Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party has conducted the consultation with the United Kingdom under paragraph 4(b) of Article XII. The consultation under Article XIV:1(g) was held at the same time.

2. The Working Party had before it:

(a) a basic document prepared by the secretariat in collaboration with the United Kingdom authorities describing the system and methods of the balance-of-payments import restrictions in operation in the United Kingdom. The document also contains a statement under Part II - "Effects on Trade", submitted by the United Kingdom authorities;

(b) documents provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

3. In conducting the consultation the Working Party followed the Plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

4. 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 this consultation 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 consultation with the United Kingdom concluded on 27 February 1957, as well as a supplementary paper dated 13 August 1957 supplying information on subsequent developments.

5. In accordance with the procedure agreed upon by the Working Party the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of the United Kingdom. The statement made 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 February 27, 1957.

"As some time has elapsed since the conclusion of this consultation with the United Kingdom, the Fund has also provided a supplementary paper on the United Kingdom, dated August 13, 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Working Party.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of restrictions of the United Kingdom which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Section II of the Plan, relating to alternative measures to restore equilibrium, the attention of the Working Party is drawn to the results of the last Fund consultation with the United Kingdom and to the measures taken more recently. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the United Kingdom Representative

6. The full text of the opening statement of the United Kingdom representative is attached to this report as Annex I, and is summarized in the following paragraphs.

7. The United Kingdom representative pointed out that this year they were consulting not only under Article XIV:1(g), about the discriminatory aspects of their import restrictions, but also under Article XII:4(b), about the restrictions themselves. As the difficulty in reducing discrimination had been the difficulty in liberalizing the restrictions it was appropriate that he take up the argument from the point which had been reached last year in the consultation under Article XIV:1(g).

8. The United Kingdom's surplus on current account in the first half of 1956 had been substantial - £154 million; but the second half of the year was seasonally unfavourable and a continuance of the surplus was not to be anticipated. Events in the Middle East had to be watched; these proved caution to be justified, and indeed matters turned out to be much worse than had been feared. Substantial speculative movements against sterling took place in November and December 1956 and at the end of that year the United Kingdom were obliged to make a drawing and obtain a large standby from the IMF and to arrange a substantial credit with the Export-Import Bank. These measures were effective and the drain on sterling ceased.
9. Despite the closure of the Suez Canal, and other Middle East events, and despite the need to obtain large quantities of oil from the Western hemisphere, the United Kingdom had a surplus on current account of £86 million in the second half of 1956, and a further surplus of £125 million in the first half of 1957. The Chancellor of the Exchequer had pointed out that the trends in the United Kingdom economy suggested they would have a still bigger surplus for the year ending June 1958. As would be explained, however, even this surplus would not be enough for all the United Kingdom's requirements.

10. The United Kingdom Representative then referred to a statement which he had circulated showing the current account balances of his country by regions for the years 1952 to 1956 and for the first half of 1957 (see annex II to this report).

The disturbances caused by the Korean war had caused a sharp deterioration in the United Kingdom's balance of payments and they were obliged in 1951-52 to re-introduce fairly widespread quantitative restrictions. Subsequently the position improved and in four of the five following years there was a surplus on current account, the average being £160 million a year.

11. As this improvement took place they liberalized imports; concerning imports from OEEC countries and their dependent territories the percentage of liberalization rose from 44 in February 1953, to 80 in November 1953, 84 in December 1954 and 93 in August 1956, the last mentioned figure being more than the percentage of 90 to which they were committed in OEEC. The position regarding other countries to which the United Kingdom accorded similar treatment was broadly the same. The percentage of United Kingdom imports liberalized vis-à-vis the United States and Canada - on the basis of 1953 trade - rose from 50 in June 1954 to 59 in August 1956. The record of these five years was one of continuing progress in liberalization.

12. The reason why despite this apparently satisfactory current account record, they had not succeeded in removing all restrictions was the state of their gold and dollar reserves. At the end of 1952 those were £1,846 million, and at the end of 1956, but for their IMF drawing of £561 million, would have been even lower. In fact they stood at £2,133 million, and rose slowly in the first half of 1957 to £2,381 million; by the end of September 1957 they declined, because of widespread speculation, to £1,850 million. Moreover the EPU deficit in September amounted to £62 million, and of this three quarters had to be settled in dollars in October. The United Kingdom would be drawing on the Export-Import Bank line of credit in the coming weeks.

13. The fact that surpluses on current account had not been reflected in increases in gold and dollar reserves could be explained by the triple role of the United Kingdom in world trade as trader, investor and banker. Flows of investment capital were as much part of the United Kingdom's "commercial" affairs as payments and receipts for imports, exports, services etc. Such transactions in 1956/57 used up the whole current surplus and about £90 million more. The
United Kingdom had therefore to earn a current surplus sufficient to cover these operations and commitments (including repayments to the IMF and the Export-Import Bank) and to build up sufficient reserves to enable them to fulfil their role of international banker; it was in this role that the United Kingdom had encountered difficulties during the past year.

14. Against the background of the facts and figures presented the Working Party would have little difficulty in appreciating why during the last year the United Kingdom had not been able to liberalize much further. Nevertheless from 1 August 1957 many raw materials, foodstuffs, chemicals and semi-manufactures had been placed on Open General Licence; although some of these were previously importable liberaly the change relieved importers of complying with licensing formalities; for other goods the effect was to give United Kingdom importers access to dollar sources of supply which had been partly or largely closed to them. The broad result, the importance of which should not be exaggerated, was to remove such controls as remained on the import of the basic raw materials of industry.

15. The United Kingdom had also extended the £100 travel allowance to the dollar area.

16. Even if only a little progress had been made during the past year in removing restrictions, the United Kingdom had not gone back; they had sought to deal with their balance-of-payments problems by means other than quantitative restrictions. By adopting a firm credit policy and other internal monetary and fiscal measures they had sought to restrict the demand for imports, to stimulate exports, and thereby to improve their external financial position. The United Kingdom were determined to maintain the internal and external value of the £; the increase in the bank rate from 5 per cent to 7 per cent, and other measures announced, were evidence of that determination. When these measures had produced the desired results, further steps in the process of liberalization and in the reduction of discrimination could be expected. The United Kingdom representative concluded by saying that he hoped his statement would show why it had not been possible to go further in the direction of liberalization, and by pointing out that the IMF's statement confirmed the United Kingdom's analysis and conclusions.

Balance-of-Payments Situation and Prospects, and Alternative Measures to Restore Equilibrium

17. Members of the Working Party warmly complimented the United Kingdom representative on the very clear and informative statement he had made, and expressed appreciation of the fact that the United Kingdom Government had not resorted to an extension or intensification of quantitative restrictions on imports, but had preferred to rely on internal measures.

In response to the question what other internal measures had recently been taken in addition to raising the Bank Rate, and how soon results would be apparent the United Kingdom representative referred to the decision to restrict public
investment to the 1956 level and the steps being taken to ensure that bank
advances and private investment were similarly restrained. It was difficult
to say how soon these measures would have worked their way through the
economy, but what had been remarkable was the immediate effect on the exchange
rate. The effects of the various measures taken were already beginning to
be apparent.

18. Several members commented on the favourable current account position of the
United Kingdom, and observed that the main problem seemed to have been the
deterioration in the capital account and in monetary reserves. It seemed
that the favourable development in the current account provided a rational
basis for hoping for further progress in the liberalization of imports. It
was important, however, to note that the United Kingdom had not gone back on
the liberalization policy developed over the past few years and had even
made improvements. That clearly illustrated the liberal policy being
followed by the United Kingdom Government and their determination to conform to
the principles of the GATT and to observe their economic obligations to other
countries.

19. One member noted the improvement in United Kingdom exports to the dollar
area and elsewhere, and asked what were the various factors which might have a
limiting effect on a further expansion of those exports - in particular, prices
and availability of resources. He inquired about the prospects for the future.

20. The United Kingdom representative said he believed his country's export
prices were competitive, and that the internal measures recently taken to
limit further price increases and to stabilize the internal value of the £
would sharpen the United Kingdom's competitiveness; the measures taken would
release resources in such a way as to enable the United Kingdom to take full
advantage of export opportunities. Concerning future prospects for exports,
they were moderately optimistic, and on forecasts based on current trends, would
expect a rather larger current account surplus in 1957/58 than in 1956/57.
In regard to the dollar area they were beginning to profit from the consistent
efforts which had been made to develop markets there. Even quite small
concerns were beginning to realize the opportunities open to them, and to
take advantage of them, despite the initial difficulties and costs associated
with developing a new market. It was gratifying to observe that exports to
the dollar area had risen and were continuing to rise, despite the levelling
off in North American business activity. But there were factors which caused
apprehension: for example the emergence of some massive creditor positions
associated with the adoption by some countries of dis-inflationary policies and
the reintroduction by others of quantitative restrictions. There was consider­
able uncertainty about the level of business activity likely to be maintained
in North America. United Kingdom forecasts were necessarily based on the
continuance of current trends; if further restrictions and dis-inflationary
policies were introduced elsewhere, the forecasts might be falsified.

21. One member, referring to the expected improvement in the United Kingdom's
export position, inquired whether the improvement would be in the current
trade balance, and made some observations about the possible effects on the
sterling area as a whole of a decline in prices of raw materials. The United Kingdom, as an important purchaser of raw materials, would benefit from such a fall in prices, and thus enjoy some improvement in their balance of payments. A decline of this sort would, however, affect the position of those sterling countries which were exporters of raw materials. Some of those countries had large programmes of economic development which might be affected by a deterioration of their own balance-of-payments position. He noted that the United Kingdom reserves were at about the same level in 1956/57 as in 1952 when the level of import liberalization was much lower. The United Kingdom could be congratulated on this; but maintaining a higher degree of liberalization on the same level of reserves could also be regarded as taking risks. He would like to know to what extent the current favourable position could be maintained, or improved. If the United Kingdom hoped as they did, for an improvement over the next year, would this improvement result from a better trade balance, from capital movements or from invisible transactions? The prospect of an improved trade balance seemed to him to depend on sustained or increasing demand in external markets and on the assumption that the demand, for example, from the United States would remain the same as previously or increase. He inquired whether the United Kingdom assessment of prospects had taken account of the requirements of capital development programmes in other countries of the sterling area.

22. The United Kingdom representative emphasized again that in expressing a view about future prospects the Chancellor of the Exchequer had been referring to the current account balance. He had made no forecast about the capital account and his current account forecast had been based on existing trends in the United Kingdom economy. The United Kingdom representative agreed that many factors would affect the outcome, such as demand in external markets, and that movements in reserves would be affected by such factors as raw material prices. He would not care to venture an opinion on the effects on the reserves of a general fall or rise in prices of raw materials. Different materials moved in different ways and the effects of some decreases might be cancelled out by other increases.

23. One member noted that in the United Kingdom there had been a rise in wages of about 6 per cent and a rise in prices of about 3 per cent between 1956 and 1957. He inquired whether the United Kingdom representative would care to make some comments about future prospects of coping with wage inflation in his country.

24. The United Kingdom representative stated that the Chancellor of the Exchequer in his speech to the International Monetary Fund had made the Government's position absolutely clear. They conceived the supply of money to be the root of inflation and they were determined to limit the supply of money whatever other painful consequences might follow.

25. One member asked to what extent the recent current trade surplus in the United Kingdom had been a result of an improvement in the terms of trade. He noted that the deterioration in the United Kingdom's reserve position had
apparently been mainly on capital account rather than in respect of current payments and that the decline in reserves had been accompanied by some reduction in sterling liabilities. It was to be hoped that, as the United Kingdom's reserves recovered, appropriate priority would be given to dismantling restrictions. He also wondered whether the cost of reducing the remaining restrictions and discrimination - was necessarily so great as had been imagined; in particular he inquired whether the elimination of discrimination against the dollar area would involve a substantial net drain on reserves or simply a shift in the pattern of imports and a release of local resources. He remarked that the money supply had been held down in recent years in the United Kingdom and asked whether the recently introduced measures involved some new element of restraint to bring about the results expected by the United Kingdom Government.

26. The United Kingdom representative said that the average improvement in the terms of trade in 1956 over 1955 was 2 per cent which would account for about £70 million of the improvement in the balance. The figures for the first half of 1957 were not available but his impression was, with reservations, that there had been some slight further improvement. He agreed that the relationship between the monetary reserves and liabilities was important. In the period from end-June 1956 to end-December 1956, for example, reserves had fallen by £90 million: at the same time there had been a reduction in liabilities to all countries of £127 million. In the following six months reserves had increased by £88 million but liabilities had also increased by £73 million. There had, therefore, been some improvement in the last year in the relationship between reserves and liabilities. On the question of priorities he thought the record spoke for itself. Despite the United Kingdom's commitments to invest overseas they had over the years progressively liberalized imports and there was no reason to suppose that they would not continue to carry out their obligations under the GATT. In regard to the cost of further liberalization measures and the consequent reduction in discrimination, the United Kingdom representative could not agree with the observations made by the previous speaker. It was difficult to assess the strength of the suppressed demand for dollar goods; admittedly this should be less now than it was a couple of years ago. But it was thought that there was a strong consumer preference for many lines of dollar goods and the removal of all quantitative restrictions on dollar imports would give free rein to that preference. The initial impact, at any rate, could be substantial. The risk could not be taken at that moment; the bulk of the restrictions applied to consumer goods, and the advantages to the economy of further liberalization would not be so great as they had been for raw materials. He could not agree that the cost to the United Kingdom of eliminating restrictions would not be substantial.

27. A member of the Working Party said he feared that the rules of the GATT were in danger of being forgotten, and the GATT was accordingly becoming weaker; though most people believed that the Agreement could be made really effective. He pointed out that in the United Kingdom the trade balance had improved, yet, according to both the United Kingdom Government and the IMF,
quantitative restrictions on imports could still be maintained. He wanted to know if this was because of investment and banker obligations. It seemed to him that the extra resources had been used for investment; what was important was the balance-of-payments position as a whole. He wanted to know when measures which were in conflict with the GATT could be eliminated. He did not wish to imply that the United Kingdom was at fault in relation to the GATT, but the Agreement seemed to enable a position to be taken under Article XII which was not consistent with the economic facts. Even when the balance of payments had improved, Article XII was still invoked.

28. The United Kingdom representative recognized that in theory there could be a problem of priorities. The point raised was an interesting general one; but as far as his own country was concerned the record spoke for itself. They had not given priority to banking and investment; as the balance of payments had improved quantitative restrictions had been reduced. The United Kingdom were not trying to finance investment and development at the expense of their GATT obligations and as the balance-of-payments position improved further progress would be made in removing restrictions. He pointed out, however, that the criterion laid down in Article XII was the level of monetary reserves, and it was permissible to use quantitative restrictions on imports to safeguard the balance of payments and to forestall a serious decline in those reserves. The IMF had confirmed that the measures taken were not in excess of those necessary for this purpose.

29. A member of the Working Party expressed the opinion that as the level of reserves was now the same as in 1952 when import restrictions had been much more severe, this might indicate that the fear of removing or further reducing restrictions had been greater than necessary; that the danger in liberalizing imports was not really so great as was thought. He referred to the IMF consultation results (in Document QRC/17 para. 5) that particular emphasis must be given to policies designed to restrain the rise in costs and to improve productivity in order to encourage a further expansion of exports. He asked if the United Kingdom representative could give further information on the progress made and the programme for improving productivity. He referred to the importance of flexibility in the use of internal resources to obtain the benefit to the balance of payments of the domestic measures taken by the United Kingdom, and inquired whether the necessary transfers were taking place smoothly, or creating problems for the United Kingdom.

30. In answer to the first point the United Kingdom representative referred to the view expressed by another member that the United Kingdom were taking risks in operating a higher degree of liberalization on the same level of reserves as in 1952 and claimed that no inferences could be drawn about the risks involved in further liberalization at this time. Concerning the progress made in increasing productivity and the programme for the future, the United Kingdom representative said that the measures taken to relieve the inflationary strain, which came into full effect in 1956, had admittedly resulted in a check to industrial growth. Industrial production had not increased in 1956 as compared with 1955. Output per man-year actually fell, partly because of the
increase in part-time employment. But the United Kingdom had carried out a large programme of investment since the war and the potential increase in production and in exports was considerable. Although total production had not increased, production of capital goods and of goods for export continued to rise in 1956 and with the further reduction in defence expenditure and in the demand for defence materials now materializing the stage was set for the United Kingdom to take full advantage of opportunities for an increase in exports. The change-over was taking place smoothly.

31. One member pointed out that the reserves of the United Kingdom were, in effect, the reserves of the whole sterling area and stressed the importance of the United Kingdom's role as investor and banker. His own country, in its import policy, did not distinguish between sterling and other soft currency areas, but this non-discriminatory policy was not always entirely reciprocated. He added that investment abroad by the United Kingdom made possible a higher level of economic development in other sterling area countries and elsewhere, a higher level of trade, and a reduction in discrimination. He hoped the United Kingdom would keep fully in mind the value of such investment.

32. A member, speaking of the increase in the bank rate from 5 per cent to 7 per cent, asked how the United Kingdom regarded this change from the long-term viewpoint, and how it would affect the propensity to import and the propensity to invest.

33. The United Kingdom representative stated that no government would view with equanimity the perpetuation of a 7 per cent bank rate. The Chancellor of the Exchequer had said, in announcing the new rate, that the increase was made necessary because of speculative pressure against sterling. An additional purpose was to give support to the measures taken to stop the rise in investment at home. It would certainly affect the propensity to invest, and to import, as indeed it was intended to do.

System and Methods of the Restrictions and Effects on Trade

34. Clarification was sought by a member of the Working Party concerning the legal basis of the United Kingdom's import restrictions. If it were so that the importation of all goods was legally prohibited, was it in accordance with the letter and spirit of the basic legislation that the importation of all goods could be liberalized by placing them on Open General Licence or by other means?

35. The United Kingdom representative referred to the information in the basic document. The Import, Export and Customs (Defence) Act 1939 gave the Board of Trade power to prohibit or regulate, by Order, the importation of all goods into the United Kingdom. In pursuance of this power the Board of Trade had issued the Import of Goods (Control) Order 1954 Article 1 of which laid down that "subject to the provisions of this Order all goods are prohibited to be imported into the United Kingdom". Article 2 of the Order went on to say...
that "Nothing in Article 1 hereof shall be taken to prohibit the importation of any goods under the authority of any licence granted by the Board of Trade under this Article and in accordance with any condition attached thereto".

The method adopted to control imports was thus first to prohibit the import of all goods and then to authorize the import of particular categories of goods.

So far as he knew there was nothing in the Act which prevented complete liberalization ultimately. There was, of course, other permanent legislation which prohibited the import of certain goods for health or similar reasons approved by the GATT.

36. One member referred to the statement in the secretariat's basic document (English version, page 20, para. 2) that: "In agreeing bilateral quotas for items in which several countries have an interest, care is taken not to give favourable treatment to a particular country at the expense of others." He would like to hear an elaboration of this point. His country did not grant individual quotas to particular countries because this created considerable difficulties in developing freer trade. He asked what treatment would be given to newcomers trying to break into the market, and how a "fair share of the trade" would be determined in these circumstances. He also inquired about the licensing treatment accorded to members of the Relaxation Countries outside OEEC; was his understanding correct that those countries received exactly the same treatment as members of OEEC?

37. The United Kingdom representative explained that the volume of trade covered by bilateral quotas was very small—about 2½ per cent of their total trade—and consequently the problem was one of relatively little importance; existing bilateral quotas were of fairly long standing, and as the balance of payments improved, they had been increased; as a result many quotas had reached such a size that they had little or no restrictive effect. The United Kingdom, as far as possible, had regard to the traditional trade interests of the countries concerned. In regard to newcomers, the United Kingdom were prepared to consider their requests and to establish new quotas. Care was always taken to ensure that third countries interested in the trade could, as far as possible, be given corresponding quotas, so that discrimination would be avoided. Their experience was that complaints on this score were not at all substantial. Concerning the possible distinction in treatment accorded OEEC countries and other Relaxation Countries respectively, the United Kingdom representative assured the Committee that no such distinction existed; global quotas and imports on Open General Licence applied equally to OEEC and to the rest of the Relaxation Countries.

38. A member called the attention of the Working Party to paragraph 3, page 5 of the basic document where it was stated that: "Most of the goods for which the United Kingdom grants limited import quotas (to Eastern European countries) in return are goods which are admitted freely from OEEC countries; the quotas do not represent discrimination in favour of the countries in Eastern Europe." He enquired whether similar quotas were, or could be, extended to other countries, and to those of the dollar area in particular, in order to help reduce discrimination.
39. The United Kingdom representative replied that they were prepared to accord similar quotas to non-OEEC Relaxation Countries; but they were unable to extend them to the dollar area.

40. Reference was made by some members to the statement in the basic document (para.1, page 12) that (from the dollar area) "Chemicals for the most part are not yet liberalized and are licensed only if there is no adequate alternative United Kingdom source of supply. Machinery is licensed only if there is no non-dollar alternative offering similar advantage." Considerable discussion ensued about the policy for controlling imports of chemicals and machinery, the difference in treatment of these groups, and the reasons for this difference. It was also suggested that the consequence of applying these licensing criteria could be a reduction of the volume of imports, which would represent an increase in restrictiveness, or even a cessation of imports as United Kingdom production increased. It was difficult to regard a licensing policy which had this effect as liberal. The members raising these points enquired why quotas could not be established for some chemical products; they wondered to what extent commercial considerations (such as price, which was one of the criteria in Annex J) were really taken into account in considering imports of these items from the dollar area. They inquired if protective considerations were important in this field, and about the prospects for further liberalization of these items.

41. In reply to these points, the United Kingdom representative stated that the discrepancy between the respective criteria applied to the importation of machinery and of chemicals had now been eliminated — the same criteria applied to dollar machinery and to chemicals — that was: "no adequate alternative United Kingdom source of supply". Admittedly a system of licensing by criteria of the kind adopted for chemicals and machinery appeared to operate to protect home industry in certain instances and even to reduce the volume of imports as home production increased but any such protective effect was incidental and not intentional. Moreover it was mitigated by the general expansion in consumption in the United Kingdom which should have increased the demand for items not produced in the United Kingdom and by the attention paid by the United Kingdom to price differentials in deciding whether there was an adequate alternative United Kingdom source of supply. It was difficult to think of any other system of licensing which could be applied to machinery; quotas for machinery were unsuitable. The main difficulties in the way of establishing quotas for chemicals were practical ones of devising systems of quotas for the immense diversity of products under this general heading which would not result in an additional burden on the balance of payments. All these difficulties would disappear when it became possible to liberalize these categories. The prospect for further liberalization depended of course on the balance of payments. There had been no theoretical study of price disparities but differentials were under constant attention both in the application of the licensing criteria and when considering the advantages and disadvantages of further liberalization of imports.

42. A member enquired whether the United Kingdom, in their import policy for machinery, anticipated the liberalization of particular items in this category from time to time, or whether they would feel it necessary to wait until
conditions were such that the whole category could be liberalized. The member indicated that this question was of interest in regard not only to machinery but also to the remaining restrictions of the United Kingdom. He would not want to see the liberalization of small items held back while awaiting the liberalization of large categories of which they were part.

43. The United Kingdom representative replied that at this late stage even if it were possible to overcome the technical difficulties in adopting intermediate measures they would naturally wish to avoid them if possible. They would hope that the next step in the machinery field would be liberalization of the whole category. Everything would depend on the balance of payments, however, and if improvement was not as rapid as was hoped, they would not exclude from their consideration the possibility of some minor changes as a means of keeping up the momentum.

44. Members asked if the United Kingdom were thinking of applying a more liberal import regime and criteria to products other than chemicals and machinery. They emphasized the fact that intermediate measures, though valuable, were of course not a substitute for full liberalization as the balance of payments permitted. There would be considerable advantages to the United Kingdom in adopting a more liberal licensing policy, including a reduction in costs, and beneficial results in buying from an open rather than a restricted market. It was thought in some quarters that the United Kingdom suffered a dollar burden by importing from non-dollar sources, so that the "dollar impact" did not come through imports from the dollar area only.

45. In reply the United Kingdom representative referred to his earlier remarks on the advantages of further liberalization and on the impact of it on the balance of payments. When the time came to make further moves they would naturally prefer putting items on Open General Licence to taking intermediate measures. The United Kingdom's desire to keep up the momentum of liberalization should be apparent from the timing of the measures of liberalization of raw materials taken in 1957. The small rise in the gold and dollar reserves in the first six months of the year was considered sufficient justification for putting these measures into effect on 1 July.

46. In reply to a question about the general pattern of United Kingdom policy on the liberalization of items still under restriction, the United Kingdom representative stated that the first objective, now virtually attained, was to remove all restrictions on imports of raw materials, the second to liberalize completely machinery and chemicals and finally to liberalize consumer goods. That was the general policy as seen at present, though there had been, and would doubtless continue to be, occasional exceptions in the consumer goods field.

47. Some members, referring to consumer goods, thought that consideration might be given by the United Kingdom to the liberalization of particular items in which certain countries had a traditional interest (for example, canned fruits, canned fish and canned meat from the dollar area); this would not involve a heavy strain on the United Kingdom balance of payments.
48. The United Kingdom representative pointed out that there were quotas for canned fruit and canned fish. Apart from the cost to the balance of payments liberalization of consumer goods in general presented a political problem of presentation, insofar as the public would find it difficult to understand why the Government could afford imports of a non-essential character while imports of essential goods, such as machinery, chemicals and so on were still being restricted.

49. The members who raised this question pointed out that imports of the consumer goods under discussion were, however, permitted from other areas, and asked if the consumers were concerned about that. They questioned whether the opening up of an additional source of supply would in fact create a political problem or whether there would be a substantial effect on the balance of payments.

50. Members suggested that there might be consumer or other goods which could be liberalized with negligible effect on the balance of payments.

51. The United Kingdom representative said that the concept of selecting for liberalization items which would not be imported in appreciable quantities had its own difficulties. One could never be certain beforehand that there would be negligible imports. If appreciable quantities of inessentials did come in the Government would be open to the sort of criticism he had already referred to. Nevertheless the United Kingdom were anxious to maintain progress and the various suggestions made would be borne in mind when further liberalization became possible.

52. A member referred to footnote 2 on page 12 of the basic document and asked for information on the other quotas applicable to Cuba.

53. The reply was: rum, honey, lobsters and citrus fruit.

54. A member noted that the United Kingdom had permitted the importation of minimum commercial quantities of various items in the past. He thought it would be reasonable to suppose that the United Kingdom would be willing to consider, on their merits, particular problem cases that might arise in the future. This was confirmed by the United Kingdom representative.

55. Concerning the protective effects of restrictions on certain products, one member pointed out that the production of apples in the United Kingdom was double the pre-war level.

56. One member observed that, in considering the list of goods the import of which from the Relaxation Countries remained restricted, it seemed to him that most of them could become the subject of a request for a hard-core waiver, if the United Kingdom ceased to be able to invoke balance-of-payments difficulties. He would like to know how the United Kingdom intended to
eliminate or to justify these restrictions when it could no longer do so under Article XII or other provisions of the GATT.

57. The United Kingdom representative said that there were certain items on which they would probably have to invoke the hard-core waiver when the time came. The question did not arise as long as they were in balance-of-payments difficulties, but as these difficulties came to an end and they were ready to leave the shelter of Article XII they would tackle the problems associated with the waiver.

58. One member stated that the incidental protection afforded to United Kingdom producers through the remaining balance-of-payments quantitative restrictions did not to any great extent affect exports from his country to the United Kingdom. However, in this context he wished to make the observation that the United Kingdom producers inter alia enjoyed protection through a system of double-pricing and subsidies. Whilst the first mentioned device, which was effected through the control on exports of certain essential raw materials, placed the industries in his country in an unfavourable competitive position on all export markets, the subsidization had led to a diminishing export of agricultural products to the United Kingdom. He therefore felt that efforts to abolish protective measures should not be confined to import restrictions under Article XII but should be directed towards the elimination of all barriers impeding international trade.

59. Members expressed their gratification concerning the progress made towards liberalization by the United Kingdom, despite recent difficulties, and welcomed the re-affirmation of a policy directed to that end. They expressed appreciation of the valuable information and co-operation given by the United Kingdom delegation during the consultation, and expressed the hope that the various suggestions made would in due course lead to further measures designed to reduce import restrictions and discrimination.

60. The United Kingdom representative stated, in turn, that his delegation appreciated the fairness, consideration and patience shown by the Committee and the Chairman.
ANNEX I

Opening statement by the United Kingdom Representative

Last year the United Kingdom consulted with the CONTRACTING PARTIES under Article XIV:1 (g) about the continuation of discrimination. I then explained why in practice discrimination could only be further reduced by liberalization of imports. I also explained that although we had made some minor easements the state of our gold and dollar reserves had prevented us from making any substantial liberalization of imports during the year, and so from making any great progress in reducing discrimination.

2. This year we are consulting not only under Article XIV:1 (g) about the discriminatory aspects of our import restrictions, but also under Article XII:4 (b) about the restrictions themselves. Since, as I have explained, the difficulty in reducing discrimination has been the difficulty in liberalizing the restrictions themselves, it is appropriate that I should take up the argument from the point which was reached last year, even though this year's consultations go wider than last year's.

3. The United Kingdom's surplus on current account in the first half of 1956 was substantial - it turned out to be £154 million. But as I explained, the second half of the year is seasonally unfavourable and continuance of a surplus of that magnitude was not to be anticipated. Moreover, the unfolding of events in the Middle East needed to be watched. Events proved caution to have been justified. Indeed matters turned out to be very much worse than we had feared. There were substantial speculative movements against sterling in November and December 1956, and at the end of the year we were obliged to make a drawing and obtain a large standby from the IMF and to arrange a substantial line of credit with the Export-Import Bank. This calling up of our second line of reserve was effective and the drain on sterling ceased.

4. The effects on the United Kingdom's economy of the disturbances to trade due to the closure of the Suez Canal, and of other events in the Middle East turned out to be less serious than we had anticipated and in spite of the necessity to obtain large quantities of oil from the Western hemisphere we had a surplus on current account of £86 million in the second half.
of 1956, followed by a further surplus of £125 million in the first half of 1957. A surplus of over £200 million in a year such as this was no mean achievement. Moreover, looking forward, as the Chancellor of the Exchequer said in his speech to the International Monetary Fund, the trends in our economy suggest that we shall have a still bigger surplus in the twelve months ending June 1958. Unfortunately, as I shall explain, even this is not enough.

5. The Committee have doubtless studied the very excellent background papers provided by the IMF and the most valuable basic document provided by the secretariat. I have also circulated a statement which elaborates a little on the information contained in those papers and incorporates some figures which were not available when these papers were written. It shows the current account balances of the United Kingdom by regions for the years 1952 to 1956, and for the first half of 1957. The Committee will remember the disturbances caused by the Korean War. They caused a sharp deterioration in our balance of payments and we were obliged in 1951-52 to re-introduce fairly widespread quantitative restrictions on imports. Subsequently the position improved and, as the statement shows, in no less than four of the five following years we had a surplus on current account. The average surplus was £160 million a year.

6. *Pari passu* with this improvement in our position we liberalised our imports. From the basic documents you will see that our liberalisation percentage for OEEC countries and their dependent territories, which had fallen to 44 per cent in February 1953, rose until it had reached 80 per cent in November 1953, 84 per cent in December 1954 and 93 per cent in August 1956. This was rather more than the percentage of 90 per cent which we were committed to in OEEC. The position for the other countries to whom we accord similar treatment is broadly the same.

7. Comparable figures are not available for the dollar countries. The earliest OEEC figures for them relate to 1954, and as the basic document states, the percentage of the United Kingdom imports liberalised in the United States and Canada - on the basis of 1953 trade - rose from 50 per cent in June 1954 to 59 per cent in August 1956.

8. Even if the pace of liberalisation slowed down considerably towards the end, the record of these five years was nevertheless one of continuing progress.
9. The question which doubtless springs to the minds of the Committee is why, given this apparently satisfactory current account record we have not yet succeeded in removing all our restrictions. The answer lies, of course, in the state of our gold and dollar reserves. At the end of 1952 they amounted to £1,846 million. Four years later at the end of 1956, but for our IMF drawing of £561 million, they would have been even lower. In actual fact they stood at £2,133 million. They rose slowly in the first half of 1957 to £2,381 million. Subsequently, widespread speculation on the exchanges caused a heavy drain and by the end of September reserves had declined again to £1,850 million. Moreover, the EPU deficit in September amounted to £62 million and of this three quarters has to be settled in dollars in October. As the Chancellor of the Exchequer announced in Washington, we shall be drawing on the Export-Import Bank line of credit in the coming weeks.

10. Why have our surpluses on current account not been reflected in increases in our gold and dollar reserves? The answer is complex but is to be found in the triple role played by the United Kingdom in world trade and commerce. The United Kingdom is at the same time trader, investor and banker.

11. Besides being one of the world's greatest trading nations the United Kingdom normally invests large sums abroad each year. Overseas countries also invest in the United Kingdom. Such flows of long-term capital are as much part of our "commercial" affairs as the payments and receipts for imports, exports and services and property income which appear in the current account. Transactions of this kind used up the whole of our current surplus in 1956/57 and some £90 million besides. Therefore we must earn a current surplus sufficient to cover these operations and commitments (which now include the repayment of the drawing from the IMF and the Export-Import Bank) and to build up sufficient reserves to enable us properly to fulfil our third role - that of international banker.

12. It is mainly in this role that we have encountered difficulties during the past year. Sterling is widely held throughout the world. It is used to finance a large proportion, probably anything up to half, of international trade and payments. As a banker we must expect to meet withdrawals when
they come. The bulk of our sterling liabilities are held by sterling area countries and treated as normal currency reserves to cover fluctuations in their balance of payments. Some of these countries, however, hold balances in excess of their normal requirements and draw them down to finance their economic development. In doing so they impose, of course, a claim on our resources. Over the past year we have also had to meet reductions in the sterling holdings of non-sterling countries. More recently there has been speculation on the exchanges which has fallen especially heavily on sterling precisely because it is a widely used international currency. Finally, the gold and dollar reserves of the United Kingdom are naturally affected by the current account balances of sterling area countries who hold their reserves in sterling and the settlement of whose accounts outside the area in sterling naturally falls on the reserves.

13. It was the combined and continuing effects of these forces which led to a fall in the gold and dollar reserves of £90 million (or $252 million) in the second half of 1956 despite the IMF drawing; this loss was nearly but not in fact quite balanced by the rise in the ensuing six months which was in turn more than wiped out by the losses of the last three months, 14. Against this background the Committee will have little difficulty, I hope, in appreciating why the IMF have stated that the general level of restrictions does not go beyond the extent necessary at the present time to stop a serious decline in our monetary reserves and why during the last year we have been able to go no further along the path of liberalisation than is described in the basic document. From 1 August 1957, a wide range of raw materials, foodstuffs, chemicals and semi-manufactures were placed on world Open General Licence. The import of some of these goods had already been licensed more or less freely in practice and in such cases the main effect of the change was to relieve traders of the paper work of complying with import licensing formalities. For other goods, however, the effect was to give United Kingdom importers access to dollar sources of supply which had previously been partly or largely closed to them. Imports of some commodities are expected to increase because of the change. The broad result of the change (the importance of which should not be exaggerated) was to remove such controls as remained on the import of the basic raw materials of industry; United Kingdom manufacturers can now buy freely from whatever sources suit them best, irrespective of currency considerations.
15. Although this Committee is not concerned with invisible imports, I feel I should mention that we also extended the £100 travel allowance to the dollar area.

16. Thus, even if we have not made much progress in the last year in the removal of restrictions, we have not gone back; we have sought to deal with our balance of payments problems by means other than the use of quantitative restrictions. By a firm credit policy and by other internal monetary and fiscal measures we have sought to restrict the demand for imports, to stimulate exports and thereby to improve our external position. As the Chancellor of the Exchequer announced on 19 September, the United Kingdom are determined to maintain the internal and external value of the £. The increase in the Bank rate from 5 per cent to 7 per cent and the other measures announced by the Chancellor on that date are evidence of this determination. When these measures have shown results in the strengthening of our position and in current account surpluses of sufficient magnitude to cover our commitments and build up our reserves, further steps in the process of liberalization and of the reduction of discrimination can be expected. The Committee can rest assured, as I said last year, that we shall move forward more rapidly as soon as our balance of payments permits.
# ANNEX II

## REGIONAL CURRENT ACCOUNT BALANCE OF THE UNITED KINGDOM

<table>
<thead>
<tr>
<th>£ m</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
<th>1955</th>
<th>1956 1st half</th>
<th>1956 2nd half</th>
<th>1957 1st half (Prov.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DOLLAR AREA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports &amp; re-exports f.o.b.</td>
<td>410</td>
<td>444</td>
<td>423</td>
<td>495</td>
<td>313</td>
<td>309</td>
<td>330</td>
</tr>
<tr>
<td>Imports f.o.b.</td>
<td>-606</td>
<td>-517</td>
<td>-556</td>
<td>-732</td>
<td>-352</td>
<td>-409</td>
<td>-412</td>
</tr>
<tr>
<td>Services</td>
<td>-121</td>
<td>-53</td>
<td>-11</td>
<td>-37</td>
<td>65</td>
<td>-12</td>
<td>5</td>
</tr>
<tr>
<td>Government Transactions</td>
<td>+23</td>
<td>20</td>
<td>22</td>
<td>22</td>
<td>24</td>
<td>13</td>
<td>37</td>
</tr>
<tr>
<td>Current Balance</td>
<td>-294</td>
<td>-106</td>
<td>-122</td>
<td>-252</td>
<td>50</td>
<td>-99</td>
<td>50</td>
</tr>
<tr>
<td>Defence Aid net of counterpart</td>
<td>121</td>
<td>102</td>
<td>50</td>
<td>46</td>
<td>12</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td>Current Balance incl. Aid</td>
<td>-173</td>
<td>-4</td>
<td>-72</td>
<td>-206</td>
<td>62</td>
<td>-85</td>
<td>32</td>
</tr>
</tbody>
</table>

| **OECD AREA** |      |      |      |      |               |               |                       |
| Exports & re-exports f.o.b. | 729  | 757  | 788  | 828  | 455           | 486           | 518                   |
| Imports f.o.b. | -738 | -678 | -760 | -877 | -458          | -454          | -437                  |
| Trade Balance | -9   | 79   | 28   | -49  | 3             | 32            | 81                    |
| Services     | 5    | 36   | 41   | 34   | -7            | -41           | 43                    |
| Current Balance | -31  | 86   | 40   | 47   | -30           | 29            | 16                    |

| **OTHER NON-Sterling AREAS** |      |      |      |      |               |               |                       |
| Exports & re-exports f.o.b. | 363  | 262  | 276  | 340  | 197           | 194           | 205                   |
| Imports f.o.b. | -359 | -367 | -361 | -410 | -212          | -209          | -203                  |
| Trade Balance | 4    | -105 | -85  | -70  | -15           | -15           | 2                     |
| Services     | 121  | 94   | 100  | 50   | 36            | +42           | 32                    |
| Current Balance | 88   | -51  | -20  | -47  | 8             | 20            | 24                    |

| **CURRENT NON-Sterling Balance** |      |      |      |      |               |               |                       |
| Incl. Aid | -116 | 31   | -52  | -300 | 40            | 94            | 8                     |

| **REST OF STERLING AREA** |      |      |      |      |               |               |                       |
| Exports & re-exports f.o.b. | 1,325 | 1,209 | 1,333 | 1,407 | 736           | 714           | 723                   |
| Imports f.o.b. | -1,241 | -1,326 | -1,329 | -1,407 | -712         | -657          | -749                  |
| Trade Balance | 84   | 117  | 4    | -24  | 57            | -26           |                       |
| Services     | 410  | 383  | 410  | 368  | 181           | 209           | 223                   |
| Current Balance | 363  | 157  | 282  | 222  | 119           | 180           | 117                   |

| **TOTAL CURRENT BALANCE** |      |      |      |      |               |               |                       |
| Excl. Aid | 126  | 86   | 180  | -124 | 147           | 72            | 107                   |
| Incl. Aid | 247  | 188  | 230  | -78  | 159           | 86            | 125                   |

1 Debit.
2 Including debits of -6, -14, -11, -8, -5, -3 and -7 to Government Transactions with non-territorial organizations.