

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/3573

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## REPORT OF THE WORKING PARTY ON UNITED STATES TEMPORARY IMPORT SURCHARGE

### I. INTRODUCTION

1. In accordance with its terms of reference the Working Party has examined the United States temporary import surcharge notified in L/3567 and discussed in the Council on 24-25 August 1971 (C/M/71). For this purpose, as well as for the carrying out of certain other tasks assigned to it, the Working Party met from 6 to 11 September under the Chairmanship of Mr. K.A. Sahlgren (Finland).
2. The terms of reference of the Working Party were as follows:
  - (a) In the light of the provisions of the General Agreement and of the discussion in the Council, to examine the United States temporary import surcharge introduced on 16 August 1971 as notified in L/3567, and to exchange views on other measures in the United States programme of a non-monetary nature which have a direct impact on international trade. In executing this task the Working Party will take into account, inter alia, the nature of the balance-of-payments difficulties; the rationale for the surcharge and the modalities of its implementation; the anticipated effects on trade; the possible effect on the economies of other contracting parties and, in particular, the effect on the economies of the developing countries;
  - (b) to consult with the International Monetary Fund in pursuance of Article XV;
  - (c) to submit a report for consideration by the Council at a meeting not later than 20 September, on the assumption that the necessary determination by the International Monetary Fund is available, on its examination of the United States temporary import surcharge, and a record of any exchange of views in the Working Party on the other measures referred to above; and
  - (d) to continue to be available for consultations as necessary.
3. In addition to the documents mentioned in paragraph 1 above, the Working Party had before it the texts of the United States presidential proclamation and executive orders implementing the import surcharge and certain statistical information supplied by the United States, as well as two background papers supplied by the International Monetary Fund, dated 21 December 1970 and 25 August 1971.

## II. CONSULTATIONS WITH THE INTERNATIONAL MONETARY FUND

4. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the Working Party on the balance-of-payments and monetary reserve aspects of the matters under consideration. The representative of the Fund made the following statement:

"The Fund invites the attention of the CONTRACTING PARTIES to the background papers dated December 21, 1970 and August 25, 1971 which it has transmitted for their information and use. It will be noted from the second of these papers that on August 15, 1971, the United States announced measures aimed at increasing employment, improving price performance, and strengthening the balance of payments position. One of the measures was the imposition of a temporary surcharge, generally at a rate of 10 per cent, on dutiable imports not subject to quantitative limitations imposed under statute by the United States.

"In view of the strains on the international reserve position and the underlying balance of payments situation, the United States authorities have suspended temporarily the full convertibility of the U.S. dollar into gold or other reserve assets, while simultaneously imposing an import surcharge. The U.S. authorities have said that some changes in exchange parities may be anticipated and that the temporary import surcharge is intended to provide relatively quick benefits to the trade balance under the circumstances which led to its use have been adequately dealt with.

"Persistent balance of payments pressures have brought the reserve assets of the United States to a low level and its reserve liabilities to a very high level. These pressures have been particularly strong in 1970 and 1971. Therefore, in the absence of other appropriate action and in the present circumstances, the import surcharge can be regarded as being within the bounds of what is necessary to stop a serious deterioration in the United States balance of payments position. However, a corrective adjustment in the pattern of exchange rates would be a preferred means for achieving a better balance in international payments. The Fund will remain in close consultation with the authorities of the United States and the other members with a view to the prompt achievement of a viable structure of exchange rates on the basis of parities established and maintained in accordance with the Articles of Agreement. The import surcharge can be justified as a means of improving the U.S. balance of payments only until it is possible to supplant it by effective action in the exchange rate field."

5. In response to a question the Fund representative stated that the Fund had no suggestion to make as to any alternative measures that the United States might take at present.

6. One representative asked the Fund representative if he could confirm that what constituted "effective action" to strengthen the United States balance of payments would be a Fund judgment based on a prediction of the results of measures taken by

the United States and its trading partners, and not on an actual improvement in the United States balance of payments. The Fund representative replied that the judgment as to whether "effective action in the exchange field" had been taken would be a Fund judgment. One could not, of course, expect the Fund at this stage to relate such judgment to any period of time. It should be noted in this connexion, however, that major efforts were under way to try to resolve this problem with the utmost expediency. In exercising judgment as to removal of restrictions by any member country it was the Fund's normal practice, and a necessary one, to look forward as well as back. The Fund did not wait until actual equilibrium had been reached since the removal of restrictions was a necessary preliminary action for obtaining a healthy and sustainable balance-of-payments situation.

### III. CONSIDERATION OF PARTICULAR ASPECTS AND PROBLEMS

#### The balance-of-payments difficulties of the United States

7. In examining the nature of the balance-of-payments difficulties, the Working Party took into account the findings of the International Monetary Fund quoted in paragraph 4 above, and generally referred to the background material supplied by the Fund. Note was taken also of statistical material supplied by the United States delegation, supplemented with more up-to-date figures supplied by the United States representative in the course of the discussion.

8. The United States delegation stressed that the deterioration of its trade balance was an important factor responsible for the worsening of the country's balance of payments. In analyzing the United States balance of payments it was important to distinguish between volatile short-term capital flows and fundamental disequilibrium. The basic balance, that is trade, services and long-term capital flows, was the key to this disequilibrium, and there was clearly a close correlation between the trade balance and the basic balance. He introduced figures to show that the deterioration in the United States balance of payments was not due to outflows of long-term capital, but that on the contrary such outflows had diminished on a net basis over the last few years. He pointed out that the United States had been a principal loser of reserves in recent years while most of the rest of the world had been increasing its reserves. Further, he cited Article XV of the General Agreement, which states that the CONTRACTING PARTIES shall accept all findings of facts by the International Monetary Fund relating to foreign exchange, monetary reserves, and balance of payments, and called attention to the Fund's finding that persistent balance-of-payments pressures, which were particularly strong in 1970 and 1971, had brought the reserve assets of the United States to a low level and its reserve liabilities to a very high level. In these circumstances, the United States had applied a temporary import surcharge to provide relatively quick benefits to its trade balance until the circumstances which led to use of the surcharge had been adequately dealt with. The Fund had found that "in the absence of other appropriate action and in the present circumstances, the import surcharge can be regarded as being within the bounds of what is necessary to stop a serious deterioration in the United States balance-of-payments position", and the representative of the International Monetary Fund had informed the Working Party that the Fund has no other alternative measures to suggest at this time. There being no presently available alternative to trade measures to bring quick benefits to the payments balance the United States considered that it was necessary and appropriate for the United States to act in the trade field.

9. Other members of the Working Party, while recognizing the seriousness of the balance-of-payments situation, could not endorse these views and drew attention to the full findings of the IMF. They considered that the trade balance had only a relatively minor place in the United States balance of payments, especially having regard to other elements such as the net outflow of capital and net inflow of earnings connected with direct private investments by United States enterprises abroad. For example, movements of capital funds of multinational corporations had played an important rôle in the recent deterioration of the United States balance of payments. The overall disequilibrium had in recent years been of an order of magnitude totally out of proportion to the size of the fluctuations in the trade balance. Moreover, in the case of the United States balance of payments, income from direct investments abroad and income from trade were closely linked because of substitution of exports by the establishment of manufacturing facilities abroad. Net income on that account had shown a considerable and constant growth in the 1960's. For all those reasons, these members considered that measures restricting imports were not an appropriate means to correct the United States balance-of-payments disequilibrium.

10. In the view of these members the most important and immediate cause of the present balance-of-payments deficit in the United States had been the massive outflow of short-term capital, which reflected a loss of confidence in the stability of the United States economy. While this capital movement was speculative it would not have reached the dimensions it had, were it not for the persistent inflationary trend and price instability in the United States. It had also been indicated that the difficulties in the trade balance of the United States to a large extent resulted from factors on which the imposition of the surcharge would have no influence. The evolution of the trade balance was but a manifestation of the root causes, and the remedy should be found in the adoption of policies other than the limitation of imports. Surcharge action was counter-productive in relation to the objective of fostering price stability and increasing export and industrial competitiveness, apart from being damaging to the interest of other contracting parties and undermining the world trading system.

11. Some members questioned the appropriateness of regarding a sizable United States trade balance as a natural, essential feature in the world trade structure. The idea that the United States should have a constant trade surplus was untenable.

12. For some members of the Working Party the inflation problem with which the United States had been confronted since the mid-1960's had been a major element in the erosion of the United States international financial position and they were unable to accept the contention of the United States authorities that the exchange rate and trade policies of the United States' trading partners were unfair.

13. Reference was made to the announcement of 15 August by the United States President linking removal of the surcharge to exchange rate adjustments, and to the IMF view that a corrective adjustment in the pattern of exchange rates would be a preferred means for achieving a better balance in international payments. In the view of a number of members the maintenance of the surcharge would make it more difficult to achieve full adjustment of currencies and this was a further argument for its early removal.

14. In the course of the discussion, representatives of developing countries stressed that their countries were certainly not responsible for the balance-of-payments deficit of the United States. They noted that the United States had a persistent trade surplus with developing countries. They further pointed out that they were powerless to influence events in the monetary sphere. They emphasized that any remedial measure that the United States had taken or might take to correct its balance-of-payments deficit should not damage in any way, directly or indirectly, the export interests of their countries. Thus, it was their view that all exports from developing countries should be excluded from the import surcharge.

Modalities of the imposition of the surcharge

15. In response to a request for a precise list of products in terms of USTS numbers which were exempted or to which a surcharge of less than 10 per cent applied, the representative of the United States referred to the Treasury Department Additional Duty Order No. 2, and the accompanying press release which mentioned many exempt items. Items which were exempt either because they were duty free or because the column 1 and column 2 rates were identical could be readily identified from an examination of the United States tariff schedules, as were items subject to a surcharge of less than 10 per cent.

16. Members of the Working Party welcomed the decision of the United States authorities, taken since the discussion on the matter at the last Council meeting, to exempt from the import surcharge goods in transit at the time of the introduction of the measure. Some members considered, however, that on grounds of equity all goods in transit, whether or not they had left the country of export, should be covered by this exemption. The United States delegation was unsure of the exact scope of this new exemption, or the intention in this regard of the Commissioner of Customs who had the authority to issue regulations on matters of this nature, and undertook to convey this representation to the appropriate authorities for attention. In response to a similar representation with respect to consignments which were the subject of a firm order or had been purchased under a long-term contract on or before 16 August, the representative of the United States did not feel exemption of such consignments to be a practicable proposition since this would entail enormous administrative problems of verification and interpretation.

17. In answer to an enquiry as to whether there were any exemptions from the surcharge arising from international arrangements similar to the United States-Canada arrangement regarding automotive parts, the United States representative referred to the residual preferential relations between the United States and the Philippines, in consequence of which most dutiable goods from the Philippines would be subject to only 80 per cent of the combined column 1 rate of duty and the surcharge.

18. In reply to a question the United States representative noted that those State-trading countries which were not receiving most-favoured-nation treatment from the United States would in fact not be affected by the surcharge, as their exports were subject to statutory, or so-called column 2, rates of duty. This should not be regarded as differentiation in favour of these countries since these column 2 rates were in all cases higher than or at least equal to column 1 rates plus a surcharge.

19. In response to questions concerning the operation of the price and wage freeze introduced on 16 August in relation to imported products, the United States representative stated that importers and subsequent purchasers of imported products, as well as manufacturers using such products, were permitted to add the import surcharge to their selling prices. In other words, the incidence of the import surcharge could be passed on, dollar for dollar, to the ultimate consumer. The price freeze would not preclude the raising of prices to take account of price fluctuations on world markets. The same rule, however, did not apply to the consequences on the price of imported products of any adjustment of foreign exchange rates. Members of the Working Party commented that the last-mentioned practice would seem to be irrational as well as being inadvisable. In order to respect the price freeze a trader would either have to accept a cut in his profit margins or sell below "normal value" and thus be exposed to anti-dumping action. More probably, however, he would give up the transaction. This modality of applying the price freeze might well have the effect of discouraging foreign countries from revaluing their currencies, which was precisely one of the declared objectives of the United States Government in the monetary field.

20. In reply to a question the United States representative confirmed that it was permissible for importers, processors and others to pass on to their customers the supplementary duty to the extent that it was actually paid on imports made on and after 16 August 1971, even when the imported goods had been subject to further processing in the United States.

21. In reply to questions the representative of the United States stated:

(a) The amount of the surcharge would be calculated on the same value basis as the regular customs duty, be this the normally used f.o.b. value, or some other special basis such as the ASP, and

(b) the surcharge levied on any item at present subject to a specific rate of duty would be calculated on an ad valorem basis referring to the value of the actual shipment, but the combined incidence of the surcharge and the customs duty should in no case exceed column 2 rates;

(c) the same applied to items subject to compound duties.

22. In discussing the rationale of according differential treatment to goods subject to statutory quantitative restrictions and goods subject to unilateral or voluntary restraints by exporting countries, the representative of the United States explained that while goods subject to United States statutory quantitative restrictions were readily identifiable by reference to the statutes and regulations in question, and the effectiveness of the restriction was not in doubt, the United States authorities could never be certain of the coverage or the effects of voluntary restraints arranged by foreign governments or industries. Some members stressed the view that the distinction was unwarranted since the export restraints had virtually the same alleviating effect on the United States balance of payments as the statutory restraints.

23. With regard to cotton textiles, the representative of the United States confirmed that all sixty-four categories which were, or could be, subjected to import restrictions in terms of the Cotton Textile Arrangement were exempted from the surcharge, regardless of the origin of the goods.

24. Commenting on the fact that handloom cotton textiles, not being covered by the Cotton Textile Arrangement, were not exempt from the surcharge, a member of the Working Party strongly urged the United States Government to reconsider this situation and remove the anomaly. Discrimination against handloom fabrics would be contrary to the original intention of according more favourable treatment to this type of product.

25. In the course of the discussion, the representative of the United States reiterated the statement his delegation had made at the Council meeting that special exemption of imports from developing countries for goods which would remain subject to the surcharge when imported from developed countries was not feasible; a dilution of the scheme in this manner would have reduced the effect of the surcharge which was intended to bring about a rapid improvement of the trade balance; the discrimination it involved might merely divert trade from one source of supply to another without reducing the amount imported. The representatives of developing countries emphasized that claim for such differential treatment was based on Article XXXVII of the General Agreement which set forth the principle of the standstill in favour of developing countries. They further pointed out that the possibility of a shift in sources of supply was in practice unlikely, and that in any case they were prepared, once the principle of exemption was accepted, to propose arrangements that would avoid the possibility mentioned by the United States delegation.

26. In reply to a question as to the extent of the power of review granted to the Secretary of the Treasury by Headnote 4(a) sub-part C of Part 2 of the Appendix to the Tariff Schedules of the United States, the representative of the United States stated that this provision merely reflected the general practice of giving the Executive Branch of the Government the widest possible discretion, and had to be viewed in this context. The most recent case where the Secretary of the Treasury had made use of this authority had been the exemption from the surcharge of those goods which were exported to the United States before 16 August 1971 (cf. Treasury Department Additional Duty Order No. 3).

27. Noting the intention of the United States to eliminate the surcharge as soon as possible, members of the Working Party urged the United States authorities to keep the situation under constant review and, pending the abolition of the surcharge, to explore all ways and means of reducing the incidence, either by progressively reducing the rate, or by diminishing the product coverage. In the opinion of some members the latter process could advisably start at an early date with the few primary commodities not yet benefiting from an exemption. Considering the stable demand and supply of these products, and their low elasticity of demand, the application of the surcharge to these products seemed to serve little purpose and their liberalization was not expected to have a significant effect on the United States import bill.

28. In response to questions, the representative of the United States indicated that his Government had made no decision not to implement the fifth round of Kennedy Round cuts, but the question of the relationship, if any, between the surcharge and the Kennedy Round cut was under study. Other members of the Working Party, without prejudice to their view that the surcharge should be removed within a short time, expressed concern at any possibility that the cut might not be made and called for an early statement by the United States in this regard. They stressed the view that notwithstanding their general reluctance to take compensatory action against the United States in respect of the import surcharge, they would be compelled to reconsider their position should the United States fail to implement those tariff concessions. With reference to the practice which had been adopted by the United States of adjusting any surcharge rate below 10 per cent to the maximum permitted under the Tariff Act of 1930, members of the Working Party stressed the view that, in the unlikely event of the surcharge still remaining in existence at the beginning of 1972, this practice should certainly not be applied so as to cancel out the fifth step reductions, wholly or in part, by a corresponding increase in the import surcharge.

29. Some members of the Working Party stressed that the removal of the surcharge should in no way be considered as an element for negotiation.

#### Effects of the surcharge on trade

30. In discussing the effects of the surcharge the representative of the United States supplied the following data, based on 1970 returns, showing the proportion of the exports of various countries and areas affected by the measure (the word "affected" as used in this context referred only to trade coverage of the surcharge and did not imply that United States imports would fall by those amounts): 24.3 per cent of Canada's exports to the United States were affected; this was 15.9 per cent of Canada's total exports and 3.4 per cent of its gross national product. For the EEC, the respective figures were 86.8 per cent, 6.4 per cent and 1.2 per cent, for the EFTA 73.9 per cent, 6.5 per cent and 1.3 per cent, for Other Western Europe 72.8 per cent, an estimated 8.1 per cent and 0.8 per cent,



for Poland 45.1 per cent an estimated 1.3 per cent and 0.1 per cent, for Japan 93.8 per cent, 28.4 per cent and 2.8 per cent. 21.4 per cent of the exports from Australia to the United States were affected; this was an estimated 2.6 per cent of their total exports.<sup>1</sup>

31. It was also noted that the import surcharge applied to approximately 50 per cent of United States imports and that where it was applied, the rate did not always amount to 10 per cent so that on an average the rate of the import surcharge was about 9 per cent. A number of delegations drew attention to the fact that the proportion of exports to the United States' overall exports and gross national product which were affected by the surcharge varied considerably.

32. In reply to a question, the representative of the United States stated that it was very difficult to predict the effects in quantitative terms of the application of the surcharge, since this depended also on action taken by other contracting parties which could influence prices. His authorities anticipated that if the surcharge were in effect for a year, imports would be approximately US\$1.5 to 2 billion below the level they would otherwise have attained; the basis of this calculation was, however, highly speculative.

33. A number of delegations expressed concern at the likely effects of the surcharge on particular sectors of their economies. Moreover, the dampening effect of the surcharge on the exports of other countries would cause a slowing down of their economic activity and consequently reduce their demand for imports. To the extent that such countries constituted export markets of the United States, any savings in United States import payments that might derive from the surcharge would be offset, perhaps to a substantial degree, by a reduction in United States exports, thus discounting any anticipated improvement in the United States balance of payments. Others also stressed the indirect effects of the surcharge through, for example, increasing competition in the markets of other countries. Some delegations calling for early removal of the surcharge pointed out that the adverse effects on economies of other countries would continually increase and that these effects would greatly outweigh any benefits which the surcharge might bring to the United States balance of payments. Some delegations were concerned at the implications which the measures might have on long-term efforts toward trade liberalization and expressed the hope that the United States would be in a position to revert to its traditional rôle of promoting such liberalization.

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<sup>1</sup>The Australian delegation noted that according to Australian statistics the corresponding percentages for 1970/71 were 29.7 per cent and 3.6 per cent.

34. A number of representatives referred to and supplemented the statements already made in the Council regarding the trade effect of the surcharge on their economies. Some representatives enquired what the impact of the import surcharge would be on the trade of developing countries. The representative of the United States pointed out that it was difficult to make any predictions and stated that in 1970 total most-favoured-nation imports from developing countries had amounted to US\$10.4 billion; of these imports only US\$3.02 billion or approximately 29 per cent were subject to the surcharge. Giving a breakdown on a geographical basis, he stated that: 19.7 per cent of OAS countries' exports to the United States would be subject to the surcharge which was 7.0 per cent of their total exports and 0.8 per cent of their gross national product. For South Asia the respective figures were 55.8 per cent, an estimated 7.3 per cent and 0.3 per cent; for South-East Asia 21.4 per cent, an estimated 4.0 per cent and 0.6 per cent and for Africa 11.2 per cent, 0.8 per cent and 0.2 per cent. 42.4 per cent of exports from the Near East to the United States were affected; this was an estimated 1.5 per cent of their total exports.

35. Asked to what extent the trade of the developing countries had contributed to the United States balance-of-payments deficit, the representative of the United States replied that since all elements involved were closely inter-related, it was, in his view, not possible to give any indication in this respect. The United States had a trade surplus with developing countries as a whole.

36. Some developing countries, while agreeing that exemptions in respect of duty-free products and items subject to quantitative restriction alleviated their problems to a certain extent, expressed concern at the fact that the measure applied to manufactured products which they had commenced to export to the United States and thus prevented diversification of their production. Some delegations also pointed out that any disruption in the present trading system as a result, for example, of retaliatory measures would cause grave damage to their economies.

37. A number of representatives of developing countries said that they could not accept the United States contention that exemption from the surcharge for exports of developing countries could be construed as discrimination, impermissible under the General Agreement. Article XXVII clearly established that, in the absence of compelling reasons, developed contracting parties must abstain from introducing or increasing tariff or non tariff barriers vis-à-vis developing countries. They did not consider that the United States had advanced compelling reasons since there could be no serious economic effects for the United States in exempting developing countries from the surcharge. They, therefore, drew the conclusion that Article XXVII was not being respected and stressed the fundamental importance to developing countries of this Article - the sole commitment of developed countries towards developing countries. In the view of some of these delegations this Article should be considered as being parallel in application to other Articles in the GATT. Moreover, they considered that the surcharge was inconsistent with current trends in international co-operation, as exemplified by the Generalized System of Preferences and with recent developments in other international organizations.

38. The representative of the United States drew attention to the fact that Article XXXVII provided for a standstill only as regards "products" of export interest to developing countries and stated that the United States had endeavoured to exempt such products from the surcharge by the exclusion of duty-free items. He further stated that it was neither possible nor proper to identify those countries that were "responsible" for the balance-of-payments difficulties and to exclude all others from the operation of the surcharge. He assured all delegations that their remarks would be brought to the attention of his authorities.

#### IV. CONCLUSIONS

39. The Working Party took note of the findings of the IMF and recognized that the United States had found itself in a serious balance-of-payments situation which required urgent action. While noting the contrary views of the United States, the other members of the Working Party<sup>1</sup> considered that the surcharge, as a trade restrictive measure, was inappropriate given the nature of the United States balance-of-payments situation and the undue burden of adjustment placed upon the import account with consequent serious effects on the trade of other contracting parties.

40. In the spirit of Part IV of GATT, and in view of the possibilities opened up by the newly adopted GSP, the Working Party explored with the United States the feasibility of exempting more products exported by developing countries from the surcharge. The Working Party fully understood the keen desire and the urgent need of developing countries to expand their exports as well as the importance of the United States market to them, and generally agreed that in spite of the exemption of many raw materials and primary products normally exported by them, the import surcharge significantly affected the export interest of developing countries. The Working Party wished to stress this as an a fortiori reason why the measure should be eliminated within a short time. In the meantime, the United States should keep the situation under constant review so as not to overlook any possible opportunity of adding to the exemptions list products of particular export interest to developing countries.

41. The United States, taking into account the findings of the IMF, considered itself entitled under Article XII to apply quantitative restrictions to safeguard its external financial position and balance of payments but had chosen instead to apply surcharges, which were less damaging to world trade. It noted that while a number of other contracting parties had taken similar action there was no uniform precedent in the GATT for dealing with situations of this kind. The other members of the Working Party concentrated their attention on the measures which the United States had actually adopted in this respect, and noted that the surcharge, to the extent that it raised the incidence of customs charges beyond the maximum rates bound under Article II was not compatible with the provisions of the General Agreement.

<sup>1</sup>One member reserved his position concerning the inappropriateness of the surcharge.

42. The Working Party noted that the surcharge, if not removed within a short time, could not but have far-reaching effects on the world economy and international trade, particularly having regard to the inhibitive effect it would have on international co-operation necessary for the continuation of the liberalizing trade policies that have been pursued since the inception of GATT.

43. The Working Party noted the statement by the United States confirming that the import surcharge would be temporary and, in the light of the above, urged that it be removed within a short time.

44. It was understood that this examination in no way prejudiced the rights of contracting parties under the General Agreement.

Annex I

STATEMENT BY THE UNITED STATES REPRESENTATIVE

7 SEPTEMBER 1971

In this opening presentation my delegation wishes to deal with three main points. First: the balance-of-payments background to the programme announced by President Nixon on 15 August; Second: the domestic measures in the overall programme intended to achieve equilibrium at higher levels of economic activity; Finally: the temporary import surcharge.

The United States external position

The United States external payments deficit has a long history. During the initial postwar years the deficit was deliberate and part of the process of reconstruction and of growth in the economic activity, the trade and liquidity of the world. Following this phase, the United States recorded persistent, but not unmanageable balance-of-payments deficits throughout the 1960's. From 1960 through 1969, the net liquidity balance was in continuous deficit, averaging \$3.1 billion per year. The official settlements balance was also in deficit during most of that period, averaging \$1.1 billion per year. The deficit in the basic balance (which combines the current and long-term capital accounts) averaged \$1.4 billion per year.

The situation began to erode more visibly in 1969 and 1970, although the weakened position in 1969 was somewhat hidden by large temporary inflows of short-term funds attracted by unusually high interest rates. The sharpest deterioration occurred in the official settlements balance, which rose to a record deficit of \$10.7 billion in 1970. The net liquidity deficit reached a historical high of \$6.1 billion in 1970. However, adjusted for special factors it was in fact close to the previous year's level. The basic balance deficit rose to about \$3 billion in 1969 and 1970, substantially above the average of the previous decade.

Most recently the United States balance of payments began to deteriorate even more sharply and at an accelerated pace. In the first half of 1971 the liquidity balance was in deficit at the staggering annual rate of \$17.4 billion; the official settlements balance was in deficit at an even higher rate of \$23.3 billion. The basic deficit in the quarter was running at an annual rate of \$5.7 billion and in the first half rose to an annual rate of about \$9 billion.

As a result of this long period of payments deficits, the United States reserve position has been severely and persistently weakened. Reserves have fallen from a high of \$26.2 billion in 1949 to the present level of \$12.2 billion. Since 1960, United States reserve assets have declined by \$7 billion. Gross reserves now stand at only 26 per cent (or about three month's value) of estimated 1971 imports, well below the world average level of reserve holdings relative to trade. In contrast, total liquid liabilities have risen sharply, from \$21 billion in 1960 to more than \$60 billion now. Of this, liabilities to official holders amount to more than \$38 billion.

The precipitous weakening of the balance of payments in 1971, culminating the long trend of both large payments deficits and the progressive deterioration in the reserve position, produced a situation by mid-1971 which was simply not viable. This was particularly so since it led to loss of confidence and to disruptive speculation. The IMF in its statement has recognized the "persistent balance-of-payments pressures" and the "strains on the international reserve position and the underlying balance-of-payments situation". In the circumstances extraordinary action was necessary, since it did not seem possible to redress the position merely through an intensification of conventional measures.

#### Deterioration in United States merchandise trade position

It is important to recognize that the major element in the weakening of the United States basic balance of payments in recent years has been the reduction and then the disappearance of the traditional United States merchandise trade surplus. The United States earned a trade surplus of nearly \$7 billion in 1964, but by 1970 the surplus had fallen to only \$2.1 billion. Furthermore, had the United States economy been operating at moderately high employment levels, the United States trade position would have been even weaker. This adverse shift of nearly \$5 billion in the merchandise account well exceeded the total deterioration of \$3 billion in the United States basic balance between 1964 and 1970. In other words, while the United States trade balance declined by \$5 billion, the United States net position on services and long-term capital actually improved by \$2 billion.

In 1971, before the introduction of the surcharge, there was a further sharp deterioration in the United States trade balance. In the first half of 1971, the United States moved into net trade deficit and faced the prospect of incurring in 1971 the first annual United States trade deficit in the twentieth century. In addition as the United States domestic economy was expected to gain momentum over the months ahead, a widening of the trade deficit seemed inevitable.

The downward drift of the trade balance being so large a part of the malady, the United States is also convinced that much of the remedy for the restoration of the United States external financial position depends on the renewed achievement of a substantial trade surplus. While a trade surplus is not necessary in theory, there is no prospect at this time that the United States can regain a secure balance of payments without rebuilding a substantial merchandise surplus.

Relevant consideration with respect to other accounts of balance of payments of the United States are:

1. Leaving aside hoped-for improvements from reduced net payments outflows for defence, there is little likelihood of an adequate contribution to strengthening the United States position from the services account. Out-payments on foreign investment in the United States (including earnings and interest on remunerative liquid investments held by foreign countries and nationals in the United States) are likely to rise as much, or more than the income from the United States investment abroad.
2. The net long-term private capital account has not been an important factor in the deterioration of the United States overall balance-of-payments position. In fact, the net private capital outflow declined from \$2.1 billion in 1960 to \$1.5 billion in 1970, although with some temporary factors operating an increase has been in evidence in the first half of 1971. It is also worthy of note that the direction of the net flow has been predominantly to the developing countries. For example in 1970 nearly three quarters of the net private long-term capital deficit was with the developing countries.
3. The net outflow of the United States Government non-military grants and credits amounted to \$3.7 billion in 1970. While this is a sizable amount which had to be taken into account in the development of the United States programme, the order of magnitude is not proportional to the balance-of-payments problem facing the United States. Furthermore, it would be desirable for the United States to regain a balance-of-payments position which will sustain an appropriate flow of United States Government assistance to the developing countries.

Thus, a return to a strong United States trade surplus is essential to restore equilibrium to the balance of payments. This in turn is necessary to assure the continued expansion of the world economy on an open and sustainable basis.

#### Domestic aspects of economic programme

The import surcharge is only one part - although an important and integral part - of a broad programme involving an inter-related attack on both domestic and foreign economic problems of the United States. The burden of these problems will not be borne solely by the international community. On the contrary, the President of the United States, as part of the overall programme has made provision for significant measures to be taken domestically. These measures are designed to strengthen the United States economy by increasing employment and achieving price stability. They were designed to deal with severe domestic problems. Our industrial sector was operating at only 73 per cent of its capacity and about 6 per cent of our labour force was unemployed. The need for decisive and dramatic action was clear.

First on 15 August, the President instituted a ninety-day freeze of all prices, rents, wages and salaries in the United States. The freeze on prices covers all commodities and services, except for raw agricultural products. This freeze is under the policy direction of a newly established Cost of Living Council.

The President has also directed that there be a second stage of price-wage stabilization in which transition is accomplished from the ninety-day freeze to the restoration of free markets without inflation. Policies and mechanisms to be used during the second stage will be developed and recommended to the President by the Cost of Living Council.

These steps on the price-wage front will do more than control inflation. They will help to restore confidence in the United States economy, increase the competitiveness of United States products in world trade, expand employment at home and strengthen the United States dollar.

Second, the President has recommended that Congress establish, effective 15 August 1971, a job development credit in the form of an accelerated investment tax credit at the rate of 10 per cent for one year, to be followed by a permanent credit at the rate of 5 per cent. If enacted by the Congress, this credit will encourage investments in new machinery and equipment and thereby stimulate employment, economic growth and the improvement of productivity in the United States. The improvement of productivity in the United States will in turn make United States goods more competitive in world markets. The especially high rate of credit for investment during the first year is intended to particularly accelerate employment now when it is below par.

Third, the President has recommended that Congress repeal the excise tax on automobiles, effective 15 August 1971. The tax rate is 7 per cent of the manufacturer's price, so that the average tax per car is \$200. It is expected that automobile manufacturers will pass the reduction on to customers in lower prices. The purpose of this move is to reduce an important item in the cost of living -- the price of automobiles -- and to stimulate production and employment in the auto industry.

Fourth, the President has recommended that Congress advance to 1 January 1972 the increase in personal income tax exemptions scheduled by present law to take effect on 1 January 1973. This increase will be in addition to the exemption increase now scheduled to take effect on 1 January 1972. The additional exemption will be \$50 per person. This tax reduction will stimulate consumers' expenditures and employment.



Finally, the President has directed that Federal expenditures in fiscal year 1972 be reduced by \$4.7 billion. The main items in this total are a 5 per cent cut in Federal employment, a delay for six months in the Federal pay increases now scheduled for 1 January 1972, and the deferral for three months of the effective date of the proposed programme for general revenue sharing, and of one year for the proposed welfare reform.

While the domestic measures reduce United States governmental expenditures relative to revenues, they will be strongly expansionary as far as jobs and production are concerned. That is because the elements of the programme which stimulate employment are extremely powerful in relation to the revenue loss they involve - more powerful per dollar than the expenditures which are being reduced. The strong anti-inflation programme including the price-wage freeze will entail no revenue loss but will encourage consumers' spending and employment. The investment tax credit, with its accelerated feature, will give business an incentive to spend money to create jobs in amounts greater than the revenue lost. The reduction in the price of automobiles will also have a powerful effect on employment. Thus, the combined programme strengthens the economy while strengthening the budget.

In taking these measures, the Government of the United States has determined to restore a strong balance of payments based on a strong economy and to sustain the strength of the dollar. This is of vital importance not only to the United States but to many other countries and to the maintenance and development of world trade.

#### Rationale for the surcharge

The temporary import surcharge, which is the principal focus of the Working Party's attention is a key element in the comprehensive United States programme. The earlier part of this statement called attention to the fact that the trade account in the United States balance of payments has deteriorated significantly, and this deterioration has been an important factor in the overall balance-of-payments problem. The import surcharge is intended to moderate the flow of imports and to achieve a relatively rapid improvement in the balance of trade and payments while more fundamental measures take effect.

The General Agreement allows a contracting party to restrict imports in order to safeguard its external financial position and its balance of payments. The test is a contracting party's total payments and reserve position, not its position on merchandise trade alone. My Government considers that it is entitled to impose quantitative restrictions on imports under Article XII. But quantitative import restrictions are administratively cumbersome and tend to freeze trade in historical patterns. A surcharge appeared to offer more advantages or, put another way, fewer disadvantages. It did not require an elaborate administrative structure; it seemed more compatible with freedom of consumer choice and with the efficient allocation of resources; it could be more easily dismantled when it has served its purpose; it would be less discriminatory than quotas; and it could be applied most rapidly under existing United States domestic legal authority.

My Government considers that there is ample precedent in the GATT for applying temporary import surcharges where there is evident need to safeguard a country's external financial position and its balance of payments. There have been at least eleven cases in which contracting parties have imposed surcharges on imports to safeguard their balance-of-payments positions. The countries concerned were Canada, Ceylon, Chile, France, India, Israel, Nicaragua, Peru, the United Kingdom, Uruguay, and Yugoslavia. The surcharges applied in the last decade by the two developed countries - Canada and the United Kingdom - which used them for balance-of-payments reasons were similar in their impact to that which the United States is now applying. In 1962 Canada imposed surcharges of 5, 10, and 15 per cent ad valorem on almost 50 per cent of its imports. In 1964 the United Kingdom imposed a 15 per cent ad valorem surcharge on something over a quarter of its trade. A review of the record of the GATT consultations in these two cases reveals that both countries favoured import surcharges over quantitative restrictions because they were easier to administer and were deemed less restrictive of trade than quantitative restrictions would have been.

The surcharge is being applied in a non-discriminatory manner. The impact will, of course, vary from country to country because of differing trade patterns. Some countries trade with the United States more than others; the percentages of their exports subject to the surcharge differ; the importance of trade in their individual economies varies. In general, developing countries will be less affected than the more advanced countries. Many of the products exempted from the surcharge are products which the United States imports to a large extent from developing countries. An estimated 32 per cent of developing country exports to the United States and 6.3 per cent of their total exports to the world is subject to the surcharge compared to 60 per cent and 7.7 per cent, respectively, for the developed countries.

My Government is sensitive to the fact that the surcharge is nevertheless likely to have some adverse impact on the developing countries and regrets that this is necessary. It considers, however, that there are strong arguments against granting an exemption to any country or group of countries. It would reduce the effectiveness of the measure, would not be appropriate to temporary measures applied for balance-of-payments reasons, would lead to requests for exemptions from many others who would consider themselves to have equally good and justifiable cases, and tend to undermine the overall economic programme. Unless the programme is successful, unless the United States is able to halt inflation, move its economy to a higher level of productivity, and correct its balance-of-payments disequilibrium, it will not be able to play its proper and desirable rôle as an expanding market for developing countries' goods and a source of development assistance. Rather than to look to special exemptions from the temporary surcharge which would erode the programme, it is important, in my Government's view, for all countries to co-operate in efforts to improve the fundamental situation and create the conditions that will permit an early removal of the surcharge.

In sum, the import surcharge is a temporary measure; it was adopted with great reluctance. It will obviously create certain difficulties for other contracting parties. But it was instituted as an essential part of a broad and integrated attack on problems in the domestic and international economic areas. And, in the view of my Government, it is an action less disruptive and restrictive of trade than quantitative restrictions would have been.

#### Operation of the surcharge

The full texts of the legal documents through which the surcharge was instituted and certain exemptions granted from its operation have been distributed by the GATT secretariat. It would be useful, no doubt, to explain at this point in some detail exactly what the coverage of the surcharge is and how it operates.

As a general matter, the surcharge consists of a charge of up to 10 per cent ad valorem on all dutiable goods imported into the United States on and after 16 August 1971. This charge is in addition to normal tariffs otherwise collected and is calculated on the same basis as normal tariffs, usually assessed on the basis of invoice value, f.o.b., at the port of the country of exportation. The surcharge is not always the maximum figure of 10 per cent ad valorem, because of the requirements of United States tariff laws. United States tariff schedules show two rates of duty, denoted as the column 1 and column 2 rates. The column 1 rate is the rate applied to imports on a most-favoured-nation basis. They are the rates applicable under the GATT to imports from the territories of the contracting parties. The column 2 rate is a statutory rate, enacted by the United States Congress. This column 2 or statutory rate acts as a ceiling on the amount of the surcharge. For example, automobiles have a column 1 rate of 3.5 per cent and a column 2 rate of 10 per cent. The total duty payable on this article, inclusive of the surcharge, is therefore 10 per cent. Thus, the surcharge on automobiles is 6.5 per cent, rather than 10 per cent.

There are several very important exceptions to the surcharge. Duty-free goods, as noted above, are not covered by the surcharge. The other exemptions are for goods in transit at the time that the surcharge was imposed (including goods in the process of customs clearance or in bonded warehouse) and goods subject to import limitations pursuant to United States statutes. The press release accompanying Treasury Additional Duty Order No. 2, which has been distributed by the secretariat, describes the goods subject to quota exemption in some detail. The surcharge and exemptions to it are applicable on a non-discriminatory basis.

Based on 1970 trade data, the surcharge will apply to approximately \$20.8 billion of United States imports or approximately 52 per cent of total imports of \$39.8 billion. Of the balance of total imports, about \$14.2 billion are duty free, \$4.4 billion are exempted because they are subject to quantitative limitations on imports, and some \$500 million are not affected because the column 1 and column 2 rates in the United States Tariff Schedules are the same. The weighted average incidence of the surcharge is about 9.3 per cent.

Summing up, Mr. Chairman, the United States delegation considers that full account should be taken of these fundamental points:

- the certainty that the whole structure of trade and payments of the past twenty-five years could no longer be maintained in the face of the progressive and ultimately critical deterioration of the United States trade and payments position;
- the need for a comprehensive programme designed to deal with root causes of this deterioration;
- the inappropriateness to the United States situation of the more traditional means of restoring equilibrium;
- the adoption by the United States of a programme which calls on its own people to bear the brunt of those remedial actions which are within the Government's power to effect domestically;
- the temporary application of an import surcharge, for which there are several GATT precedents, to help arrest the further deterioration of the balance of trade and payments while the search continues for the necessary co-operative actions to re-establish equilibrium.

We are here, Mr. Chairman, to co-operate with the Working Party in the examination of the United States temporary import surcharge. We hope the Working Party will consider this temporary action not only justifiable in the circumstances but less restrictive than alternative trade measures available to the United States under the General Agreement.

Annex II

BASIC STATEMENT AND GENERAL COMMENTS

The Working Party took fully into account the views expressed by contracting parties at the last meeting of the Council. In supplement to those summarized in the minutes of that meeting, the United States representative and a number of other members of the Working Party made further statements containing general comments and observations. The full text of the United States statement is set out in Annex I. The essential points made in other statements, except those which are fully covered in the report itself, are summarized below.

The representative of Austria, referring to the IMF decision, agreed that effective and prompt action on exchange rates was necessary. His delegation hoped that problems arising from uncertainty in the international payments system would soon be resolved through common effort. He recalled that his country had already made an important contribution to this end by revaluing its currency in May 1971.

His delegation fully understood the problems faced by the United States and agreed that it was in the common interest that these problems be solved. It felt, however, that the surcharge and other measures could have unduly negative effects, direct and indirect, on the liberal world trading system.

The combination of various United States measures would severely affect the export possibilities of his country. There was also the possibility that deviations from GATT principles might damage, through a chain reaction, the international trading system. It was, therefore, important to stabilize the situation and avoid further repercussions on world trade.

He considered that the measures could have substantial indirect effects also through dislocation of trade flows into markets other than the United States. Smaller countries depending to a large extent on exports would be most severely affected. He appealed to the United States to proceed carefully and not to maintain restrictive measures for an undue period of time. He asked for a clear indication on the timing of removal of the surcharge.

As to the direct effects he pointed out that the United States was by far the largest overseas market of Austria. The United States ranked seventh in the Austrian export markets. Austria's trade balance with the United States showed a deficit and her imports from the United States increased by nearly 50 per cent in 1970, whereas the increase of Austrian exports to the United States lagged far behind. More than 90 per cent of the Austrian exports to the United States were covered by the full 10 per cent import surcharge. 58 per cent of these exports consisted only of seventeen products or groups of products. The share of the exports to the United States in total Austrian exports of these products was extremely high and these exports had been promoted through special endeavours and heavy investments.

The representative of Canada noted that the surcharge affected \$20 billion of goods, amounting to about 9 per cent of total exports of contracting parties. His country was already experiencing the adverse effects of the measure through reduction in production and the Canadian Government had proposed immediately to introduce legislation authorizing measures to counter the harmful effects on employment. While appreciating the balance-of-payments problem faced by the United States, his delegation questioned the appropriateness of introducing trade restrictive measures to deal with this problem and of maintaining the surcharge, given the changes in exchange rates which had already occurred. Canada attached importance to the statement of President Nixon linking the removal of the surcharge to exchange rate adjustments. He hoped that the IMF would soon be in a position to make the judgment that effective action in the exchange rate field had been taken. In the view of his Government, the surcharge in fact inhibited full adjustment of currencies and this was an additional reason for it to be removed at an early date.

The representative of Chile said that the United States was already committed under Part IV of the General Agreement and by obligations entered into under other arrangements such as the Generalized System of Preference (GSP) to exempt goods of export interest to developing countries from tariff and non-tariff barriers. It was, therefore, incomprehensible why their products had not been exempted from the surcharge. He did not accept the contention of the United States that exemptions in the interest of developing countries would lead to claims for exemptions from other countries. The United States balance-of-payments difficulties were due mainly to the outflow of capital, and not to the trade deficit which, in any event, appeared to be fortuitous and ephemeral. According to the figures, the United States had a favourable trade balance with developing countries. It was generally understood that one of the objects of the measure was to exert pressure on United States trade partners to modify their exchange rates, and wondered whether this should be applicable to developing countries which had not created the problem and were in no position to help solving it. The recent massive outflow of short-term capital from the United States had not been to the developing countries. The surcharge was already causing serious damage to the trade interest of Chile. If it applied for any prolonged period, the damage might indeed be immeasurable. A deadline should be set for elimination of the surcharge, which was at any rate not justified with respect to imports from developing countries.

The representative of China said that a basic reason for exempting developing countries from the surcharge arose from the fact that these countries were not responsible for the balance-of-payments difficulties of the United States. The application of the surcharge to imports from developing countries could not alleviate the United States problems. Exports of developing countries would moreover be adversely affected by any realignment of currencies as a result of the current crisis. Apart from the surcharge, the other measures envisaged in the United States programme would also have harmful effects on developing countries. In this connexion, he stated the view that the reduction in foreign aid would not contribute significantly to the solution of the United States balance-of-payments problem. Developing countries' arguments for exemption from these measures must be considered as valid.

The representative of Greece stated that, if one were to assume that the measure was in full conformity with the provisions of the General Agreement and that the present crisis had its roots on the trade, not on the monetary side, the application of the surcharge to the imports from those countries which had a negative trade balance with the United States could still not be justified in view of the provisions of Article XXXVII.

The representative of India stated that the imposition of a surcharge on imports from developing countries was contrary to the commitments assumed by the United States under Part IV, particularly Article XXXVII of the General Agreement. It was also contrary to the principles of the Generalized System of Preferences. The developing countries were in no way responsible for the present balance-of-payments difficulties of the United States and exemption of imports from developing countries would not impair the effectiveness of the measures taken by it to correct the present situation. He could not accept the United States contention that the exemption of imports from developing countries would be discriminatory and thus contrary to principles of GATT, because the principle of discrimination in favour of developing countries has been accepted by all in the Generalized System of Preferences. He urged the United States to consider exemption from the surcharge of handloom silk and cotton fabrics and made-up goods, particularly as cotton textiles covered by the Long-Term Arrangement were exempted from the surcharge. Non-inclusion of the handloom products in the list of products exempted from the surcharge would appear to be contrary to the original intention to give these types of products more favourable treatment as compared to mill-made textiles. In the view of his delegation imposition of the surcharge on imports from developing countries would have much wider implications than merely its effects on trade of developing countries.

The representative of Japan recalled the statement made by his delegation to the Council. Since then, the Japanese Government had adopted a flexible exchange rate, an action which should be considered as reaffirmation of its intention, in co-operation with other countries, to revitalize the international monetary system. As a result of new developments in the international monetary sphere, a fundamental change had arisen in the situation which had led the United States to adopt the import surcharge.

It was clear that the imposition of the surcharge on bound items was not in conformity with Article II of the General Agreement. Furthermore, no measures other than quantitative restrictions could be justified under Article XII. As regards the proposed Job Development Tax Credit, this was incompatible with the principle of national treatment on internal taxation as provided for in Article III according to his delegation's analysis, this measure would increase the burden on imports of equipment for investment by a further 10 per cent.

The Japanese delegation deeply regretted that restrictive measures had been taken which would virtually nullify the fruitful results of past tariff negotiations. These measures would disrupt the orderly development of world trade as well as provoking protectionism and thus jeopardizing the foundations of the GATT, the most valuable instrument for world trade.

The representative of Japan went on to say that it remained to be clarified whether the United States had fully exhausted all domestic measures which could restore equilibrium in its balance of payments. In particular, he asked to what extent the outflow of long or short-term capital had adverse impact on the balance of payments and what specific remedial measures were envisaged to cope with this situation. He referred also to the possible effects that activities of multinational overseas enterprises could exert in the trade balance and invisible accounts of the United States.

He noted that the IMF had concluded that a corrective adjustment in the pattern of exchange rates would be a preferred means for achieving a better balance in international payments and that the surcharge could be justified only until it was possible to supplant it by effective action in the exchange rate field. In this connexion, he drew attention to the fact that many key countries had already moved towards the establishment of new monetary arrangements.

He strongly urged the United States to repeal the surcharge at the earliest possible date in the light of its incompatibility with the General Agreement and of its adverse effects on world trade. He suggested that the United States Government should indicate a specific date for the complete removal of the surcharge. He stressed that Japan would reserve its rights under the GATT and keep the matter under constant review until the situation returned to normality.

The representative of Spain took the view that the reduced competitiveness of American products on world markets was due to internal, not to external trade factors. The fact that the balance of trade was negative was temporary and accidental. The import surcharge measure taken by the United States was not fully justified, especially in the light of the fact that it represented a serious threat to trade liberalization. With regard to his own country, he pointed out that the import surcharge was creating great difficulties and was heavily prejudicing Spain's exports to the United States. This was all the more serious since his country had suffered since 1961 heavy and increasing deficits in its trade with the United States. He appealed to the United States to exempt imports from developing countries from the import surcharge on the grounds of Part IV of the General Agreement.

The representative of Sweden recalled that, in the Council, his delegation had drawn attention to a number of points relating to the United States surcharge. On this occasion, he wanted to stress one of these points, that is the long-term consequences for world trade of the measures taken by the United States in August.

The general effects of a measure of this kind, taken by the country with the strongest economy in the world, were very dangerous, since they could lead to a resurgence of protectionism, to new trade barriers and to shrinking world trade. This trend would be the opposite to what was necessary, namely, further moves towards world trade liberalization. The surcharge constituted a grave danger for continuing world trade liberalization. It could easily result in damage which would greatly exceed any of its possible positive effects.



The Swedish representative further presented some figures illustrating the importance of the trade between the United States and Sweden and the impact of the import surcharge. Imports to Sweden from the United States rose from \$507 million in 1969 to \$609 million in 1970, that is by 19.8 per cent. During the same time, Sweden's exports to the States increased from \$356 to \$454 million, or by 13.5 per cent.

Only some 4 per cent of his country's exports to the United States in 1970 would be exempted from the import surcharge, implying that about \$436 million would fall under it. Of this figure around \$135 million would benefit from a reduced surcharge, and the main part of this lower rate lies at a level between 6 and 7 per cent, which was equivalent to about 2 per cent of the gross national product.

Sweden thus had obvious reasons for grave concern with regard to the imposed surcharge. It would naturally be highly detrimental to exports to the United States, even if it was now difficult to state the exact effect of the measures applied.

The representative of Switzerland said that trade measures and particularly the surcharge could be considered - as appears to have been the opinion of the Fund - only as a substitute for other measures to which the United States did not or could not resort.

He regretted the unilateral character of the surcharge, a measure which disrupted the balance of benefits and concessions resulting from a series of long and difficult multilateral negotiations under the rules of the GATT.

The situation was particularly dangerous because it could provoke a chain reaction of counter measures. It was therefore essential that the United States' difficulties be dealt with on the basis of the principles of international co-operation. This appeared all the more possible having regard to the decisions taken by certain governments - among which his own - in the monetary field and the readiness of others to consider appropriate steps.

As regards the effects of the surcharge, he emphasized the serious damage to third countries, a fact that appears not to have been taken duly into account by the United States Government. In any case, it appeared that the surcharge, apart from its lack of conformity with GATT, was inadequate given the limited incidence of the trade balance on the overall balance-of-payments situation. The surcharge should therefore be eliminated.

The representative of Trinidad and Tobago endorsed the views expressed by the representative of Chile.

He noted that in the Council, the United States spokesman had said that his Government had not invoked a particular article of the General Agreement because it considered that the situation transcended any particular article. However, two principles in the General Agreement concerning developing countries should be borne in mind.

The first was the principle of separate and special treatment for developing countries, as contained in Part IV, which had recently had a practical demonstration in the initiation of the Generalized System of Preferences, a principle recognized in the terms of reference of the Working Party. The second principle was that of discrimination in favour of developing countries. He could not understand the United States argument that the surcharge had to be applied in a non-discriminatory manner.

He asked the United States to what extent developing countries' trade with the United States had contributed to the United States balance-of-payments deficit, and to what extent the surcharge on imports from developing countries was expected to contribute to elimination of the deficit.

Developing countries shared the general apprehension that if the surcharge was not quickly removed in its entirety, there was a risk of entering a new era of protectionism and even of a trade war. Eventualities of this kind would obviously damage the prospects of the second Development Decade which had just commenced. Thus, while repeating the request made in the Council for the immediate removal of the surcharge on imports from developing countries, his delegation fully endorsed the appeal for its total removal at the earliest moment.

The representative of the United Kingdom agreed with the Fund's conclusions. He observed that earlier action by the United States to correct its persistent deficit would have enabled the shock to world trade to have been avoided and that the United States was in a position in which it had to act quickly, given the situation faced by it in August, and, in particular, given the loss of confidence in the dollar. He noted that both the United States and the IMF had linked the duration of the surcharge with action on exchange rates. The United States surcharge was imposed in similar circumstances to that introduced by the United Kingdom in 1964, but with a different objective; in the United Kingdom case the object had been to maintain the parity of the pound whereas in the United States case the object was to bring about exchange rate adjustments though the United States had chosen not to devalue the dollar. The need was to restore confidence in the dollar and the import surcharge could be regarded only as a stop-gap.

The justification for the surcharge would disappear as soon as short-term action in the exchange field was agreed. The United Kingdom representative hoped that this might occur quickly in international discussions which were in progress. Moreover, the longer the surcharge lasted, the more difficult its removal would be, and its very existence might actually inhibit necessary agreements or actions in the monetary field. It was necessary that the surcharge should be removed as soon as possible and it was encouraging that the GATT and the Fund thought alike on this essential point.

The representative of Yugoslavia recalled the statements in the Council by his delegation and by the spokesman of the Informal Group of Developing Countries. Like other developing countries, Yugoslavia was seriously affected by the surcharge, having regard to the fact that an estimated 84 per cent of its exports to the United States were affected by the surcharge. Yugoslavia strongly believed that the surcharge should be of a very temporary character and that products exported from developing countries should be exempted. The Yugoslav delegation intended to pose a number of questions to the United States delegation in the course of the discussion, to clarify points of interest to Yugoslavia.