e. they were non-discriminatory as between non-dollar, non-sterling countries. Owing to the fact that the United Kingdom had freed their imports from Europe only a short while before, efforts were made to try and retain a segment of liberalised trade, especially in relation to the Common List drawn up by the OEEC.

7. By January 1952 it became apparent that the intensive import restrictions introduced in November would not prove adequate and further measures were announced with regard to import savings. On Budget Day in March the Chancellor announced additional measures of deliberalisation and other cuts. These successive reductions in United Kingdom imports were reported to the GATT Secretariat and appear in papers GATT/CP/134, 143 and L/2. In July 1952 it was announced by the Chancellor in Parliament that further adjustments in the import programme were to be made. Simultaneously with the import cuts the Government introduced disinflationary measures, e.g. the raising of the bank rate and restriction of credit facilities. Measures were also taken to expand exports, especially those of coal and engineering products.

8. The Administrative method of implementing these import cuts was described by the United Kingdom Delegate during the course of consultation with the United Kingdom.

Question (3):

9. The balance of payments statistics and the movement of the United Kingdom reserves show that these measures have greatly improved the United Kingdom balance-of-payments. The decline of reserves was arrested after the Budget in March and recently they have been stable. It is clear that all these forceful measures were necessary to restore the United Kingdom balance-of-payments. Reliance could not be placed on internal fiscal measures alone as their effect on the demand for imports would be too slow in relation to the rate of decline of the reserves. The import cuts were, therefore, unavoidable. It is not possible to assess accurately the effect of import restrictions on the general level of our imports because other factors, such as a decline in the price of raw materials, were also at work at the same time. It appears, however, that total imports into the United Kingdom this

year will be of the order of £3,000 m.f.o.b. compared with a total of about £3,500 m. f.o.b. last year. The target savings on the import programme drawn up a year ago was £500 m. and these savings are likely to be realised.

#### Discrimination

10. The intensification of United Kingdom import restrictions did not mean an intensification of discrimination against imports from the dollar area. In fact, general discrimination against dollar goods was reduced during the period under consideration. The large increase in the United Kingdom deficit from June 1951 onwards meant that a greater amount of sterling was being paid to almost all non-sterling countries and the tendency was for all this sterling directly or indirectly to become a charge on the reserves. For example, a country outside the E.P.U. area with a transferrable account would transfer more sterling into E.P.U. thereby increasing the United Kingdom debit in E.P.U. and the amount of gold settlement that had to be made. In such a situation any Sterling Area imports would eventually result in loss of gold by the United Kingdom. When, therefore, we reduced non-sterling imports, no differentiation in principle was made as between dollar and other non-sterling currencies. Naturally, the cheaper sources of supply were the last to be cut. Thus, a greater part of the reduction in imports of raw cotton fell outside the dollar area because United States cotton was selling at a lower price than that of other non-sterling countries.

11. It was also apparent that the prices of certain goods in non-dollar countries were at a premium over similar dollar commodities. This was due to a variety of factors, but in large part to the lack of access to the dollar market, owing to currency restrictions. It was decided, in the case of certain commodities that their import cost could be reduced appreciably by allowing buyers to choose freely their source of supply within the established quotas. In the case of softwood a global quota was therefore issued which applied equally to all sources of softwood outside the United Kingdom. The same was done for certain types of woodpulp and also for hog casings. This policy greatly helped to reduce or eliminate the differential between dollar and non-dollar prices for these commodities.

12. A further example of United Kingdom efforts to allow greater scope for international competition was the re-opening of the Lead Market on the London Metal Exchange on the 1st October, 1952. This is an example of complete non-discrimination, for it was realised that this commodity market could not be operated to best advantage if stipulations were introduced with regard to dollar lead. It is too early, as yet, to judge the success of this decision to re-open the Lead Market, but there is evidence that the price of lead quoted on the Exchange is fast becoming the world price. Before October, 1952, the American price was regarded as the world price. The recent movement of lead prices show that the American price is now following the London price.

Summing up

The United Kingdom Government is conscious of the negative character of import restrictions. As a nation enormously dependent on world trade we realise fully the advantage of having a two-way trade and the bad effect of import restriction. Circumstances which could not be foreseen forced the United Kingdom to impose additional restrictions on imports during the past year; but even with the limited reserves available we endeavoured to introduce some rationality into the operation. We tried to be as non-discriminatory as our reserves would allow us and have introduced administrative changes to that end, despite the intensification of import restrictions. At the same time internal fiscal policies were directed to check the inflationary spiral and hence bring about a natural decline in the demand for imports.