1. In accordance with the decision of the CONTRACTING PARTIES of 23 March 1965 the Working Party met on 16, 17 and 18 June to resume its consultation with the United Kingdom concerning the temporary import charges imposed in October 1964. It should be noted that this meeting of the Working Party was one of a series and that the present report should be read in conjunction with the reports on the two meetings of the Working Party which had already taken place (L/2395 and Corr. 1 and C/50).

2. A comprehensive statement by the representative of the United Kingdom [to be annexed to this report] was presented to the Working Party, together with an analysis of trade developments in April and May 1965. In this statement the representative of the United Kingdom described the measures contained in the April Budget designed to contribute towards the solution of the balance-of-payments problem, reviewed recent developments in the balance-of-payments situation and presented a further progress report on the longer term strategy to strengthen the British economy.

3. On the invitation of the Chairman, the representative of the International Monetary Fund made a statement concerning the balance-of-payments position of the United Kingdom [this statement will also be annexed to the report].

4. Members of the Working Party emphasised that their chief preoccupation was that the balance-of-payments situation should be brought into equilibrium as soon as possible by the use of measures other than the surcharge, so that the surcharge could be removed in the near future. The representative of the United Kingdom reiterated the statement made at previous meetings that the surcharge was strictly temporary in character.
5. The hope was expressed that a further reduction in the surcharge would be made during the course of 1965; measures other than the surcharge should soon come into effective operation and it would then be reasonable to expect the prompt reduction and elimination of the surcharge. It was stressed that an early reduction was of particular importance as this would have a beneficial effect on the outside world's appreciation of the United Kingdom's economic situation and would respond to the concerns of countries whose trade was being damaged.

6. It was stressed that it was difficult to assess the progress in the United Kingdom's balance-of-payments situation or to form a reliable judgement as to the effectiveness of the measures which had been taken, in view of the continued lack of conclusive evidence on the effect that these measures were having on the balance of payments. Judgements were therefore bound to be fairly arbitrary and, at times contradictory. The absence of more decisive evidence was disappointing in view of the time that had elapsed since the original imposition of the surcharge.

7. Members of the Working Party stressed the need for the United Kingdom authorities to pay particular attention to the implementation of an effective prices and incomes policy and to the bringing about of a reduction in the pressure of domestic demand if resources for export were to be successfully freed. These factors would be of fundamental importance in holding imports to a reasonable volume and in enabling the concentration of sufficient resources on the export sector. The danger of the potential protective effect of the surcharge was again stressed.

8. It was recalled that in his opening statement the representative of the United Kingdom had said that it was his Government's aim to get most of the way towards closing the gap in the balance of payments in 1965, and to complete the process in 1966. It was asked whether this did not imply that removal of the surcharge could not really be expected until a date well into 1966 and then only if a certain number of assumptions proved to be correct. It was therefore relevant and essential to consider these assumptions, on which the assessment has been based, and the extent to which they were realistic.

9. In this connexion reference was made to the hoped-for growth in exports of 6 per cent a year and doubts were raised as to whether this figure could be realized. There was the risk that it might not be possible to contain domestic
demand, while an increase in government expenditure of 9 per cent was estimated for 1965. There was also the pressure of wage increases.

10. As regards imports it was asked whether the expectation of a slowing down in imports and in particular of a slight decline in prices, was soundly based and if so, whether this would not imply reduced economic expansion abroad and, consequently, reduced United Kingdom exports. Thirdly, in view of the fact that exports of public capital were likely to remain more or less the same or even show some growth, a reduction in the outflow of private capital and increased imports of foreign capital seemed essential to meet the United Kingdom's objectives in this sector.

11. In connexion with United Kingdom thinking on the surcharge itself, the question was asked as to whether the surcharge was an integral part of the overall plan for improving the balance-of-payments situation or whether the other measures in themselves were considered sufficient to attain the equilibrium which was desired. This consideration was important in the context of the duration of the surcharge which, further had been represented as non-discriminatory in character but the impact of which, in fact, very considerably as between countries and individual sectors.

12. In replying, the United Kingdom representative emphasized that progress was in fact being made. As his opening statement had shown, there had already been a significant improvement over 1964. In the export sector there was an encouraging increase in late 1964 which continued into 1965. Despite a slackening in the last two months the trend was favourable. As regards imports, the figures for the four months February/May 1965, averaged 1 per cent less than the monthly average for 1964, in contrast to the strong earlier upward trend. Invisibles should make a welcome contribution toward closing the gap but this was not looked upon as a major element. It was not the intention of the Government to try to reduce the outward flow of funds to the less-developed countries but measures taken in the budget would tend to reduce the overall net outflow of capital to a level sustainable by the level of visible trade. Imports of foreign capital were welcome, having implications both for the balance of payments and for industry.

13. As regards the surcharge seen in relation to the overall approach of the United Kingdom Government, the aim was to keep down the rise in imports and to achieve a substantial increase in exports. The achievement
of a 6 per cent growth a year in exports would be difficult but it was feasible; it was not much higher than the existing long-term trend of 5 per cent a year. The Government had taken measures to restrain the pressure of home demand. It attached great importance to the prices and incomes policy referred to in paragraphs 24 and 25 of the United Kingdom’s opening statement. Statistics were not yet available to show the impact of the Budget. If it were decided that further measures were necessary, they would be taken. The regulator described in paragraph 5 of the opening statement was available for use. The aim to achieve balance-of-payments equilibrium in 1966 took account of the need to reduce and remove the surcharge. It was not the intention that balance-of-payments equilibrium should be sustained by the surcharge.

14. Representatives of less-developed countries quoted figures from the statistics provided by the United Kingdom as indicating the adverse effects that the surcharge was having on their export trade and the more severe drop in exports subject to the surcharge which they were experiencing. They expressed their disappointment that the United Kingdom had not been able to give special consideration to reducing the surcharge in respect of products of which less-developed countries are principal or substantial suppliers including products having social implications and thus reduce the burden of the surcharge on those countries least able to bear it. In this connexion they referred to the views expressed in paragraph 17 of the report (L/2395 and Corr.1) on the last meeting of the Working Party. In view of the near consensus at that meeting, the less-developed countries had expected that the United Kingdom would have been able to meet their request, which was limited in character.

15. These countries pointed out that there appeared to have been two main considerations which weighed with the United Kingdom Government when considering whether it could take the action which the less-developed countries had requested; first, internal repercussions and, secondly, the interests of other contracting parties. As regards the second of these, it was thought that any preoccupations on this account had been very adequately covered in paragraph 17 of the Working Party’s report on its last meeting, where it was stated that any action taken in favour of less-developed countries should not be taken by the United Kingdom’s other trading partners as creating a justification for them to press for special treatment for their own trade.
As regards internal considerations, the less-developed countries held the view that compliance with their request would not have the effect of aggravating the balance-of-payments situation of the United Kingdom or of prolonging the duration of the surcharge; this view had also been recorded in the Working Party's previous report. At the same time action in this direction by the United Kingdom would have been action in accordance with the spirit of the new Part IV of the General Agreement. If a developed country could not take action of this sort with respect to a temporary measure, it raised the question as to what developed countries would be able to do with respect to measures of a more permanent character.

16. The representative of the United Kingdom stressed that full and careful consideration had been given by his Government to the views expressed during the last meeting of the Working Party and during the subsequent discussion of this matter by the CONTRACTING PARTIES. Regretfully, the United Kingdom Government had come to the conclusion that it could not take the action requested of it by the less-developed countries and that the 5 per cent reduction in the surcharge, effective 27 April, was, in its considered judgment, the best first step and one which was in the best interests of all contracting parties. It was the view of the United Kingdom Government that to change the coverage of the surcharge would involve a general reconsideration of the coverage and this might tend to prolong the life of the surcharge and increase its intensity as regards the goods to which it would continue to be applied.

17. Recalling the new consensus reached at the last meeting of the Working Party in connexion with the request of the less-developed countries (L/2395 and Corr.1, paragraph 17) members of the Working Party expressed their disappointment at the explanations which had been given by the United Kingdom representative and strongly urged that, when giving consideration to further reductions in the surcharge, the United Kingdom Government would give full recognition to the spirit of the provisions of the new Part IV of the GATT and to the views which had again been expressed during the present meeting of the Working Party.
18. The United States confirmed its position as regards the request of the less-developed countries as was set out in the previous reports of the Working Party and in the summary record of the discussion by the CONTRACTING PARTIES (C/50, L/2395 and SR.22/9).

19. The main emphasis in the Working Party's discussion during its present meeting had again been on the need for the speedy removal of the surcharge. In noting the reaffirmation by the representative of the United Kingdom that the surcharge was intended to be strictly temporary in character, the Working Party stressed the particular importance which it attached to the alternative corrective measures which had been taken by the United Kingdom and to those which it might consider advisable to take in the future. It felt, however, that it was unable to draw any firm conclusions at this stage of its consultations with the United Kingdom, as regards the effectiveness of the measures already taken. It, therefore, decided to limit itself on this occasion to reporting to the Council the views and concerns expressed by members of the Working Party and the explanations given by the United Kingdom representative, as recorded above. It recommends to the Council that the Working Party should continue its consultations with the United Kingdom in the near future.