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C A B I N E T.

DISCRIMINATION AGAINST UNITED KINGDOM EXPORTS.

Memorandum by the President of the Board of Trade.

It has for a long period been a fundamental feature of our economic policy that we should secure ourselves against any attempt on the part of any foreign country to differentiate against United Kingdom goods in the matter of customs duties. There are, in fact, now in force commercial treaties or other arrangements with no less than 42 foreign countries which provide for the mutual accord of most-favoured-nation treatment in this respect. In addition there are treaties with four countries (Abyssinia, Liberia, Morocco and Muscat) which give us this right unilaterally there being no corresponding obligation in these cases on our part. It is true that in some of these treaties special exceptions from the general most-favoured-nation principle are admitted, the principal exception being that under which certain countries are allowed to give special preferences to countries geographically associated with them or connected with them by long historical association. These exceptions are, however, of little practical importance and it is broadly speaking true that until recently we could claim that United Kingdom goods enjoyed most-favoured-nation treatment practically throughout the world and that this treatment was in most cases secured by treaty.

The principal country with which no such treaty engagement has been in force is France, but we have for some fifty years in fact enjoyed most-favoured-nation

treatment for our goods in France by virtue of a French law and we had come to believe that there was a tacit understanding to this effect which had all the practical force of a treaty. It was therefore a rude shock when the French recently decided to submit the goods of this country to an additional surtax of 15 per cent ad valorem on the ground that our departure from the gold standard gave us an advantage which required to be countervailed. Considerable discussions have taken place in regard to this measure of discrimination on the part of the French Government and at an early stage a fairly broad hint was given to them that persistence in this course could only lead to retaliatory measures on the part of this country. These probable consequences have been further emphasised informally both by Sir Frederick Leith-Foss during one of his recent visits to Paris and also by my Department in conversations which have taken place with the French Commercial Attache. There is good reason to hope that the French Government may at last be yielding to our representations, but there is on the other hand considerable risk that other countries may seek to follow the French lead.

It is impossible to over-emphasise the importance of maintaining the position that United Kingdom goods should meet those of their foreign competitors on the same footing in every foreign market. We have heard much of the obstacles which high foreign customs tariffs impose on the development of our export trade, but serious as these obstacles no doubt are, they are altogether insignificant compared with the disadvantages we should suffer were the goods of our competitors to enjoy the advantage of lower customs rates than those imposed upon ours. Now that we are about to institute a general tariff system in the United Kingdom there is, perhaps, more likelihood than in the past that foreign countries may consider themselves aggrieved

by such measures as we may decide to adopt, and that we may be met with a threat that if we persist in these measures commercial treaties will be denounced and discrimination be instituted against us. It, therefore, appears to me to be essential that as part of our general fiscal policy we should have a defensive weapon in reserve. I am the last person to advocate any launching out on our part into tariff wars, but I am convinced that the surest method of preventing any other country starting them to our detriment is that we should be able to point to specific legislation which gives us means of retaliation.

Apart from the possibility of discrimination against us in the matter of customs duties there is a possibility that discrimination may be exercised against us in connection with the working of a quota system. There are signs of the development of a form of protection by which a country regulates the imports into its territories, not by the imposition of customs duties, but by limiting the quantity imported. France has already made considerable strides in this direction. She began by limiting the imports of coal and fish and has now extended the system to a wide range of articles. Moreover it has been indicated to us that if the 15 per cent surtax is dropped the quota system will probably be considerably extended. In Estonia, Persia and Turkey imports are regulated by licence, and in Poland a fully developed quota system has for some time been in operation, whilst the Spanish and Hungarian Governments have recently notified us of the probable adoption in Spain and Hungary of similar systems. It is obvious that under such a system there are considerable possibilities of discrimination against ourselves; the quantities of particular goods included in the quota allotted to this country may be altogether out of proportion to the trade which we have previously enjoyed. Any measure, therefore, that we adopt to arm ourselves against discrimination in the matter of customs duties must give us powers also in the event of discrimination being exercised in the matter of import restrictions.

In the light of these considerations I have had a Bill drafted which gives power to the Board of Trade to take special action against goods of any foreign country which exercises discrimination against our goods whether by way of the imposition of duties or by the prohibition or restriction of importation or otherwise.

A Bill on these lines was originally prepared with a view to its introduction as a separate measure, but I would now propose to my colleagues that it should not take that form but that its contents should be incorporated in the general tariff measure the immediate introduction of which is now under consideration.

The main purport of the Bill is to permit, in the event of such discrimination as is above referred to being exercised against our goods, of special duties (not exceeding 100 per cent. ad valorem) being imposed on goods of the offending country. The Bill as drafted, however, provides for the possibility of an alternative form of retaliatory action. I understand that the Treasury took the view that in certain cases it might be preferable not to impose a special duty on the foreign goods concerned, but to apply a special restriction to the quantity that might be imported. This view was thrown out originally when the possibility of being forced to retaliate against French goods was under consideration, and it was thought that it would be an advantage if we were still able to collect a certain amount of the duty leviable on such a commodity as wine, rather than to proceed by the imposition of excessive duties which might reduce the revenue to insignificant proportions.

In this connection, however, I would observe that, whilst customs duties are specifically excluded from the scope of the Anglo-French Convention of 1882, the Convention precludes

us from discriminating in the matter of prohibition or restriction against French goods, so that before we could apply a special quota system to French goods alone we should have to denounce the Convention which would in any case require three months' notice. If, therefore, the negotiations with France should fail to result in an agreement, whilst it would be possible to impose special duties on French goods at once under the legislation now suggested, it would not be possible to impose prohibitions or quotas until the Convention no longer operated.

Apart from this consideration I am not altogether satisfied that a quota system is one which it would be desirable to introduce into this country even for the special purpose of retaliating against an unfriendly foreign country. It is one which involves the setting up of complicated machinery and at best seems to me to be a crude device that would work unfairly as between trader and trader in this country. On the whole, therefore, subject to any observations which the Chancellor of the Exchequer may have to offer I should be disposed to recommend that the quota and licensing provisions should be dropped and that the powers to be conferred on the Board of Trade should be confined to the issue of Orders imposing customs duties.

W.R.

Board of Trade,
27th January, 1932.