

J. A.

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GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES

WORKING PARTY "K" ON CONSULTATION UNDER ARTICLE XII:4(b)

Statement by the United States Delegation

Mr. Chairman:

At the close of Wednesday's session, the Working Party concluded its development of the facts bearing on the matter of the consultations between the Contracting Parties and the United Kingdom. We are indebted to the representative of the United Kingdom for the lucid statement which he made at the opening of the consultation. We are also greatly indebted to the International Monetary Fund for the comprehensive analysis of the relevant factors which it has made available to the Contracting Parties. We believe that our task has been made much easier and our labours have been greatly shortened by the excellence of the report with which the Fund has provided us and by the fact that the Fund was not content to present merely a mass of statistics, but gave us the benefit of an orderly analysis of those statistics and the benefit of its judgment as to their significance in many respects. I believe that this has materially aided my Delegation and I am sure will materially aid the other Contracting Parties in coming to their conclusions in these consultations.

The delegate of the United Kingdom pointed out at the opening of Tuesday's meeting that this is a consultation between the United Kingdom and the Contracting Parties and that one of its principal purposes is to find out what is in each other's minds. Therefore, I would like to lay before the Working Party what is in the mind of my Delegation as a result of the facts which have been presented to us and the views which have been expressed in our last two days of meetings, as well as of the careful consideration which my Government have given to this problem in the weeks prior to this conference.

First of all, let me say that we very much welcome the marked improvement which has occurred in the financial position of the United Kingdom, in its foreign exchange position generally and particularly in its foreign exchange position vis-à-vis the dollar area. And may I say at this point that when I speak of the United Kingdom I mean the United Kingdom as a GATT member which, of course, includes its dependent overseas territories.

We are very glad to see the situation of the United Kingdom change from one of sharp deficit in current dollar accounts for over ten years, accentuated by a deterioration in its position in mid-1949, to one of a consistently improving gold and dollar position, with an actual surplus developed in the first half of 1950, which is apparently increasing. We are glad to see that the United Kingdom's gold and dollar reserves have doubled from September 1949 to September 1950, to reach the highest figure in over ten years.

Let us run over some of the figures of the past few years to get a specific indication of the trend in the United Kingdom's current balance of payments.

For the year 1947 there was a deficit of \$2.3 billion. In 1948 this deficit had dropped to \$900 million. In the first quarter of 1949 it had dropped to an annual rate of \$460 million. In the second quarter of 1949 it suddenly jumped to \$1.3 billion, and in the third quarter remained high at an annual rate of \$1 billion.

The gold and dollar reserves of the United Kingdom, which reflect transactions of the whole sterling area, also showed a sharp deterioration in mid-1949, dropping from \$1.9 billion at the end of the first quarter to \$1.3 billion on September 18, 1949.

In mid-1949 the United Kingdom took certain measures for further reduction of imports by intensifying restrictions, with which we are all familiar. It redoubled its efforts to increase exports to the dollar area, and on September 18, 1949, devalued the pound sterling in terms of gold.

Since that time, the story has been quite different. By the end of 1949 the gold and dollar reserves had reached \$1.6 billion, by the end of March 1950 had surpassed their level of a year before, and by September 30 of this year reached \$2.7 billion, the highest figure in over ten years.

These reserve movements reflected a sharp and steady improvement in the current balance of payments of the United Kingdom. In the last quarter of 1949 the sharply reduced trade deficit of the metropolitan United Kingdom was almost balanced by the surplus of the dependent overseas territories and gold purchases from the sterling area, so that the unfavorable balance was down to an annual rate of \$12 million. In the first half of 1950 the United Kingdom ran a surplus on current account at an annual rate of \$390 million, which probably represents a higher rate in the latter part of that period. Since then there is every indication that this surplus has mounted.

While the reserve figures I have cited reflect the extraordinary financial assistance provided to the United Kingdom by the United States, Canada and others, the balance of payments figures which I have given represent current transactions alone and do not include such assistance.

On Wednesday, the President of the Board of Trade had further encouraging news in reporting on the export and import figures of the United Kingdom, exclusive, in this case, of those of the dependent overseas territories. He revealed that the exports of the United Kingdom as such for the month of October were the highest in history, both in total and to the dollar area. For, I believe, the third time in almost a century the United Kingdom alone had a visible surplus in overseas trade. Exports to the dollar area in October significantly exceeded the average for the third quarter of 1950 and substantially exceeded the average for the first six months of 1950, thus continuing the upward trend.

This is indeed a magnificent effort by the United Kingdom Government and people. They are to be congratulated on having accomplished such results in face of the many difficulties which we all know had to be met and overcome.

We are also glad to note that the principal favorable factors which have contributed to this result do not appear to be transitory, but rather to be of a fundamental character which may be expected to continue. To name a few of these favorable factors, we would call attention to the substantial increase in productive capacity in the United Kingdom home market; the high prices for many of the major exports of the dependent overseas territories; increasing

availability of needed imports in soft-currency areas at prices increasingly competitive with prices in the dollar area; the high level of demand in the dollar area, with the prospect that this will continue for a considerable period; the effect of devaluation upon the competitive position of United Kingdom exports in dollar markets; and the effects to be anticipated from the investment of time and effort which has been put into the United Kingdom's dollar export drive.

On the other hand, we must not be unmindful of the fact, to which the United Kingdom delegate has quite properly drawn attention, that many uncertainties lie ahead. The exact consequences of the rearmament effort, in which the United Kingdom is participating with other Contracting Parties as a result of the Korean war, are uncertain. This effort has introduced both favorable and unfavorable factors into the situation. The exact extent of the program and the exact nature of the role which the United Kingdom will play in it are not yet definitely known. Therefore, our Delegation would agree that we are not dealing with a one-sided picture, and that the conclusion to which we come as a result of the consideration of the favorable factors to which we have referred must be tempered with the recognition that real possibilities of difficulty also exist.

We have watched with interest the leadership which the United Kingdom has taken in carrying out a liberalization of restrictions against imports from certain soft-currency countries. We have recognized this action as a step in progress towards a worldwide multilateral trading system and convertibility of currencies. We have felt that it was taken in conformity with the spirit in which all of us have entered into the GATT that restrictions, particularly discriminatory restrictions, are the exception to the rule and should be relaxed as the situation which led to their imposition improved and should be removed when the circumstances which led to their imposition have been corrected.

We have been looking forward to the day when a beginning might be made in the same spirit in the relaxation of the restrictions which the United Kingdom has felt it necessary to impose on imports from the dollar area.

On the basis of our study of the problem, of the facts presented to us by the representatives of the United Kingdom and of the International Monetary Fund, we believe that that day has come.

Our study of the facts lead us to the conclusion that there are certainly restrictions which are now no longer really effective nor necessary because of changed circumstances of price and supply. We are convinced, with respect to those which are now effective, that the degree of the current gold and dollar surplus of the United Kingdom and the prospects for the future as they can be estimated, with due regard to the admitted serious uncertainties in the picture, are such that a significant measure of relaxation of restrictions against imports from the dollar area is now feasible. We recognize that the defense programs may become a highly important factor bearing on the net dollar earnings of the United Kingdom and, of course, that priority under today's circumstances must be given to defense considerations. Caution in the degree and rate of relaxation is therefore justified. Nevertheless, my Government is convinced that, with all due caution, it is possible for the United Kingdom now to begin the progressive relaxation of its restrictions against imports from the dollar area.