18 March 1957

INTERNATIONAL TRADE - 1956

A Report by the Secretariat on Trade, Trade Barriers and the Activities of the CONTRACTING PARTIES

The draft of Part III which deals with the activities of the CONTRACTING PARTIES is attached hereto. Any contracting party wishing to make suggestions is requested to do so not later than 15 April 1957.
In 1957 the CONTRACTING PARTIES will be confronted with challenging problems. The establishment of a common market of six European countries, probably to be followed by the creation of a wider free-trade area in Europe, will involve far-reaching adjustments in the trading relations of the participating countries with other contracting parties to the General Agreement. A satisfactory adjustment of these problems in the GATT framework is essential if the search for regional integration is not to risk a disintegration of the worldwide multilateral trading system which has been so painfully re-established in the years since the War. The GATT recognizes the desirability of increasing freedom of trade through agreements for economic integration and its rules in this field provide a basis for the mutual reconciliation of the interests involved.

It is unfortunate, on the eve of tackling such basic and far-reaching problems, that the GATT should still lack the reinforcement of its authority which could be conferred by the establishment of the Organization for Trade Cooperation and the entry into force of the important amendments agreed upon in 1955. The decisive word in this matter still remains to be spoken by the United States. At the time this report goes to press legislation approving United States participation in the OTC is pending in Congress, backed by urgent recommendations for favourable action from the United States Administration.

The CONTRACTING PARTIES maintain close working arrangements with other international organizations having an interest in world trade. The most significant development in 1956 was the growing contact and collaboration with the United Nations Economic Commissions for Latin America and for Asia and the Far East. The GATT secretariat gave assistance on trade matters to these Regional Commissions and their Trade Committees and contributed to their work on commercial policy questions.

In 1956 the CONTRACTING PARTIES began to take an appropriate part in the programme of the United Nations Technical Assistance Administration by providing a course of studies in commercial policy. During the first year of the programme nine officials who will have responsibilities in the framing of trade and tariff policy spent six months with the GATT secretariat studying the objectives and provisions of the General Agreement and its practical application. The officials who participated in the scheme in 1956 came from Ceylon, Chile, Cuba, Greece, Haiti, India, Indonesia, Pakistan and Turkey. The governments of these countries reported at the Eleventh Session that they had found this programme of substantial help to them and the continuation of the scheme was unanimously approved. During the first six months of 1957 officials from Brazil, Chile, Greece, Malaya, Nicaragua and Rhodesia and Nyasaland are participating.
5. Before describing the principal questions taken up at the Eleventh Session, it should be recalled that a Tariff Conference was convened in 1956 by the CONTRACTING PARTIES as a further step towards their objective of reducing by negotiation the customs barriers to world trade. The circumstances in which the Conference was held were described in last year's report which was written as the Conference was drawing to a close. That Conference, in which twenty-two of the contracting parties participated, resulted in the exchange of further concessions in the form of reductions in rates of duty and bindings of duties against increase, thus further enhancing GATT's stabilizing influence on customs tariffs. Some four-fifths of international trade is conducted by the contracting parties to the General Agreement and rough estimates indicate that the customs treatment accorded to about a half of this trade is now frozen against increase in the schedules to the Agreement.

6. The Eleventh Session of the CONTRACTING PARTIES was held in Geneva from 11 October to 17 November 1956. The representatives of the thirty-five governments which are contracting parties to the Agreement dealt with an agenda of more than thirty items relating to the administration of the Agreement or in connexion with the rights and obligations of contracting parties under its provisions. The principal questions discussed at the Eleventh Session are described below. Between the regular sessions of the CONTRACTING PARTIES an Intersessional Committee deals with matters requiring urgent attention and before each session the Committee meets to prepare the agenda, to clarify and define the issues that will be coming forward for discussion, and to arrange for any preparatory work that would facilitate their consideration.

Arrangements for Swiss Accession

7. Switzerland is the most important trading country in Europe that is not a contracting party to the General Agreement, and in relation both to national income and to population her foreign trade is among the highest. It has always been a matter of concern to the CONTRACTING PARTIES that this key trading country has not acceded to the GATT. The Swiss Government, on its part, has followed with great interest the activities of the CONTRACTING PARTIES and, in general, has pursued a liberal commercial policy and has supported the aims of the General Agreement. In 1956 the principal obstacles to Switzerland's acceptance of the GATT obligations were narrowed down and an arrangement was made whereby Switzerland may adhere to the Agreement on a provisional basis in the near future.

8. In the first place, the Federal laws require the Government to take protective measures in the interests of the farming population. But the traditional method of complying with this mandatory requirement - by the quantitative restriction of imports - is contrary to the rules of the GATT. Secondly, the Swiss Government, which has not become a member of the International Monetary Fund, has been reluctant to enter into a special exchange agreement with the CONTRACTING PARTIES, as required by the GATT for non-Fund members, but would now be prepared to give an undertaking that its
action in exchange matters would be in accord with the intent of the General Agreement. This second difficulty has now been eliminated by the precedent set in the waiver granted by the CONTRACTING PARTIES to New Zealand, which also has not joined the Fund.

9. There was also a third obstacle to Swiss accession in the fact that Switzerland's tariff, being composed of specific duties, was in need of revision to adjust the rates to present-day prices and to replace the out-of-date nomenclature. Thus, until the tariff was revised, Switzerland was not prepared to enter into negotiations for the reduction and binding of rates of duty. With the revision of the tariff nearing completion, and with the disappearance of the monetary policy difficulty mentioned above, the Government of Switzerland approached the CONTRACTING PARTIES at the Eleventh Session enquiring whether arrangements could be made for tariff negotiations and for provisional accession to the GATT while reserving other problems for solution at a later date.

10. This request caused some difficulty for many contracting parties, particularly those interested in the export of agricultural produce, as they saw the danger of a further erosion of the GATT rules as they apply to agricultural products and could see no prospect of an early solution. However, the CONTRACTING PARTIES, desiring to have Switzerland accede to the Agreement as soon as possible, agreed that if tariff negotiations could be successfully concluded an arrangement would be made for provisional accession for a period of two years. It is envisaged that this provisional arrangement will be subject to a reservation by Switzerland permitting the maintenance of protection for agriculture by means of non-discriminatory import restrictions but with an undertaking to consult with the CONTRACTING PARTIES with a view to finding a satisfactory solution for this problem compatible with GATT principles, thus opening the way to definitive accession. It is understood that if Switzerland accedes provisionally with this reservation other contracting parties will have the right to make consequential reservations relating to the application by them of the provisions of the Agreement to Switzerland. Soon after the new customs tariff has been approved by the Swiss Authorities, negotiations will take place and, if these are successfully concluded, Switzerland will enjoy a temporary provisional status in the GATT and will participate in the work of the CONTRACTING PARTIES.

The Brazilian Tariff

11. The Government of Brazil is engaged on a project of tariff reform which gives rise to important questions affecting its obligations under the General Agreement. The Brazilian tariff, like that of Switzerland, consists of specific rates of duty and an out-of-date nomenclature. The new tariff, which has been submitted to Congress for approval, will substitute ad valorem for the specific duties and in most cases will substantially increase their incidence. With changes in the price level and the decline in the value of the cruzeiro the protective effect of the existing specific tariff has been largely lost and in recent years protection for domestic producers has been given chiefly by
import restrictions or through the exchange control operating on payments for imported goods. In addition, the Government is in urgent need of more revenue. In presenting this situation to the CONTRACTING PARTIES at the Eleventh Session, the Brazilian Government explained that the revision of the tariff was associated with other urgent measures of fiscal reform and, when considered together with the proposed simplification in the exchange control system and changes in consumption taxes, should not result in an increased burden on imports; as these changes in the fiscal structure amounted, in effect, to the transfer of various protective measures to the customs tariff, they should not reduce the volume of trade, increase the cost of imported goods or alter the composition of imports.

12. The rates of duty affecting a large part of Brazil's trade, however, are bound against increase in Brazil's schedule annexed to the General Agreement. The proposed modification of these duties, therefore, should not be introduced except in accordance with the procedures laid down in the GATT for the renegotiation of tariff concessions. But, in view of the urgent circumstances, the Brazilian Government asked the CONTRACTING PARTIES to be allowed to put the new rates into force immediately the tariff has been approved by Congress, on the understanding that Brazil would proceed with the renegotiations as speedily as possible, and to remain a contracting party pending the establishment of a new basis for participation in the General Agreement.

13. Recognizing the need for the revision of an outdated tariff and the desirability of a simplified system of controls and taxes, the CONTRACTING PARTIES agreed to waive Brazil's tariff commitments on the understanding that other contracting parties would be free to regard as suspended the concessions which they had previously granted to Brazil. The negotiations for the new schedule of bound rates are to be completed within a year of the enactment of the tariff. They will begin shortly after the tariff has entered into force.

Customs Unions and Free-Trade Areas

14. One of the most important developments in Europe since World War II is the endeavour of Belgium, Luxemburg, the Netherlands, France, Germany and Italy, mentioned in the introduction to this Part of the Report, to form an economic and customs union. These six countries made a start in this direction four years ago by creating a common market throughout their territories for coal and certain steel products and have felt encouraged by the success of that experiment to extend the integration of their economies to a broader field. At a Conference in Messina in 1955, a committee was appointed to study the methods by which this aim could be achieved, and at Venice in 1956 the Foreign Ministers of the six Governments decided to proceed with the drafting of a treaty. The treaty - entitled the treaty was signed in March 1957 and has been submitted to the six Governments for ratification.

15. The proposal to form a customs union among this group of important trading nations, because of its inevitable effects on world trade, raises the most complex issue faced by the CONTRACTING PARTIES since the General Agreement came into
force. The Agreement has specific provisions relating to the formation of customs unions and requires the CONTRACTING PARTIES, in safeguarding the rights and benefits of individual governments under the GATT, to examine carefully any such plan to ensure that it will in fact result in a full union within a reasonable period of time. At the Eleventh Session the six signatory governments agreed to submit the Treaty to the CONTRACTING PARTIES to afford them an opportunity to examine it in accordance with the procedures laid down in the Agreement.

16. These plans of the Benelux, French, German and Italian Governments have stimulated an interest in other countries of Western Europe in the possibility of welding their national economies into a larger unit to obtain the benefits of large-scale production and bigger markets. The proposal now under discussion among the members of the Organisation for European Economic Co-operation envisages the formation of a free-trade area embracing most of Western Europe including the customs union of the six countries. There would be free trade within the whole area, but the countries which are not in the customs union would maintain their national tariffs for imports from the rest of the world. In February 1957, the Council of the OEEC agreed that this plan would be technically feasible and decided to go ahead with the drafting of a treaty which is to be ready by the end of July. Contracting parties planning to form a free-trade area are required, as with a customs union, to submit their plans for examination by the CONTRACTING PARTIES.

17. For many years the five Republics of Central America (El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua) have been endeavouring to forge closer economic ties as a step towards restoring the federation that existed in the nineteenth century. Some of these countries have entered into bilateral free-trade arrangements with the formation of a customs union as the ultimate objective, including the Free-Trade Area Treaty between Nicaragua and El Salvador which entered into force in 1951 and was submitted to the CONTRACTING PARTIES in view of Nicaragua's obligations as a contracting party to the General Agreement.

18. The five Republics have now drafted a Treaty containing a plan for the establishment of a multilateral free-trade area embracing all five countries. It provides for free trade in a specified range of products which have entered significantly in the trade among them or to be produced by industries set up for regional development. Whereas the Nicaraguan-El Salvador Treaty covers substantially all the trade between the two countries, the multilateral Treaty for the time being is limited in scope and was approved by the CONTRACTING PARTIES at their Eleventh Session as an interim agreement intended to lead to the formation of a free-trade area within a period of ten years. The Nicaraguan Government, as a contracting party, has undertaken to submit an annual report on the progress made toward the completion of the free-trade area. In approving this Treaty the CONTRACTING PARTIES recognized the desirability of assisting the five Republics to bring about a unification of their commercial policies and a co-ordination of their economic development.
Commodity Trade

19. Instability of prices of primary commodities has been a matter of great concern to the governments of those contracting parties whose export trade is largely composed of industrial raw materials and foodstuffs and whose economies are therefore affected by price fluctuations on world markets. Both their national income and their balance-of-payments position are subject to rapid change in accordance with their export earnings. Although other intergovernmental organizations have taken an interest in this question, these governments have consistently urged that the CONTRACTING PARTIES should concern themselves with the solution of problems in this important area of international trade.

20. In recent years the CONTRACTING PARTIES have endeavoured to find means of providing permanent arrangements for dealing with these questions and of establishing principles and objectives to govern international action. A special agreement on commodity arrangements was drafted, but at the Eleventh Session it was acknowledged that agreement was unlikely to be reached on these lines. The CONTRACTING PARTIES did agree, however, that it is appropriate for them to examine at their annual sessions the general developments in international trade in primary products on the basis of an annual report by the GATT-appointed Chairman of the United Nations Interim Co-ordinating Committee for International Commodity Arrangements. They also recognized that their functions are sufficiently broad to enable them to deal with specific problems in this field of trade which may be put forward for discussion by individual governments. Apart from this general competence, there may be occasions for contracting parties to bring up such problems in the context of the various consultation procedures provided for in the General Agreement. If such matters are brought forward and appear to justify some international corrective action, the CONTRACTING PARTIES will look first to other competent organizations to take the necessary initiatives, but in the last resort, if such organizations are not in a position to act, they may themselves initiate action.

21. At each annual session the CONTRACTING PARTIES review the action taken by various governments in the disposal, by exportation, of accumulated surpluses of agricultural products. In accordance with a Resolution adopted in March 1955 a contracting party disposing of such surpluses is expected to consult with other interested parties with a view to preventing disturbances in world markets. At the Eleventh Session particular interest was shown in the measures introduced in the United States to reduce the surpluses which have been purchased by the Commodity Credit Corporation in conjunction with the price-support programme and in the efficacy of the consultation procedures. The surplus stocks exported by the United States in 1956 under programmes of mutual aid, famine relief, sales against payment in local currency etc., have been described in an earlier section of this Report.
Quantitative Restrictions

22. Twenty-five of the governments which are contracting parties to GATT still maintain import restrictions to protect their balances of payments and monetary reserves and twenty-three of these apply their restrictions in a discriminatory manner. In their seventh annual review on discriminatory restrictions, the CONTRACTING PARTIES found that, following an improvement in monetary reserves, many countries had made further progress in the relaxation of restrictions and in softening the degree of discrimination against imports from certain countries and currency areas. The gold and dollar reserves of countries other than the United States increased substantially in 1956, though this improvement was not equally shared and the position of some countries actually grew less favourable. Most countries of Western Europe were able to remove the restrictions on many articles for which payment has to be made in hard currency and for many others the administration of licensing controls was rendered more liberal. But in countries more dependent upon the export of primary commodities little if any improvement took place.¹

23. Five countries applying discriminatory restrictions consulted with the CONTRACTING PARTIES at the Eleventh Session, and in addition Australia consulted concerning the intensification of restrictions carried out in July 1956. In all these consultations, as well as in the review of discrimination, referred to above, the CONTRACTING PARTIES were greatly assisted by representatives of the International Monetary Fund.

24. While the annual review of the discriminatory application of restrictions covers an important aspect of the import control systems maintained by various governments, it does not include a comprehensive examination of the restrictions themselves. The last general review of import restrictions maintained for balance-of-payments reasons was carried out in 1951. Since then conditions in production and trade have changed substantially. World trade has greatly expanded, industrial production in the countries most affected by the Second World War has been restored and extended and the financial position of most countries has improved. In these circumstances an exchange of views between a country maintaining restrictions and those whose exports are thus curtailed should be mutually beneficial. It would afford an opportunity for discussion of the difficulties of the importing country and of the prospects for an improvement in its balance-of-payments position, for consideration of alternative measures that might be employed to deal with the problem, and for an examination of the actual system and method of restriction. The effects on trade including, particularly, the protection incidentally afforded to domestic producers could also be examined. The provisions of the General Agreement require that restrictions maintained for financial reasons shall be removed as soon as there is no

¹ The report prepared by the CONTRACTING PARTIES has been published in the Fifth Supplement to the Basic Instruments and Selected Documents and is accompanied by a description of the restrictions maintained by the countries concerned. Developments in 1956 in the application of import restrictions and in the use of bilateral trade agreements are described in Part II of this Report.
balance-of-payment justification for their maintenance, and the contracting parties have always recognized that such restrictions should not come to be regarded as a normal instrument of commercial policy. For these reasons the CONTRACTING PARTIES decided at their Eleventh Session to conduct another general examination of import restrictions by inviting the governments concerned to consult with them during 1957. A special committee has been appointed to conduct these consultations, of which about twenty will be held in June and October.

Settlement of Differences

25. Several complaints that action by a contracting party had caused a nullification or impairment of benefits which other contracting parties should derive from their adherence to the General Agreement, or was otherwise injurious to their trade, were brought before the CONTRACTING PARTIES at their Eleventh Session. In the first instance, such differences should be the subject of bilateral consultations between the governments concerned, but if no satisfactory settlement is reached they can be referred to the CONTRACTING PARTIES for consideration. Having examined a complaint, the CONTRACTING PARTIES can give rulings and make recommendations, or, if they consider the circumstances warrant, they can authorize the complainant to suspend the application of some of its obligations to the trade of the contracting party concerned. In only one instance have the CONTRACTING PARTIES been asked for such authority, namely by the Netherlands because of the damage caused to their export trade by the United States import restrictions on dairy products; at the Eleventh Session, as in several preceding years, the CONTRACTING PARTIES authorized the Government of the Netherlands to place a limitation on imports of wheat flour from the United States.

26. Three of the complaints examined in 1956 had been on the agenda of previous sessions and the governments concerned had undertaken to rescind the measures or to seek parliamentary amendment of the laws under which the action had been taken. Two of these concerned taxes imposed by the Government of France. The special temporary compensation tax on imports, which had been imposed on a wide range of products to replace the quantitative restrictions removed under the liberalization programme of the OEEC, was relaxed in some degree in 1956, but at the Eleventh Session the French Government explained the financial difficulties which interrupted the process of removal and prevented the Government from accepting commitments as to the further elimination of the tax in the near future. The CONTRACTING PARTIES expressed the hope that France would nevertheless proceed as soon as possible with a progressive and rapid elimination of the tax. At a previous session France had recognized that the increase in the stamp tax was in excess of that which would be warranted by the cost of the services rendered by the customs and was intended to provide revenue for other purposes. The Government undertook to secure the withdrawal of the increase. The third case was that of certain internal taxes in Brazil which had been modified in 1948 in such a way as to increase the element of discrimination against imported products. The
Government of Brazil undertook to secure the revision of the tax laws along with the introduction of the new customs tariff. These three complaints have been described in previous Reports.1

27. Four other complaints were brought forward for the first time but were not examined in detail as the governments concerned undertook to pursue further their bilateral discussions with a view to seeking a settlement. In 1956, both the French and Chilean Governments introduced a tax on automobiles which appeared to the Government of the United States to impair the benefits of the bindings of rates of duty agreed upon in GATT tariff negotiations. The Netherlands complained that the compensatory turnover tax imposed by the Federal Republic of Germany on imported printed matter was applied in a manner contrary to the provisions of the Agreement relating to national treatment. And the Danish Government informed the CONTRACTING PARTIES that it wished to enter into consultations with the Government of the United States concerning injuries caused to its commercial interests by a subsidy paid on shipments of poultry to Germany. If these complaints are not settled in consultation, they may be brought forward at the next session for consideration by the CONTRACTING PARTIES. Finally, a complaint by Germany that the Greek Government's introduction of a new duty for long-playing records which was higher than the GATT binding of the rate of duty on gramophone records was referred to the Intersessional Committee.

Other Questions

28. Under the General Agreement the contracting parties undertake to observe agreed rules for commercial policy and they accept limitations on the measures they may take affecting their external trade. Although the GATT thus lays down a firm code of conduct, the CONTRACTING PARTIES have the power to grant derogations from the rules to take account of special problems of particular countries and to permit action which would not otherwise be permitted when considered desirable in the interests of world trade or economic development. In addition, the CONTRACTING PARTIES from time to time undertake studies of commercial policy questions and of problems arising in connexion with national customs laws and regulations. The more important matters under these heads which were discussed at the Eleventh Session are enumerated below.

Waivers and Releases

29. When the CONTRACTING PARTIES grant a waiver from the obligations of the Agreement they generally require the government concerned to report annually on the action it has taken and, if the waiver is of limited duration, on the steps taken towards the removal of those measures which are not in conformity with the Agreement. These reports are examined at the regular sessions of the CONTRACTING PARTIES. Perhaps the most important waiver was the one granted to the member States of the European Coal and Steel Community for the establishment of the common market in those products. The reports submitted under this waiver afford opportunities for countries interested in trade in these products.

either as exporters or as importers, to discuss questions relating to commercial policy both with the member States and with the High Authority of the Community. The questions examined, as described in previous reports in this series, have included the restrictions on exports of scrap, the availability of coal for export and, especially, the export prices for steel products. At the Eleventh Session the export prices for coal and coke were examined for the first time; the examination of the report facilitated the settlement of several outstanding questions; and the Governments of Austria and the United States were able to report a favourable outcome of their negotiations for duty reductions on steel products which had been conducted at the 1956 tariff conference with the High Authority acting on behalf of the member States.

30. Two other important waivers are those granted to the United States and Belgium, the former, in connexion with import restrictions maintained under the Agricultural Adjustment Act to protect price-support programmes, and the latter, to allow during a fixed period the maintenance of restrictions on imports of certain agricultural products. These waivers were described in previous reports in this series. The report submitted by the United States to the CONTRACTING PARTIES at the Eleventh Session showed that, although there had been no intensification of the restrictions, the only progress made towards relaxation had been a temporary suspension of the control on peanuts. Contracting parties were particularly interested in the steps being taken by the United States Government to reduce acreage and production through the Soil Bank Programme and in the special studies of the price-support and surplus-disposal programmes that had been undertaken. The first annual report submitted by the Belgian Government showed that a few of the import restrictions had been removed and that there had been some relaxation of the controls on several other products; in addition, owing to adverse seasonal conditions, freer importation of some cereals, fruit and vegetables had been allowed, but the Government could give no assurance that these relaxations would be maintained until the full elimination of the restrictions. In 1957 it is expected that Belgium will be able to give more information concerning its plans for harmonizing agricultural policies with those of the Netherlands, its partner in the Benelux Customs Union.

Customs Administration

31. In 1952 the CONTRACTING PARTIES recommended the abolition of consular invoices and visas. A number of countries have complied with this recommendation and others are taking steps to do so in the near future, but for some countries, particularly in Latin America, compliance presents greater difficulty. The existing situation was examined at the Eleventh Session and contracting parties still applying consular formalities were requested to examine urgently the possibility of introducing measures for their abolition or reduction. At the request of the International Chamber of Commerce the CONTRACTING PARTIES have undertaken a study of laws and regulations which require the marking of imported goods with an indication of their origin, and, at the request of the Governments of Norway and Sweden, the secretariat has been asked to analyze the laws of various countries providing for the imposition of anti-dumping and countervailing duties. These questions will be further examined at the Twelfth Session in October 1957.