Regional Co-operation in Trade Matters and World-wide Co-operation in the GATT

After pointing out that the foreign trade of the OEEC countries amounts to 42 per cent of world trade, Mr. Wyndham White says that it is hardly surprising that throughout the decade in which GATT has been in operation European trading problems have been in the forefront of the work of the CONTRACTING PARTIES to GATT. In fact, the special trading relationships between the European countries have had to be fitted within the broader international obligations of these countries as expressed in the GATT. This interplay between regional co-operation in trade matters and co-operation on a world-wide basis in the GATT provides encouraging evidence for those who have maintained that regionalism, if appropriately confined, can work side by side with, and contribute to, the search for that wider integration which it is the goal of such institutions as the GATT to promote. Thus it is of more than academic interest to trace historically the role played by Europe and by European problems in the work of the GATT.

The Active Role of the European Countries in Drafting the Havana Charter

Seven European countries appointed powerful and highly-qualified delegations to take part in the Preparatory Committee (appointed by the United Nations Economic and Social Council) which worked during 1946-1948 to draw up
the Havana Charter. In the framework of this projected international code
to provide the basis for a world-wide multilateral trading system, the
European countries (led by the United Kingdom and France) pursued certain
particular objectives: an immediate objective was to obtain sufficient
elasticity in the rules relating to the use of quantitative restrictions so
as to give them adequate freedom of action to deal with their balance of
payments and resorvo problems in the transitional period; a longer term
objective (for the purposes of the present discussion) was the securing of
leeway for the eventual conclusion of regional integration arrangements in
the form of customs unions and free-trade areas. In this field the French
delegation was particularly active and there was close collaboration between
the French and United Kingdom delegations. The speaker goes on to describe
how the terms of what was to become GATT Article XXIV (which deals with the
establishment of customs unions and free-trade areas) were worked out, thus
establishing the framework within which, in later years, the Rome Treaty and
the EFTA Convention would be negotiated. Curiously enough, the speaker says,
the European countries showed little interest in the escape clause for
agriculture which was written into GATT Article XI (which contains the general
ban on the use of quantitative restrictions as an instrument of commercial
policy). The relative disinterest of the United Kingdom is, he says, probably
explained by the fact that the use of quantitative restrictions for agri­
cultural protection did not loom large in United Kingdom thinking which has
always been directed towards the tariff and direct subsidies.

The Launching of the Marshall Plan and the Establishment of the OEEC

The closing stages of the Havana Conference coincided with the launching
of the Marshall Plan and the establishment of the OEEC. The energies and
interest of European countries were overwhelmingly concentrated on Paris.
Nevertheless, the OEEC Convention (April 1943) echoes the broader aspirations
of Havana; Article 6 of the Convention states that the OEEC members will
"co-operate with one another and with other like-minded countries in reducing
tariff and other barriers to the expansion of trade, with a view to achieving
a sound and balanced multilateral trading system as will accord with the
principles of the Havana Charter".
The Strengthening of the European Position in GATT

The GATT entered into force on 1 January 1948 and by July 1948 was being applied by twenty-two contracting parties. It is true, the speaker says, that in most countries the effects of the tariff concessions embodied in the GATT were largely nullified by the widespread use of quantitative restrictions. But for Europe the event was of some importance in that, as European productive capacity was restored through the recovery programme financed by United States aid, the exports generated by this recovery were assured - through the GATT tariff reductions and bindings - of a much easier access to dollar markets than ever before. This was an essential condition if European recovery was to be accompanied by a restoration of monetary reserves, which was an essential pre-condition of the achievement of the world-wide system of multilateral trade and payments which are the objectives of GATT and the International Monetary Fund.

The European governments were not insensible of the long-term importance of the GATT nor of the more immediate importance of the tariff concessions already negotiated (at Geneva in 1947) or which could be negotiated through its agency. Thus, as a result of the Annecy negotiations (1949), the European contingent was strengthened by the addition of Denmark, Finland, Greece, Italy and Sweden; and still further by the accession of Austria, the Federal Republic of Germany and Turkey following the Torquay negotiations in 1951.

The Discontent of the Low-tariff Countries

During the Torquay negotiations, major European problems began to have an important and direct impact on the GATT. As more and more progress was made with the freeing of intra-European trade from quota restrictions, the discontent of low-tariff countries increased. It seemed to them inequitable that, while reciprocity in quota reduction was accepted as a basic principle of OEEC, there was no corresponding recognition of a similar reciprocity in tariff policy which would require a substantial reduction in the disparity in tariff levels as between the European countries. Further, the successive tariff negotiations in the GATT tended to freeze the high-tariff/low-tariff
pattern. The European countries were forced to conclude that, although the results of the Genova, Annecy and Torquay negotiations had made an important contribution to the reduction of European tariff barriers, they could not be a sufficient contribution to the creation of a single market in Europe. They also thought that more could be achieved in removing the disparities of tariff levels. A year later in 1956 at the GATT sixth session the French delegation put forward a broader proposal for a 30 per cent reduction of tariff levels over a three-year period on a world-wide basis. Under this plan a process of automatic reduction of tariffs in accordance with a common standard would have replaced the system of bilateral negotiations on a product-by-product basis. This promising development (which was accepted in principle by Belgium, Denmark, France, Germany and the Netherlands) came to nothing since it was coolly received by the United Kingdom and proved unacceptable to the United States.

New Forces at Work Towards European Integration

Other forces were at work to give an entirely new turn to events. After the Schumann Plan had been successfully translated into the European Coal and Steel Community, the European integrationists went on to the far more ambitious enterprise of trying to establish a European Defence Community, which however failed. Despite this setback, the impulse towards integration found expression in negotiations for the formation of a customs and economic union. The six countries were fortunate, the speaker says, in having in M. Spaak a man of exceptional drive and intelligence to steer their negotiations to a successful conclusion. The publication of the Messina report in April 1956 and its approval by the six Governments in Venice in May 1956 produced important repercussions in the OEEC. The United Kingdom was now confronted with the prospect of a customs union from which the rest of the OEEC countries would be excluded, and the United Kingdom delegation took a leading part in bringing about the decision of the OEEC in July 1956 to consider the creation of a free-trade area which would include the customs union of the Six and the other OEEC countries. It would be superfluous, the speaker says, to describe the unsuccessful negotiation which ensued or the course of events which led up to the present situation in which the EEC and
EFTA confront one another in Europe, while the rest of the GATT countries consider the adjustments and consequences which these results involve in the broader framework of international trade. The speaker therefore limits himself to describing how the GATT has reacted so far in dealing with these questions and the problems which still appear to remain.

**The GATT vis-à-vis the Problems of European Integration**

(a) **The Waiver Requested by the European Coal and Steel Community.** The GATT was first called on to address itself to problems of European integration when, in 1952, the members of the Coal and Steel Community requested a waiver to enable them to apply the Treaty establishing the Community. This arrangement, since it applied only to a limited sector of the economies of the member countries, was neither a customs union nor a free-trade area within the meaning of GATT Article XXIV. It was clear that a decision by a two-thirds majority would be required. Accordingly, the consideration of the ECSC Treaty would be an important test of the attitude of the GATT to European integration, and the situation was all the more delicate in that there were serious divergencies in Europe about the Community. The attitude of the United Kingdom was initially cool. More serious were the concerns voiced by the Scandinavian countries (Denmark in particular) and by Austria. Despite these anxieties, a waiver was approved by 27 votes to one, with two abstentions. After describing the terms of the waiver, the speaker says that the handling of the Coal and Steel Community, which presented some novel and difficult problems, was an auspicious augury of the success of the CONTRACTING PARTIES to GATT in dealing with problems of regional integration.

(b) **The Rome Treaty establishing the European Economic Community** Throughout their negotiations the countries concerned in framing the Rome Treaty had always in mind that it should be able to stand up to the GATT standards of a customs union and in this, the speaker says, they were highly successful. However, in two respects they were to encounter serious difficulties with their GATT partners, first in relation to the provisions on agriculture and, secondly, the arrangements for the association of their overseas territories with the Common Market. "The first of these is, of
course, part of a more general problem which has hung like a cloud over the GATT for many years." The Six, in their approach to the problems, have taken the bull by the horns and purport to include agriculture in the Common Market through the application of a common agricultural policy which will enable them to suppress tariffs and quantitative restrictions within the Community. "They had, not unnaturally, little success in convincing the agricultural exporters in GATT of the validity of this thesis. The latter consider that the common agricultural policy is likely to involve other forms of control within the Community to replace tariffs and quotas and - still more serious - will require the maintenance and probably the intensification of restrictions on supplies from outside the Common Market."

The association of the overseas territories proved no less controversial, particularly coming as it did at a time when the less-developed countries are becoming more conscious of the importance, for them, of maintaining and expanding their export markets. The inclusion of the overseas territories brought within the scope of the Treaty an important range of products, particularly tropical produce, which is of most vital concern to underdeveloped countries. To them the association appeared to amount to an extension of colonial preference régimes which would divert trade away from them in favour of dependent territories.

Here, therefore, were all the elements of a head-on collision between the Six and the rest of the GATT community. It was averted through a resort to the pragmatic approach which has characterized the work of the GATT throughout its history. The Six reiterated throughout the discussion that as a leading economic power they had responsibilities towards the rest of the world which they were determined to fulfil. But this must be on a voluntary basis, and not under threat of condemnation in the GATT. Accordingly, they were prepared to consult internationally about the common agricultural policy: similarly, they would, through the ordinary consultation procedures of the GATT, examine sympathetically any concrete evidence of damage arising through application of the overseas territories provisions. In the face of this conciliatory attitude of the Six, the CONTRACTING PARTIES to GATT agreed to set aside the legal issues for the
time being and to direct their attention to specific problems which might arise out of the application of the Treaty. As for agriculture, the common policy of the Six will come under scrutiny in the course of the general series of consultations on agricultural policies which are being carried out as part of the GATT programme for trade expansion. The result is, the speaker says, that the question of the compatibility or incompatibility with the GATT of certain aspects of the Rome Treaty has not been pressed to a conclusion.

The Stockholm Convention Establishing the EFTA. The Stockholm Treaty establishing the European Free-Trade Association has also been negotiated with a careful eye on the provisions of Article XXIV of GATT, the speaker says. It is being subjected to a full-scale discussion at the sixteenth session which opens in Geneva on 16 May 1960. The Seven, too, have their problems with agriculture but their solution is a different one. The bulk of agricultural and a number of fisheries products are excluded from the provisions providing for the elimination of tariffs and quotas. The conditions of trade in these products in the Free-Trade Association are to be the subject of bilateral agreements negotiated between the interested countries. This exclusion of agriculture, the speaker says, is bound to be the subject of lively debate in the GATT which requires that the elimination of trade barriers within a customs union or free-trade area shall cover "substantially all the trade".

The Conflict within Europe

The conflict within Europe, which is now openly expressed in the crystallization of the Seven and the Six, has been watched with concern in the GATT. In the first place, when the negotiations for a wider free-trade area broke down "ominous whispers began to be heard of some form of association between the Six and the rest of the OEEC countries which would be neither a free-trade area nor a customs union. These ideas smacked unhealthily of the aspirations which had been nourished in some quarters in Europe, for many years, for a European preferential area linked up in some fashion with the Commonwealth preferential system. The uneasiness in Europe was therefore matched by a general sense of malaise in the wider context of the GATT". Secondly, the CONTRACTING PARTIES have decided to
sponsored a further world-wide tariff negotiating conference beginning in September 1960. To the United States and to other countries the main interest of these negotiations was the opportunity they will afford for negotiations with the Six, who have from the outset expressed their intention of participating effectively in such negotiations. The Seven also welcomed the opportunity of negotiating with the United States; but they were obviously much less interested in the prospect of negotiating with the Six on a most-favoured-nation basis so long as there still appeared to be some prospect of an accommodation between the Six and the Seven. The prospect of this partial abstention of the Europeans from the 1960/61 tariff negotiations was viewed with disquiet in Washington. Even more alarming, the speaker says, was the prospect of a settlement of the differences in Europe in such a way as to involve discrimination against the United States, particularly as that country was contemplating with growing concern a heavy adverse balance of payments accompanied by a substantial running-down of its gold reserves. These were two of the principal factors which lay behind the Dillon mission to Europe in December 1959, and the events that followed upon it. The anxiety of the non-European countries to avoid a discriminatory solution of European trade problems was clearly appreciated by the European countries and this understanding found expression in their decision to invite the Executive Secretary of GATT to participate in the Committee of Twenty-One on European trade problems.

Trade Liberalization and the Elimination of Non-discrimination

As stated above, the European countries at an early stage in the post-war trade discussions showed great interest in flexible rules relating to the use of quantitative restrictions for balance-of-payments reasons. This flexibility was used to good effect in the OEEC programme of trade liberalization. Having successfully confronted the more urgent need of European reconstruction the OEEC embarked energetically on a programme for expanding the trade between its members through the suppression of quota restrictions. The essential preliminary was to provide a suitable monetary basis for trade liberalization and this condition was met by the establishment of the European Payments Union, a multilateral system of payments which had the
effect of rendering the currencies of the Members of the OEEC more or less convertible, inter se, for current transactions. The OEEC then instituted a programme of trade liberalization for the removal by stages, and, on the basis of reciprocity, of import restrictions on trade between Member countries. At the outset - apart from some exceptions in favour of the outer sterling area - the OEEC liberalization measures were confined to the trade of Member countries. In due course, however, as the overall balance of payments of the OEEC countries improved, the liberalization was extended progressively, though at a slower rate, to the trade of the associated countries, Canada and the United States. Finally, the OEEC liberalization programme was overtaken, first by the differences which arose among the OEEC countries and, thereafter, by the general European move to external convertibility when the programme merged into a more general liberalization movement sponsored by GATT and the International Monetary Fund.

While there were some who professed to see a conflict between the GATT obligations and the OEEC liberalization programme, with its frankly discriminatory character, the GATT countries as a whole accepted it as a valuable contribution towards the eventual world-wide liberalization of trade to which GATT is directed. For the non-European countries themselves the obligations of the European countries in the GATT provided a firm basis for their expectation that discrimination would be limited both in scope and duration. This point was brought home with great clarity during the review of the GATT in 1954/55. In the course of these discussions some European countries suggested that even after the restoration of the external convertibility of European currencies, it would be reasonable and desirable to allow European countries to achieve a higher degree of liberalization of their trade between themselves than could be extended to the GATT community as a whole, and that the GATT rule of non-discrimination should be softened so as to permit this. Not unnaturally this suggestion was coldly received by the non-European countries and was withdrawn.

The Restoration of Convertibility

The European countries proceeded to the restoration of the convertibility of their currencies in the winter of 1953/59. In the course of discussions in the International Monetary Fund, and subsequently at the Tokyo session of
the GATT, the European countries, in common with other GATT members, acknowledged that a country, the major part of whose exports was in convertible currencies, was no longer justified in discriminating between different sources of supply for its imports. Accordingly, it was generally agreed that the discriminatory element in import restrictions should be eliminated and that rapid progress should be made in the removal of the remaining restrictions on a world-wide basis. In line with these developments the OEEC has now directed its activities on trade liberalization towards encouraging Member countries, in line with GATT objectives, to remove the remaining discriminatory elements in trade restrictions and towards the removal of all remaining restrictions.

The extension of quota liberalization has had the effect of throwing open for discussion on a broader basis certain problems such as agricultural protectionism, imports of "low-wage" manufactures, which - so far as the Europeans are concerned - have hitherto been discussed in the intimacy of the OEEC. While there are those who argue that constructive action is more difficult in the broader group, the balance of advantage would surely appear to be in dealing with such problems in a forum where all interested parties are represented.

Co-operation Between European Countries within the GATT

Although European questions have been well to the fore in the GATT since its foundation there has been very little formal co-ordination between the European delegations in the GATT. Exchanges of views have rarely led to any formal alignment of European views on GATT business. Nevertheless, the speaker says, common membership of OEEC has created a certain solidarity, particularly in defence of the liberalization programme against occasional forays from overseas. However, collaboration in Paris has not inhibited European countries from defending their interests in the GATT even though this involved sharp conflicts with their European partners and a close alliance with non-European members of the GATT. Thus, the speaker says, at the end of a lengthy and arduous battle for a waiver on the preference issue, the delegate from the United Kingdom observed, in sorrow if not in anger, that he had expected somewhat greater comprehension from fellow Members of the OEEC.
It remains to be seen what the effect of the formation of the two European trading groups will have on the participation of the constituent countries in the work of the CONTRACTING PARTIES to GATT. In the period immediately following the submission of the Rome Treaty to the GATT the energies of the Six have naturally been concentrated very largely on explaining the Treaty in relation to the GATT provisions and answering criticisms offered by other GATT members. Consistent with the spirit of the Rome Treaty (and following the pattern established by the Coal and Steel Community) the Six countries have adopted the practice of speaking in GATT through a single spokesman even on matters not directly related to the Rome Treaty. The Commission of the European Economic Community is represented separately at GATT meetings, but its interventions are related closely to its functional responsibilities (as defined in the Rome Treaty), while the governmental representatives, speaking through the delegate of the country currently presiding over the Council of Ministers, clearly retain the responsibility for declarations of policy, for which the Council of Ministers is the responsible organ of the Community. This somewhat monolithic tendency, the speaker says, has had the effect of somewhat inhibiting the freedom and flexibility of the participation of the Six in GATT discussions because carefully co-ordinated and negotiated statements rarely have the same spontaneity and freedom which national delegations can permit themselves.

While the Seven will not have the same formal reasons for unity of action in the GATT, since the Stockholm Treaty does not envisage a common commercial policy, it is nevertheless probably that in practice there will be a high degree of co-ordination between the EFTA delegations to GATT meetings.

In conclusion, the speaker says that both the Rome Treaty and the EFTA Convention contain what it has become fashionable to call "outward-looking" references to the policies of the Member governments of the Community and of EFTA toward the rest of the world. On the face of it, therefore, there would appear to be reason to hope that the preoccupations of these countries with internal and European problems will not prevent them from active and positive participation in the GATT. Indeed, a renewed and positive activity of both groups in the GATT, particularly in the implementation of the GATT programme for trade expansion, would be the best evidence and assurance for the rest of the world that these European developments are indeed likely to have the beneficial effects for world trade as a whole that their sponsors claim for them.
appear to be reason to hope that the preoccupations of these countries with internal and European problems will not prevent them from active and positive participation in the GATT. Indeed, a renewed and positive activity of both groups in the GATT, particularly in the implementation of the GATT programme for trade expansion, would be the best evidence and assurance for the rest of the world that these European developments are indeed likely to have the beneficial effects for world trade as a whole that their sponsors claim for them.