DRAFT INTERIM REPORT OF THE WORKING PARTY ON UNITED KINGDOM IMPORT DEPOSITS

1. The Working Party on United Kingdom Import Deposits, established by the CONTRACTING PARTIES at its meeting on 25 November 1968, was asked, "To examine the Import Deposit Scheme introduced by the United Kingdom and its implication; to present a first report to the Council by 21 January 1969, and to continue to be available for consultation as necessary."

2. The Working Party began its task at a meeting of 9 December, at which time it heard a full statement by the representative of the United Kingdom. In his statement, the representative of the United Kingdom emphasized that the import deposit scheme was viewed as part, and part only, of a package of measures necessary to accelerate progress in bringing the United Kingdom balance of payments into surplus. Very substantial increases in indirect taxation and a heavy additional restriction on credit were other essential parts of this effort. The United Kingdom had made every effort, in this connexion, to work within the aims of the General Agreement and had taken account to the fullest extent possible of the interest of trade partners, adopting even this limited measure reluctantly. The measure had been notified to the CONTRACTING PARTIES at the earliest possible opportunity and the United Kingdom had agreed to participate fully in the discussions in the Working Party. Detailed information had been made available in L/3140 and its addenda and further details would be provided as soon as they became available.

3. Subsequently, it was decided, in agreement with the representative of the United Kingdom, that there should be consultation with the International Monetary Fund in accordance with the provisions of Article XV, and an invitation for such consultations was accordingly sent to the Fund on 8 January. These events made it impossible, however, for the Working Party to complete its work by the time originally foreseen, and the Chairman so reported to the meeting of Council on 21 January.

Consultation with the International Monetary Fund

4. At a meeting of the Working Party held on 31 January, the Working Party carried out the consultation with the International Monetary Fund. The statement presented by the representative of the International Monetary Fund, the full text of which appears in Annex 1 to this report, concluded as follows:

"In these circumstances, the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position."

5. Members of the Working Party thanked the representative of the International Monetary Fund for its statement on the balance-of-payments position and measures taken to achieve a strengthening of the United Kingdom's reserve position, which was agreed to present a fair exposé of the problem.
Operation of the United Kingdom measure

6. At a meeting on 12 February, there was a discussion on the measures taken by the United Kingdom to achieve accelerated progress in bringing the United Kingdom balance of payments into surplus and of the trade effects of those measures.

7. It was noted that the United Kingdom had imposed the import deposit scheme for a period of one year, during which the rate of deposit might be reduced but not increased. The point was made that as this measure had been presented to the CONTRACTING PARTIES as a necessary means of improving the foreign exchange reserves of the United Kingdom, assurance would be appreciated that the United Kingdom intended to relax or remove the measure earlier than foreseen in the law if the balance-of-payments difficulties and abnormal movements of capital which had occasioned its imposition should meantime render the measure unnecessary. The representative of the United Kingdom confirmed that there was ample legal basis to permit such action.

8. It was also noted that the import deposit scheme was intended, among other effects, to contribute, along with certain fiscal and credit measures, to a reduction in the level of current spending. This effect was to be obtained, in the case of the import deposits, by immobilizing resources which were expected to build up to £500 million. In this connexion, members sought confirmation that the funds collected were to be used as governmental revenue during the period they were held and would consequently reduce borrowing requirements by the same amount. This method of operation was confirmed. It was then noted with regret that the measure would in that case have a less restrictive effect upon current spending than would have been the case if the funds had been genuinely sterilized. Under actual arrangements the Government would presumably simply forego some borrowing which might otherwise have been required but would spend the proceeds of the deposits to cover current expenditure needs, which would presumably be no less for being financed in this unusual way.

9. Attention was also drawn to the terms of the Customs (Import Deposits) Act 1968, circulated as L/3140/Add.4, from which it appeared that the import deposit was regarded by the United Kingdom as a "duty of customs", and clarification was sought as to the interpretation which others should put upon this language. The representative of the United Kingdom explained that the import deposit is not a duty of customs, but that the only available basis for introducing the import deposit into existing law was an amendment to the customs law. This was a pure technicality which would in no way affect the operation of import deposits. In response to another question, he added that when import deposits were repaid to depositors, there would be no retention of any portion of the funds, unlike the situation in some countries when drawback of customs duties is allowed.

10. Further details were also sought as to the criteria upon which exceptions would be allowed to the rule that United Kingdom importers would not normally be allowed to borrow in foreign countries the funds needed for import deposit, as stated in L/3140/Add.5. The representative of the United Kingdom noted that
this question related to the operation of exchange controls, a matter both highly
technical and necessarily subject to some administrative discretion, given the
general purposes involved. He confirmed that it would not ordinarily be possible
for importers to borrow overseas for this purpose and promised to try to provide
additional information.

11. One further technical clarification related to the procedures and criteria
for exemption of re-exports, as it might appear that an extension of the cases
subject to exemption would have been preferable to the creation of an area in
which traders were subject to possibly arbitrary decisions of customs 
authorities. The representative of the United Kingdom stated that he would attempt to furnish
a written statement on the subject, but that the idea had been to provide relief
from the deposit for re-exports on which deposit had been paid either because it
had been impossible to satisfy customs authorities at the time of importation that
the goods in question would be re-exported or because of difficulty in specifying
the amount which would be re-exported.

12. In reply to another question, the representative of the United Kingdom
explained that the amendment to regulations shown in L/3140/Add.3/Corr.1 did not
constitute a discrimination but was due to care taken by the United Kingdom not
to claim advantages in the European Free Trade Association countries which might
not prove to be acceptable to them. Under the Stockholm Convention, goods cannot
obtain the benefit of both drawback of customs duties and EFTA treatment. The
United Kingdom had originally warned its traders that refund of import deposit
might disqualify British exports from EFTA treatment on this ground, but had
issued the amended regulation after EFTA partners had agreed that the refund of
import deposit was not a drawback of customs duties.

Effects of the restriction

13. Turning to the question of the choice of the goods to be subjected to import
deposit requirement, members of the Committee noted that most but not all
agricultural and food products seemed to have been exempted and that the same
might be said for raw materials; they asked on what criteria the lists had been
drawn up. Products not exempted about which special concerns were voiced included
alcoholic beverages, plants other than foods, certain chemicals including calcium
carbonate, cotton textiles (especially greys) and semi-processed raw materials
such as dressed lumber and leather (where the unprocessed materials were exempt
from deposit requirement). A special difficulty existed with respect to cotton
textiles, especially the grey goods which were principally supplied to the
United Kingdom by developing countries, in that exporters of these products had
already accepted voluntary restraints on the quantity of their exports so that an
import deposit requirement seemed to them to constitute an unfair second penalty.
The representative of the United Kingdom said that generally speaking the lists
had been modelled on those used for application of the surcharge which had been
in force some years ago. He stated that he would try to obtain a statement
concerning the criteria which had been used. He noted, however, that this

Such a statement was subsequently submitted. It is reproduced in Annex 2.
Government had been careful to relieve developing countries of extra burden to a large extent by exemption of certain products which might logically have been made subject to deposit requirement. In reply to the suggestion that the status of these products might be made the subject of review within the year, he noted that the provision for review related not to hardship which might be caused to individual suppliers but to the financial and monetary position of the United Kingdom. He noted also that the greater the consideration given to particular products the greater was the likelihood that difficulty would arise because of the favouritism shown to some. It was important to preserve a broad effort to improve the balance-of-payments position and for this purpose to keep the measure applicable to all products other than food and raw materials.

14. There were various statements concerning the effects of the import deposit requirement on particular countries' trade, and the point was made that it was still early to assess adequately the full trade impact of the measure. One member of the Working Party noted that 35 per cent of his country's important export trade to the United Kingdom consisted of manufactured goods subject to import deposit, and that this sector included some of the products which had shown the most dynamic trend in recent years. It was beyond question that this trade would be adversely affected. Another member noted that 25 per cent of his country's trade was directly affected, a substantial proportion being the cotton goods already discussed. It was obvious from the language of the Act that a restrictive effect on trade was expected through the increased cost of importation.

15. One member of the Working Party noted that the restriction on foreign borrowing was also discriminatory in that the United Kingdom suppliers would be able to borrow in other sterling area countries, although the same facility was now denied when the source of supply was outside the sterling area. He noted that countries discriminated against included one Commonwealth country which thus appeared to be classed as a foreign country and he asked that the discrimination be removed. The representative of the United Kingdom in his reply recalled that a country which had traditionally been classed as a part of the dollar area would inevitably be subject to some discrimination in the operation of exchange control. He noted that a variety of sources of credit was still available and suggested that no real hardship was likely to result to foreign suppliers of competitive and needed goods.
STATEMENT BY THE REPRESENTATIVE OF THE INTERNATIONAL MONETARY FUND, 31 JANUARY 1969

The Fund invites the attention of the CONTRACTING PARTIES to the background material dated January 15, 1969 which it has transmitted for their information and use.

The introduction by the United Kingdom of an import deposit scheme was part of several measures taken in November 1968 which are designed to secure a more rapid improvement in the United Kingdom's balance of payments. These measures, which also included an increase in indirect tax rates and action to limit the expansion of bank credit, followed on action taken since the devaluation of the pound sterling in November 1967, primarily aimed at eliminating the balance of payments deficit on current account and attaining a substantial surplus in 1969.

Complete balance of payments data for 1968 are not yet available but data for the first three quarters of that year indicate some improving trends in both the foreign trade deficit and in net earnings from current invisible transactions with a consequential reduction in the net deficit on current account. However, the deficit for the period January-September 1968 remained large. The long-term capital accounts (net) were in deficit in the first half of 1968 and there was an exceptional small surplus in the third quarter. Taking into account other capital movements, exchange adjustments and unidentified transactions, the deficit to be financed in the first nine months of 1968 was £777 million. This amount was financed largely by purchases from the Fund and increases in official liabilities in sterling and in foreign currencies. On November 29, 1967 the Fund approved a stand-by arrangement for the United Kingdom effective for one year to November 30, 1968 authorizing the United Kingdom to purchase up to the equivalent of $1,400 million. The full amount was drawn on June 19, 1968.

Recently published statistics show official holdings of gold and convertible currencies as $2,422 million on December 31, 1968, somewhat lower than a year earlier. These holdings were low in relation to the United Kingdom's external liabilities in sterling (net) which in September 1968 amounted to the equivalent of about $14,000 million. To some extent these liabilities represent short- and medium-term foreign obligations which the United Kingdom has incurred as a result of drawings on facilities designed to support the balance of payments.

In these circumstances the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position.
United Kingdom Memorandum on Problem of Product Coverage

One basic purpose of the import deposit scheme is to effect a reduction in domestic liquidity. This effect depends upon three main variables: the total value of goods covered, the rate of deposit, and the period of deposit (there is also of course the scale of overseas financing of the deposits). The longer the list of exempted goods, the higher the rate and/or the longer the period would have had to be in order to produce a given result. Taking all these aspects of the matter into account, the United Kingdom Government decided that this desired result could best be achieved by requiring a 50 per cent deposit for six months on all goods with the broad exceptions of basic foods, feeding stuffs, fuel and those raw materials which had not been subjected to more than an elementary processing outside the United Kingdom. The exempted goods represent about two thirds by value of United Kingdom imports and are all in a broad sense essential. The detailed schedule of exemptions was prepared on this basis. It takes no account of whether supplies of particular goods and materials are available from domestic sources. If the deposit requirement had been limited to items available domestically, the scheme would have had a protectionist effect.

It was recognized that the product of one industry may be the raw material for another, and that all attempts to draw a dividing line inevitably result in certain apparent anomalies; however, it was above all essential to arrive at broadly defensible and workable definitions, and to secure a product coverage for the scheme on a sufficiently wide basis to avoid the necessities of a higher rate of deposit or a longer period of retention. The schedule of exemptions was therefore framed on the basis of broad concepts, in as practicable a way as possible, and within the headings of the United Kingdom Customs Tariff. These exemptions apply to goods of the descriptions specified, without regard to the source of supply. Thus the scheme is strictly non-discriminatory, though naturally those countries whose exports to the United Kingdom consist mainly of foodstuffs and raw materials subject only to elementary processing are least affected. The United Kingdom Government decided to exempt also a limited number of items for various special reasons; the more important of these, and the reasons for their exemption, were:

Certain coir and jute manufactures and hand-knotted carpets - because these are imported mainly from developing countries and are of special importance to their economics;

Books, newspapers and certain trade advertising material - because of UNESCO agreements covering those goods.