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## Post mortem on the import surcharge

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# ARTICLES

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## GREAT BRITAIN

### Post Mortem on the Import Surcharge

By George F. Ray, London

At the end of October 1964 the newly elected Labour Government issued an alarming report concerning the balance of payments situation: Britain's deficit on current and long-term capital account was estimated to reach £ 700—800 million for the year. That state of affairs required immediate action. Among the various measures taken, the temporary import surcharge had the most immediate, and also the most drastic, effect.

The surcharge had, throughout its two-year life span, always been regarded as temporary. Indeed, the powers given by Parliament to the Government in the Finance Act 1964, only ran until 30th November 1965 and included that of reducing (but not of increasing) the rate of the surcharge and of altering its coverage. These powers were renewed for a further year until 30th November 1966 and early last year the Chancellor announced their abolition by that date.

The introduction of the surcharge was based on Article XII of GATT; this authorises the signatories to take action in order to restrict imports in the case of a severe balance of payments crisis. Such a crisis was undeniably present at the time. Quantitative restrictions would have been another way out: in Britain's case, however, urgency was required and the introduction of the elaborate system of licensing would have caused delay. Furthermore, quotas were likely to disrupt the pattern and flow of trade and any such influence was to be avoided.

#### The Character

There were two main features of the surcharge: its coverage and its lack of discrimination. The coverage was very wide: it included practically all manufactured goods, with a few specified exceptions (such as certain basic chemicals, books, ships and aircraft, pig iron, ferro-alloys, non-ferrous metals). It was to be applied without discrimination as to the origin of the goods, regardless of any special agreements; goods coming from Commonwealth and EFTA countries were subject to the surcharge in the same way as shipments from the EEC or the USA. Because of the different pattern of Britain's trade with these groups the surcharge meant a rather different burden to these trade flows: surcharge was levied on about 57 % of all

(1964) imports from EEC, 48 % of those from the USA and only 36 % of EFTA imports, a large part of which consisted of food and raw materials.

Apart from its obvious influence on Britain's manufactured imports the surcharge had an undesirable effect internally since it unavoidably acted as a protection of home products, making imports more expensive. (Though recognising that protective effect the Chancellor emphasised that it was not intended to cushion British industry from competition.)

This aspect might have played some part in the reduction of the original 15 % surcharge to 10 % in April 1965—though probably a minor part as compared with the violent attacks on the surcharge of Britain's trading partners, mainly the EFTA countries. This degree—10 %—remained in force until the final abolition at the end of November 1966.

#### The Effects

The immediate effect of the introduction was very powerful indeed. In the first three months of 1965 imports of surcharged manufactures were, seasonally adjusted and at annual rate, well over £ 200 million below the level in the months preceding the introduction of the surcharge. This, however, was deceptive for several reasons as will be detailed later.

The introduction at the end of October makes it convenient to compare the January to October periods of the three years 1964 to 1966; this has been done in the table next page. The value of imports in the years 1964 and 1966 are given separately and the year-to-year per cent changes in imports for each year. 1963 has been included in order to demonstrate the huge rise of imports between 1963 and 1964. As far as possible the figures in the table are restricted to items subject to the surcharge.

One has to remember that the years covered were periods of very different rates of economic growth. In 1964, national output rose 6 %, in 1965 just under 3 %, and in 1966 less than 1 %. The different growth rates of the economy would naturally have led to a lower rise of import requirements anyway; the surcharge presented an additional restraint on what imports would have been without it.

The considerable fall in the first months following the introduction of the surcharge to a low level of imports was to a large extent due to stock movements. As various announcements stressed the temporary nature of the surcharge, holders of imported stocks sold out without replenishing their stocks, as they otherwise would have done. That effect, and also the first shock of a new barrier to trade, had however been quite soon overcome: towards the middle of

**Surcharged imports: comparison of the  
January-October periods, 1963-66**

	£ million		Per cent change		
	1964	1966	1963-64	1964-65	1965-66
<b>I. VALUE</b>					
Chemicals (a)	185	219	26	12	6
Semi-manufactures (b)	487	468	28	-12	10
of which:					
Leather manufactures	25	25	15	-14	14
Rubber manufactures	10	13	43	8	22
Wood manufactures	54	57	24	6	-2
Paper and board	112	114	19	-8	11
Textiles	151	135	25	-17	7
Non-metallic mineral manufactures (c)	25	26	31	15	-9
Iron and steel (d)	77	56	61	-45	32
Metal manufactures	33	42	27	14	13
Machinery (e)	378	485	33	9	17
Transport equipment (f)	47	59	48	10	14
Miscellaneous manufactures (g)	220	230	23	-9	14
of which:					
Clothing and footwear	86	78	23	-25	21
Instruments, precision goods	56	66	24	9	9
All other manufactures (h)	79	86	23	-3	13
All surcharged manufactures	1316	1461	29	-1½	12½
<b>II. VALUE, VOLUME AND PRICE (i)</b>					
All manufactures (j)					
volume	—	—	24	-1½	9
Semi-manufactures (k):					
value	794	918	32	1½	14
volume	.	.	27	-4½	5½
price	.	.	3½	6	8
Finished manufactures (l):					
value	631	758	25	3	17
volume	.	.	22	2½	16
price	.	.	2	½	½

Source: Trade Accounts, Board of Trade.

(a) This includes synthetic rubber and excludes dyeing, tanning and colouring materials, essential oils, and fertilisers. (b) Excluding diamonds, pearls, precious and semi-precious stones, pig iron, ferro-alloys and non-ferrous metals. (c) Excluding diamonds etc. (d) Excluding pig iron and ferro-alloys. (e) Including electrical machinery. (f) Excluding ships and aircraft. (g) Excluding books, periodicals and works of art. (h) Building fixtures, furniture, travel goods and various other (mainly consumer) goods. (i) Volume: at 1961 prices; price: unit values, 1961 = 100. (j) Sections 5 to 8 of SITC, including all imports (non-surcharged items as well). (k) Sections 5 and 6. (l) Sections 7 and 8.

1965 these imports reached the pre-surge level and were on a rising trend again until about August 1966; in September to November 1966 imports were low again for two main reasons: first, the depressed state of the British economy following the strict deflationary measures taken in July 1966, and secondly, because of the announcement of the abolition of the surcharge at the end of November. (That was partly due to stock-management again, though some imports might simply have been postponed till the surcharge-free time after December 1st.)

The absorption of the surcharge by means of lower prices and cut profit margins was another feature which makes a more accurate assessment of the effect of the surcharge difficult. A number of cases are known of foreign suppliers reducing their quoted prices in order to retain their share in the British market; British distributors of imported products followed suit.

Neither the fluctuations of imported stocks nor the absorption of the surcharge can be proved statistically but indirect evidence supports both assumptions. Stocks held by wholesalers (which of course include stocks of British origin too) fell considerably in the first half of 1965; and the estimated price index of imported finished goods rose marginally only. Both in 1965 and in 1966 these prices rose not more than 0.5% (see last line of the table) whereas in 1964 their rise was 2%, and the prices of manufactures in world trade showed an increase of a further 2% a year in 1965 and 1966; the slower rise in the case of British imports is likely to have been largely due to the absorption of the surcharge.

The surcharge must have had some effect on all categories but its impact on imports of the various types of goods was very different, as indicated in the table. Capital goods (machinery, instruments, metal manufactures) were the least affected: the arrival of these products continued to rise though at a considerably slower rate. Many of these are non-competitive imports (e.g. not produced in Britain) hence the decline in the growth rate was probably due to a large extent to lower demand. At the other end of the scale, consumer goods were the most affected. Textiles, clothing and footwear are the typical examples; their imports fell steeply in 1965 and though in 1966 there was some recovery imports still did not reach the 1964 level. Between these two groups there is a long list of products with various changes in imports; the rate of growth of arrivals fell generally but in about half the cases there was, in 1965, an absolute fall. In most categories imports had to some extent been substituted by home produced goods and where capacity permitted that, substitution led to an actual fall of imports (leather, paper, steel, textiles, etc.).

### Assessment

Because of the many factors involved (of which the most delicate is the changing growth of the economy) it is not possible to say exactly what was the impact of the surcharge on the total import bill. Estimates vary; the most likely approach results in a probable import saving of the order of £ 300 million during the 25 months life cycle of the surcharge. About two-thirds of that amount was achieved in the first twelve months of the surcharge and its effect then started to wear off rapidly (partly as a result of its reduction from 15 to 10%).

That "saving" will certainly be partially offset after the abolition due to replenishment of imported stocks, perhaps of the order of £ 50 million or over. Already

in December, 1966, the first surcharge-free month, imports of manufactured goods were very high indeed, though no conclusion can be drawn from that one item of monthly information.

To the extent of the actual import saving the surcharge achieved its purpose: a relief to the balance of pay-

ments. Whether behind its temporary protection British industry has become more competitive still remains to be seen. In many categories of imports that would certainly be the best—and in the long run perhaps the only—way to a balance of payments improvement and to a state of affairs making trade barriers unnecessary.

## INTEGRATION

# The Concept of an Arabian Common Market

By Hassan Mustafa, Wattenscheid

**A**lso in the Near East the example of the European economic integration within the EEC has given rise to the idea of founding an "Arabian Common Market". The establishment of this Arabian Market was for the first time discussed at a meeting of the Arabian League on June 3, 1957. Such a market might bring about a free exchange of Arabian products between the individual countries—avoiding customs regulations and administrative measures. It would as well enable free transports and transit trade between the member countries, and finally the Arabian world would only need a common tariff wall vis-à-vis outside countries. Therewith the co-ordination of the Arabian economic systems would be promoted and unfavourable inter-Arabian competition eliminated.

After various consultations the Arabian League's Economic Committee authorised a Commission to work out statutes. In spite of this initiative negotiations on problems as e.g. facilitation of payment transactions, abolition of import barriers, standardisation of tariffs mostly did not obtain any results. Egypt's fast industrialisation is the reason for this development. Since the Egyptian market is not yet very receptive, Egypt is of course very much interested in the Arabian Common Market. On the other hand, the other Arabian countries are apprehending that in future they would have to orientate their economies towards Egypt and with regard to their own products would have to consider Egypt's requirements even more.

### **Free Exchange of Goods**

However, in autumn, 1964, an arrangement was finally concluded, in which the creation of an Arabian Common Market within the next years was agreed on. The United Arab Republic, Iraq, Kuwait, Jordan, and Syria attended this meeting. The agreement provides that agricultural products, raw materials and manufactures will be exchanged freely among the member states in accordance with certain guidelines.

Restrictions, levies and taxes are to be fixed accurately for imports and exports so that no member state will be able to collect higher levies. The member countries will mutually apply the principle of most-favoured nation treatment as regards their

trade with other states not belonging to the Arabian League and in their mutual trade are not to collect levies and tariffs that do not exist for such goods in their domestic market, too. In trade between member states no export duties are to be collected on agricultural produce, raw materials and manufactures.

If these products have been traded within the Arabian Common Market, the purchasing country must not export them to outside countries unless the country of origin agrees, or after they have been industrially processed and may be considered manufactures of the importing country. Furthermore no member state shall connect direct financial subsidies with exports of its own products to other member states if the importing country is producing similar goods.

A transitional provision foresees an annual reduction by 10% of duties and other levies from January 1, 1965, on. With regard to various products this reduction by 10% is carried through in addition to the reduction as fixed in the agreement, thus certain industrial products, to which a total reduction by 25% is applying, will be free of duty after 7½ years, while with manufactures getting a reduction by 50% this will be the case in five years.

Every member state supplies the Council for Economic Union precise data on restrictions in imports and exports of farming produce and raw materials as well as of industrial manufactures, particularly taxes and other levies on imports and exports. The member states are to enter into a special list those farming products and raw materials of the 20% group in whose case restrictions will be abolished with the next stage of the Common Market. The same applies to the 10%-group of industrial manufactures. Moreover, the member states are to submit a catalogue of their subsidised products and the volume of aids. The Economic Council is to be informed of all changes in this catalogue.

### **Important Problems Not Yet Solved**

Transitional regulations are to be introduced until an Arabian Payments Union and Arabian Monetary Fund for the convertibility of currencies has been estab-