

19 November 1955

Working Party 8 on Balance of
Payments RestrictionsDRAFTNOTES ON THE CONSULTATION WITH THE UNITED KINGDOM
UNDER ARTICLE XIV:1(g)Basis and Background for the Application of Discrimination

1. In opening the consultation the representative of the United Kingdom made a statement in which he described the developments in the past two years in the balance-of-payments position of the United Kingdom. It was pointed out that during 1954 the United Kingdom had made considerable further progress with its policy of relaxing import restrictions and of reducing discrimination to the greatest extent permitted by the balance-of-payments. One important feature of that policy was to extend the greater freedom of choice implied in non-discrimination to those items which would contribute most to the strengthening of the economy, thus preparing the way for further steps towards freedom. The reduction in discrimination was, therefore, most marked in the field of foodstuffs and raw materials. In that period the Government also restored to private importing almost all the foodstuffs and raw materials which remained under state trading, and re-opened most of the remaining traditional London commodity markets. Consequently, traders in the United Kingdom were able to buy such dollar commodities as non-ferrous metals, coffee, cocoa, raw sugar and copra for dollars and sell them for sterling. Some \$250 million a year were spent by United Kingdom traders on commodities dealt with in these markets and this helped substantially to reduce the extent of discrimination against the dollar area in the world as a whole. These were some of the major developments in the year 1954 in the process of liberalizing imports from the dollar area. They must be viewed against the background of the general improvement which had taken place during that year both in the internal economy and in the external balance-of-payments of the United Kingdom.

2. In recent months there had been a change in the fortunes of the country. The considerable increase in imports, mostly necessary to keep pace with a markedly buoyant economy at home, and made possible by the measures of relaxation and liberalization introduced over past years had, in the absence of a corresponding increase in exports, led to a deterioration in the balance-of-payments position, which first became noticeable towards the end of 1954. The excess of total imports c.i.f. over total exports in the first nine months of 1955, had been no less than £676 million as against only £425 million in the same period of the previous year. The gold and the dollar reserves had fallen and by the end of October amounted to the equivalent of £821 million compared with their peak figure of £1,078 million in April 1952. Although exports were rising at an appreciable rate and although the reserves figures

for October were reassuring, the United Kingdom Government was not satisfied with the country's present share in world trade or with the way in which the balance-of-payments position had been moving.

3. In the circumstances, such progress as had been made in the past year in the relaxing of restrictions and in the reduction of discrimination could not be expected to be comparable to the achievement of the previous year; nevertheless, the United Kingdom had not retrogressed in its policy of widening trade and moving to a freer system of payments, and some progress had been made. For example, since the beginning of 1955, a number of products, namely, hides and skins, some fats and oils, cotton linters, phosphate rock, some ferro-alloys and aluminium had been added to the list of goods which could be freely imported from any source, and sulphur would be added to that list at the beginning of 1956. In those cases where complete freedom was still not possible progress had nevertheless been made through the establishment of new or increased dollar quotas, or through other arrangements for larger imports. For example, pulp, paper and board were now permitted to be imported within the limits of the quotas from any source. Provision had been made for larger imports of certain other materials for industry including synthetic rubber and newsprint. Quotas had been introduced for hardwood, motorcars, etc., while existing quotas for items including canned salmon and certain varieties of fruit from Canada had been renewed.

4. There had also been additions to the list of goods which could be freely imported from OEEC and certain other countries. These newly added items, however, were not items which would add substantially to the cost of United Kingdom imports and the Government did not feel able in present circumstances to take the step of freeing certain more costly items so as to bring the liberalization percentage in OEEC to 90.

5. As a result of all the measures taken in the recent years over half of United Kingdom imports from the dollar area were now free from restriction; this was a considerable achievement.

6. In concluding, the United Kingdom representative referred to the speeches made by the Chancellor of the Exchequer at the recent annual meetings of IMF and IBRD, and in the House of Commons when introducing his Autumn Budget. It was indicated by the Chancellor that the worst of the United Kingdom's troubles at present was its too buoyant internal economy; that the Government would take all necessary measures to curb demand on the home front; that the United Kingdom would not be able to afford to take major steps forward on the trade front until it was satisfied with the strengthening that had been achieved at home; that on the other hand, it was not by physical cuts in imports that the Government intended to solve its difficulties; and that once by determined effort the recent deterioration in the balance-of-payments was redressed, the United Kingdom would be glad to take the next step towards freedom.

7. Pursuant to the provisions of Article XV, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with their consultation with the United Kingdom. As the Fund had not by the time of the Tenth Session, held its 1955 consultations under Article XIV of the Fund Agreement with the United Kingdom, it referred the CONTRACTING PARTIES to the results of and the background material from its 1954 consultations with that Government, and in addition provided the CONTRACTING PARTIES with factual material reviewing developments since those consultations. Consequently, in conducting the present consultation the Working Party had before it the background material prepared by the Fund staff in 1954 and a supplementary paper showing subsequent developments, as well as the following results of the Fund's 1954 consultation:

"1. The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"2. United Kingdom production and incomes have continued to rise in 1954. Monetary and fiscal policies have succeeded in maintaining balanced expansion. There has also been an improvement in the balance-of-payments with the dollar and other areas and in the reserve position. A substantial volume of indebtedness has been repaid.

"3. The Fund welcomes the relaxations of restrictions and reduction of discrimination made since the 1953 consultations and notes with satisfaction the United Kingdom's intention to continue this policy and progress further toward convertibility. While appreciating the United Kingdom's need to maintain a substantial current surplus in its external accounts, the Fund hopes that this objective will not impair the further removal of restrictions, and believes that a continuation of the favourable circumstances now prevailing will permit the present policy of moving towards convertibility to be continued.

"4. In concluding the 1954 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom."

8. The United Kingdom representative supplied the Working Party with a table showing the regional current account balances of the United Kingdom in 1952-1954 and in the first half of 1955 (Table I) which collated and brought up to date the figures supplied by the Fund. Referring to those figures, the United Kingdom representative pointed out that although the United Kingdom's current account balance for the year 1954 as a whole showed an improvement, this concealed a marked deterioration in the second half of the year, and that there had been a further deterioration in 1955. Movements in

the reserves, of course, were affected not only by the balance-of-payments on current account of the United Kingdom itself, but also by the current account balance of the rest of the sterling area and by capital movements. The gold and dollar reserves, which had risen from the low point of \$1,662 million in April 1952 to \$3,017 million in June 1954, had since that date declined significantly, and by October 1955 they amounted to no more than \$2,297 million. The rate of fall in October was smaller than in the preceding month but nevertheless the decline in the past four months totalled \$383 million.

9. In discussing the present and future trade and payments position of the United Kingdom, the United States representative suggested that the change in the general attitude towards sterling which had been discernible since the United Kingdom Government's views were clarified at the recent annual meeting of the International Monetary Fund and Bank might lead to the United Kingdom regaining the reserves that had been lost through speculative transactions in the preceding months. The United Kingdom representative expressed the hope that the regained strength of sterling would certainly stop any further drain on the reserves through short-term capital movements, but stressed the importance for the United Kingdom of earning a substantial surplus on current account whatever the level of capital movements might be.

10. Referring to the remarks by the United Kingdom representative noted in paragraph 2 above, the United States representative considered that the increase in imports which was attributed to trade liberalization might have occurred in any case owing to the buoyant state of the United Kingdom economy. The United Kingdom representative agreed that the increased imports were necessitated by the buoyant internal economic situation and high demand, and that the same volume of imports might in the circumstances have been licensed even if goods now liberalized had remained under licensing control; but (if that was the implication of the question) the Government was not in a position at present to dispense with further import controls or to enlarge the coverage of open general licences. Caution was necessary in the present uncertain state of the balance-of-payments.

11. The Canadian representative pointed out that the liberalization measures taken by the United Kingdom in 1953 had not increased imports from Canada which showed that relaxation of restrictions did not necessarily increase the risk or burden for the importing country. In the view of the Canadian representative, the internal measures that had been taken by the United Kingdom Government were of great importance, and it was gratifying to find that such measures were taken instead of the restriction of imports. As regards the movements in reserves, the Canadian representative referred to the progressively larger deficits in EPU incurred by the United Kingdom in June, July and August 1955 and enquired whether the United Kingdom's EPU trade was not considered to be responsible to a greater extent than its dollar trade for the loss of gold reserves. The United Kingdom representative

while admitting the relevance of these deficits to the recent falls in the reserves pointed out that the summer months were seasonally adverse for the United Kingdom, in E.P.U., partly due to tourist expenditure. Too much should not, therefore, be made of the connexion between these defects and the fall in the gold and dollar reserve. Whereas deficits in July-September totalled £91 million, the deficit in October was only £15 million.

12. In concluding this part of the discussion, the United Kingdom representative referred to the current account figures given in Table I, which showed the general position and pointed to the reasons for the continued resort by the United Kingdom to the provisions of Annex J.

System of discriminatory restrictions and their effects

13. For a description of the system of discriminatory restrictions the United Kingdom representative referred to the successive answers provided by his Government to the questionnaire for the preparation of the annual reports under Article XIV:1(g). The system remained substantially as described in the 1954 answers, and a summary description of that system will be found in the Annex to the Sixth Annual Report under Article XIV:1(g) which is being prepared by the Working Party. Supplementing the written information and in answer to various questions, the United Kingdom representative drew attention to the fact that there had been certain changes in the criteria for the licensing of imports not under quota. In particular, more favourable consideration was now given to applications for imports of chemicals from the dollar area. While for certain goods such as machinery consideration would be based on the availability of supplies in the United Kingdom as well as in other non-dollar area countries, for chemicals the chief criterion was the availability of supplies in the United Kingdom alone. This treatment accorded to chemicals was in line with the general policy of giving greater freedom of choice for items which would strengthen the economy. It was not in the United Kingdom Government's interests unnecessarily to increase the strain on the balance-of-payments by forcing importers to more expensive sources of supply. In determining the import licensing policy the United Kingdom Government paid considerable attention to that fact, which was of special importance for raw materials and other imports affecting substantially costs of production and so the competitive power of United Kingdom exports.

14. In the view of the United Kingdom representative, the general trend in liberalizing United Kingdom imports had only been temporarily arrested in the past year, because of the less favourable balance-of-payments situation, and it remained the Government's intention to undertake further liberalization as soon as the balance-of-payments permitted. On the question of the policies pursued in the dependent territories of the United Kingdom, the United Kingdom representative assured the Working Party that there was no present danger of such territories embarking on any intensification of discrimination.

15. The United States representative suggested that experience had shown that liberalization of trade, and especially the reduction of discrimination, rather than creating balance-of-payments difficulties for the country taking such action, might contribute to improving its terms of trade, so as to lessen any such difficulties. Commenting on this view the United Kingdom representative stated that while it was difficult to distinguish the effects of liberalization from other factors affecting the terms of trade and consequently impossible to accept this view without qualification, the argument behind the United States representative's idea was tenable in certain circumstances and was, in fact, one of the ideas behind the re-opening of London commodity markets.

16. The United States representative noted that according to calculations made by OEEC, taking 1953 as a base year, the United Kingdom had by 15 April 1955 liberalized only 5 per cent of its imports of manufactured goods (including producers' goods) whereas the percentage for food and feeding stuffs and raw materials from the United States and Canada, had reached 73 and 69 per cent respectively. He suggested that as producers' goods also entered into the costs of production, liberalization of such goods might also contribute to a lowering of costs. The United Kingdom representative, while in general agreement with this view, pointed out, however, that raw materials (and semi-manufactured goods) constituted a higher proportion of the cost of production than producers' goods. Consequently, priority would be given to liberalization of the import of raw materials (and semi-manufactured goods) over producers' goods, although in the last analysis priority might well be given to producers' goods over consumers' goods.

17. On the question of multilateral or regional payments arrangements, the United Kingdom representative stated that, as was well known, the United Kingdom imposed very few restrictions on imports originating in the sterling area. In addition, the Government participated in the OEEC and EPU, and had recently entered into a multilateral payments arrangement with Brazil, Germany, the Netherlands and the United Kingdom. The latter arrangement was intended to enable Brazil to use for payments to any one of the three other countries, currencies earned in any other of these three countries. Although it involved four countries only, the arrangement provided for payments facilities much less rigid than under a bilateral arrangement and therefore was considered to be a step towards multilateralism. On the other hand the arrangement would not have the effect of increasing the transferability of the sterling, as this was already transferable throughout the non-dollar world. No special provision is made in the arrangement for settling balances in gold or dollars.

18. The United States representative referred to the recent increase in the gold-to-credit ratio for the settling of monthly balances in EPU, which should have the effect of reducing the need for countries to discriminate in favour of EPU imports as against imports from the dollar area, and wished to know whether the United Kingdom Government had re-evaluated its discrimination

policy in the light of this change. The United Kingdom representative stated that the implications of the change mentioned by the United States representative would certainly be taken into consideration by his Government in reviewing from time to time its policy of discrimination; undoubtedly the change would become an increasingly important factor in future. The fact was, however, that imports from OEEC still cost relatively less in dollars than imports from the dollar area. Moreover, the general balance-of-payments situation of the country had been such in recent months that the United Kingdom had felt obliged to refrain from incurring that additional dollar expenditure, which was inseparable from any reduction of discrimination.

19. As regards the extent to which bilateral agreements were used, the United Kingdom representative referred the Working Party to his Government's answers to the questionnaire in 1953 and to the subsequent supplements thereto. Not only had the number of bilateral agreements currently in force become less in recent years, but their scope had also been diminished. Most of the remaining agreements provided only for a mutual undertaking to issue licences for specified goods up to certain amounts. As more goods were added to open general licences for free importation, the range of goods that could be covered by bilateral agreements was progressively reduced. As noted in the Fund Background Paper the United Kingdom had recently entered into an Agreement with Bulgaria, which provided for the repayment of debts and an expansion of trade.

20. In answer to questions put by other members of the Working Party, the United Kingdom representative agreed that the Agreement with Bulgaria, for example, could result in an increase in Bulgaria's exports to the United Kingdom above the level which would have obtained in the absence of the bilateral agreement. A discussion followed on the question of whether bilateral agreements providing for quotas always increased the level of discrimination. It was the view of certain representatives that while bilateral agreements would not necessarily mean an increase in the level of restrictions they inevitably created an element of discrimination through diverting trade from the course which it would take in the absence of such agreements. Except in certain unlikely circumstances, the least that would be involved would be a potential discrimination in favour of the partner country, although in ordinary circumstances it would not be possible to demonstrate such effects in terms of trade statistics. In the view of certain other representatives, bilateral agreements might have the effect of increasing international trade by virtue of the increased earnings which they might help certain countries to obtain and which could be used to finance additional imports. The Working Party drew no conclusion on this question.

21. As for the effects of the discriminatory restrictions on other countries, the United States representative suggested that such restrictions were harmful not only to the countries whose exports were discriminated against. From the long-term point of view, irreparable damage might be done to countries "benefiting" from the discrimination in the short run, through the undermining of their cost structure and competitive position.

22. Referring to the statement by the United Kingdom representative that over half of United Kingdom imports from the dollar area were free from restriction, the Canadian representative pointed out that such percentage might overstate the liberal nature of the import restrictions. In fact, many important items, including industrial materials, still remained under severe restriction which discriminated against the countries in the dollar area. On this point, the United Kingdom representative assured the Canadian representative that his Government would continuously review its policy of discrimination and that no opportunity would be missed of reducing the level of discriminatory restrictions as the balance of payments permitted.

23. In discussing measures taken to ensure that discriminatory restrictions did not cause unnecessary damage to the commercial or economic interests of other contracting parties, the United Kingdom representative stated that the measures being taken in the United Kingdom to reduce to the minimum any incidental protective effect of the restrictions were essentially the same as those taken by the Australian Government, which had been discussed in the course of the consultation with that Government, except that in the United Kingdom system no provision was made for the interchangeability of quotas for different goods. He agreed that the most effective way of ensuring that manufacturers realized the true nature of the restrictions was the steady implementation of the poling of progressive reduction's elimination of discriminatory restrictions whenever the balance of payments allowed it which the United Kingdom Government had adopted.

24. The Norwegian representative suggested that the Working Party should hear the United Kingdom representative's views on the question of what measures other countries could take to assist the United Kingdom in its progress towards freer trade, and further enquired whether, given increased access to foreign markets, the United Kingdom would be in a position to expand its exports in the interest of its balance of payments. The representative of the United Kingdom replied that it was thought that by reducing the pressure of home demand, resources at present used to meet home consumption could be diverted to export production and that even with the present level of restrictions additional exports were possible. Given greater export opportunities a further expansion should be possible. It was therefore earnestly hoped that countries in a strong creditor position would adopt and put into practice "good creditor policies".