GENERAL AGREEMENT ON TARIFFS AND TRADE

Working Party on the United Kingdom
Temporary Import Charges

OPENING STATEMENT BY THE REPRESENTATIVE OF THE UNITED KINGDOM

Part I: The United Kingdom Economic Situation and Outlook

The 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 regionalization 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.