STATEMENT FOR THE USE OF THE CONTRACTING PARTIES TO THE GATT
IN CONNEXION WITH THE UNITED KINGDOM IMPORT DEPOSIT SCHEME

The Fund invites the attention of the CONTRACTING PARTIES to the supplementary background material dated 9 December 1969 which it has transmitted for their information and use.

The introduction in November 1968 by the United Kingdom of an import deposit scheme was part of several measures designed to secure a more rapid improvement in the United Kingdom's balance of payments.

Following substantial deficits in earlier years, the balance of payments of the United Kingdom has been in surplus in the first three quarters of 1969. There has been a considerable improvement in the foreign trade accounts; seasonally adjusted data indicate that the value of imports was virtually flat during the first three quarters of 1969 and exports, after a pause early in the year, increased markedly. At the same time, there were large net receipts from current invisibles and in the first three quarters of 1969 the current account was in surplus by approximately £230 million, on a seasonally adjusted basis; included in this surplus is an amount of £105 million as an allowance for net under-recording of exports. There were inflows of long-term capital in both the second and third quarters of 1969, reflecting in part special transactions, which offset a net outflow in the first quarter. As a whole, the current and long-term capital accounts were in surplus in the first three quarters of 1969 by some £225 million on a seasonally adjusted basis.

To some extent, this surplus was offset by outflows of short-term funds from London which occurred when foreign exchange markets were unsettled. There was further rebuilding of sterling balances of overseas sterling area countries and almost the whole of the amounts drawn by the United Kingdom under the medium-term facility agreed at Basle in September 1968 was repaid. There was little net change in the first three quarters of 1969 in official gold and foreign exchange reserves and in the United Kingdom's position in the Fund. In the January-September 1969 period the United Kingdom made substantial repurchases from the Fund in respect of earlier drawings. The Fund approved a standby arrangement for the United Kingdom, effective 20 June 1969, for a period of one year for the equivalent of $1,000 million (£417 million). Under this standby arrangement the United Kingdom purchased the equivalent of $500 million (£208 million) in June 1969 and the equivalent of $175 million (£73 million) in September 1969.

United Kingdom authorities have informed the Fund that the possibility of allowing the import deposit scheme to terminate had been carefully considered. Although there had been a marked improvement in the balance of payments in recent months, the
authorities felt that the abolition of the scheme at this time would be premature. Although there was no firm evidence, it was thought that the scheme might have attracted something to the order of $500 million of foreign financing which was very useful in view of the net reserve position; the gold and foreign exchange reserves amounted to some $2.5 billion at end-September 1969, but official short-term foreign indebtedness (including purchases from the Fund) stood at approximately $7 billion. However, effective 5 December 1969, it had been decided to reduce the amount required to be deposited with customs from 50 per cent to 40 per cent of the value of imports covered by the scheme. The authorities have said that the operation of the scheme would be kept under constant review and that it would be eliminated, perhaps in stages, as the balance-of-payments surplus was consolidated.

In these circumstances, and particularly taking into account the size of official short-term foreign indebtedness, much of which has been outstanding for some time, the Fund believes that the effect of 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. However, if the achievement of the balance-of-payments objectives should become compatible with some easing of policies within the overall financial programme, the Fund hopes that priority would be given to phasing out the import deposit scheme, a step which would strengthen international co-operation on trade barriers.