A lecture delivered by Mr. Jean ROYER, Deputy Executive Secretary of the GATT, before the Economic Action and Expansion Committee, Paris, 22 March 1960

In the course of the past twelve years, the GATT has journeyed far and wide, covering an impressive itinerary pin-pointed on the world map by the cities of Geneva, Annecy, Torquay and Tokyo, the initials of which happen to coincide with the symbol GATT.

Returning to its starting point, Geneva, after these distant travels, the GATT is preparing to hold in that city this year, as it did in 1947, an important tariff conference. Whilst, from all appearances, the impression might be gathered that the conditions under which the GATT is starting on this second cycle of its activities are the same as in 1947, the facts are proof to the contrary. At the time the 1947 tariff conference took place, world trade had for many years been hampered by administrative restrictions and other hindrances which had whittled down its volume. The 1947 tariff conference was an act of faith on the part of the main trading nations which wanted to prove to the world, even before undertaking, at the Havana Conference, to organize international trade on a liberal and multilateral basis, that it was actually possible to embark upon a course of trade liberalization and expansion. The conditions prevailing in 1947, therefore, were a far cry from those considered by the negotiating parties as being a necessity for a normal development of international trade. To prepare the ground for such a development, the governments sought, through the medium of the GATT, to eliminate all obstacles to trade which had become deeply rooted in the course of the previous twenty years, and to re-establish the customs tariff in its role as sole instrument of trade policy; they further sought to achieve, in gradual stages, a general and significant reduction in customs duties. Under conditions such as existed in 1947, it was out of the question to follow a
logical sequence in the pursuit of this dual objective; it was decided, therefore, that the governments would first attempt to enter into negotiations on tariff matters, and then proceed with the removal of other trade obstructions.

To attempt, immediately after the war, to bring about a general lowering of customs barriers seemed to be a risky undertaking, for in nearly all countries at that time trade relations were hampered not only by high customs duties, but above all by exchange regulations and stringent quota restrictions. Despite these difficulties, the tariff negotiations were successful. They resulted in significant reductions in duties and, more important, in a nearly complete stabilization of tariff incidence for a very large part of international trade exchanges. Following the four big tariff conferences held since 1947 under the auspices of the GATT, international co-operation achieved what had never been achieved in the nineteenth or twentieth century, namely, the establishment of a world market in which customs duties were to remain stable for a relatively long period. Under prevailing conditions, exporters who have to make large investments in order to gain a footing in a particular foreign market cannot afford such risks unless they can feel reasonably assured that the authorities of the importing country are not going to suddenly shut out foreign goods by raising duties or by imposing other restrictive measures. The stability thus achieved in tariff matters, however, only represented the first part of the programme which the GATT had set for itself. The second part, which may be regarded as the most important mission of the GATT during the past twelve years, consisted in eliminating all the other obstacles hampering international trade; with such obstacles removed, exporters would only have to cope with customs tariffs, which could then, through successive tariff conferences patterned on the model of the 1947 conference, be brought down to a sufficiently low level to permit of a steady expansion of international trade. In 1947 such a task appeared utopian; whilst the General Agreement provided for a complete elimination of restrictive and quota measures, the governments had inserted in its text a number of clauses sufficiently flexible to allow them to hope that they could maintain their restrictions in force indefinitely without losing the benefit of the considerable tariff concessions which had been granted to them by the United States Government. Notwithstanding the scepticism...
expressed at the Havana Conference, we have succeeded, within a period of about twelve years, in dismantling almost completely, at least in the industrial sector, the quota barriers and exchange restrictions which interfered with trade in the industrialized countries. In that respect, the efforts made by the GATT have joined with those of the EEC; I would be the first to recognize that the establishment of the European Payments Union and the successive decisions of the EEC in matters of trade liberalization have contributed significantly to the successful results obtained by the GATT in this field of primary importance. Europe is not the only part of the world, however, where considerable progress has been achieved in the removal of restrictions since 1947: similar advances are being made in other continents. On the occasion of our last session in Tokyo, for instance, we managed to convince the powerful economic interests in Japan, where feudalism has not entirely disappeared, and the Japanese authorities as well, that the time had come to follow the example of Europe and to proceed as rapidly as possible with the dismantling of the particularly strict quota system enforced in that country. More recently, the significant decision was taken by Australia, where industry jealously takes cover behind a screen of quantitative restrictions, to abolish within the near future all quota measures and to rely entirely on tariff protection. Decisions just as spectacular have also been taken in several South American countries under the influence of the Monetary Fund and in the spirit of the GATT.

A particularly comforting feature of our experience in the course of the past twelve years is the fact that the structure of the tariff provisions bound under the GATT has not been shaken by the dismantling of the quota barriers. Fears might have been entertained that tariff concessions granted at a time when the customs tariff was only of secondary importance in the nations' trade policies might be brought up for reconsideration once their industries could no longer rely on the much more rigid protection afforded by quotas. It is my belief that the reason why this risk could be avoided lies in the multilateral character of the tariff concessions negotiated under the GATT. In a few individual instances, some readjustments have been made, but in the aggregate the structure patiently built up by the GATT in relation to tariffs has remained practically unimpaired despite the return to liberalism in the administrative field.
Of course, as a result of the removal of quotas and of the restraint voluntarily accepted by the nations in other sectors of commercial policy, the prospects for fresh tariff negotiations now appear in a new light. Possibilities of tariff reductions look quite different in 1960 from what they were in 1947. Any reductions agreed upon will now become fully effective. Moreover, we are setting off from a different starting point than in 1947, for tariffs have been substantially lowered over the last twelve years. In the case of the United States, for instance, most of the duties have been reduced by 75 per cent during that period, and very substantial reductions have also taken place in other industrial countries. It will not come as a surprise, therefore, if the results of the present conference, reckoned in absolute figures, are more modest than those of the previous conferences.

You may perhaps wonder why the GATT has decided to hold another tariff conference, and why it is scheduled to start this autumn rather than at any other time. There are two main reasons: in the first place, the European Economic Community is due to implement its common tariff by or before 1 January 1962; secondly, the President of the United States has been empowered to enter into tariff negotiations at this juncture. The Member States of the European Economic Community are scheduled to revise their customs tariffs in the near future to bring them into closer alignment with the common tariff. In the case of several countries, such a revision would entail the raising of certain customs duties which had been bound under the GATT; on the other hand, one of the provisions of Article XXIV of the General Agreement referring to the formation of customs unions and free-trade areas stipulates that, before any duty rates bound under the GATT can be modified or withdrawn in connexion with the formation of a customs union, new negotiations are to be entered into with a view to arranging for the requisite compensatory adjustment to the partners concerned, in this case the other members of the EEC. In view of the time schedule provided in the Rome Treaty, such negotiations must take place in good time to be completed before 31 December 1961.
In the second place, under the powers voted by the United States Congress, the American Government is authorized to enter into new tariff negotiations, the duration of these powers being such as to enable the United States Government to negotiate with the Six before the common tariff is implemented. Under these powers, voted for a period of four years, the President is authorized to grant tariff reductions not exceeding 5 per cent per year, or a total of 20 per cent for the four-year period. Since the validity of these powers expires in 1962, the negotiations should be finalized in ample time to allow for the lengthy formalities to be completed by the United States Administration, so as to enable the President to put into force the resulting reductions during the tariff conference.

These are the two reasons why it was necessary for a tariff conference to be held, and why it had to be scheduled to start during the year 1960. The conference will comprise two distinct phases: during the first phase, the Six will have to finalize negotiations, before the end of the year, on the compensations which they are required to grant to offset the raising of duty rates bound under the GATT where such compensations are not already afforded by the reductions brought about in the corresponding duty of the other constituents of the Community. This first phase of the conference will also provide an opportunity of proceeding with such individual adjustments of duty rates as may be contemplated by governments at the end of each three-year period; once such isolated readjustments of bound duties, which confer a degree of flexibility on the system, are finalized, the entire schedule of bound duties is then re-validated for a further three-year period.

The second phase of the conference will have an altogether different purpose, namely, to proceed a step further with the gradual reduction of customs tariffs, by means of agreements based on reciprocity. This process refers more particularly to the common tariff of the Six, and it is with this particular set of negotiations in view that the United States Government has requested the broadest possible scope of authority from Congress. These negotiations, however, do not solely refer to the common tariff of the Six: under the provisions of the GATT, any reduction in the general incidence of the tariff of the European Economic Community entails equivalent reductions in the tariffs of the other industrial countries who are parties to the GATT.
Finally, this second phase of the conference will also include negotiations with a number of countries desirous of acceding to the GATT, such as Israel, Cambodia, Tunis and probably others also.

It may be of interest to say a few words about the procedures of these negotiations. Since 1947, we have been using the conventional methods of negotiation, with this difference that we are applying on a multilateral basis the same rules as were formerly applied in the case of bilateral agreements. By so doing, we have substantially broadened the scope of possibilities for tariff reductions. The object of this "selective" method, as we call it, is to offset, for instance, a reduction in import duty on a given product in a particular country by bringing about a lower rate of duty on a given product in another country; an importing country will thus be willing to lower its customs protection in a particular sector if it feels that the compensation offered will open additional outlets of equivalent value for some of its products. This conventional method has the advantage of being known to all the negotiating parties; for several years past, however, it has been our opinion that this procedure has become obsolete and that a radical change is essential if any significant advance is to be achieved in trade liberalization. Several years ago already, we had studied, on the basis of a plan sponsored by France and known as the "Pirimlin Plan", a new method of tariff negotiation into which we had incorporated certain features of a proposal submitted by the so-called "Low Tariff Club" which had been under consideration by the Council of Europe in Strasbourg. As this proposal, however, met with resistance on the part of several countries, including the United States, we will have no alternative but to enter into this year's negotiations under the same rules as were used for the previous conferences.

The next question is: what is the present outlook for the forthcoming negotiations and what is at stake? For the sake of clarity, I shall differentiate between (a) negotiations in respect of trade between industrialized countries, (b) negotiations covering trade in agricultural products, (c) negotiations concerning less-developed countries and possible negotiations with countries operating under a controlled economy system. Most important among all these, without a doubt, will be the negotiations between industrialized countries.
Taking part in these negotiations will be three groups: the Six of the EEC negotiating as one bloc; the Seven of the EFTA who, whilst retaining their own individual tariffs, nevertheless follow certain common directives; finally, the United States and, in a somewhat isolated position, Canada. In view of the "give-and-take" rules of the game, it is obvious that if any concessions are to be obtained by either the United States, the Six or the Seven (particularly the United Kingdom), each of the three groups must be willing to grant equivalent concessions. None of them will give something for nothing. Assuming for instance that the United States requires a tariff reduction from the Six on a particular product and that the Seven are anxious to gain a footing on the market of the Six, no such duty reduction will be granted by the Six unless they in turn secure a concession from the United States corresponding to the benefit accruing thereby to American exporters of the product concerned, and a further concession from the countries grouped in the EFTA, corresponding to the value to their export trade of the reduction granted by the Six. In other words, if the United States want to secure a reduction in an EEC Common Tariff rate, not only will they have to make a concession themselves, but they must also prevail upon the Seven to concede something. Such bartering constitutes one of the essential conditions for the success of the conference. All three groups of industrialized countries must be prepared, therefore, to take an active part in the negotiations. Should one of them remain indifferent, the other's efforts may be doomed to failure. It looked for some time as though the tension prevailing between the Six and the other European countries for the past few months would impair the success of the conference, more especially as the European countries outside of the EEC could see no point in taking an active part in the negotiations as long as they could still hope to secure, through the establishment of a free-trade area, the same benefits as would be obtained on a multilateral basis, and perhaps even greater benefits. This was the reason which prompted the United States Deputy Secretary of State to come to Europe for the express purpose of inducing all of the European countries to participate actively in the tariff negotiations this autumn and next spring. To this the Six agreed readily enough. Whilst they had given the impression immediately after and during the months following the signature of the Rome Treaty that they would do nothing about the Common Tariff, their attitude has changed.
since then - they have come to realize that, for the sake of Europe and of world opinion, it was incumbent on the Community to translate into deeds the principles written into the Rome Treaty which determine, in theory at least, the liberal character of the EEC. As for the Seven, whilst it took them longer to arrive at a decision, their reply as contained in the communiqué issued at the end of the EFTA meeting in Vienna constitutes a clear and positive acceptance of the United States Government’s invitation. In the United States, despite the pressure being exerted in Congress to have the date of the Genoa conference deferred and to prevail upon the Government to use only sparingly the powers conferred upon it, the decision to participate in the Genoa discussions to the fullest possible extent remains unchanged, and if anything has been strengthened as a result of the balance-of-payments situation.

Whereas it would appear from present indications that the negotiations between the three large industrial groups will open under favourable conditions, the outlook is not as hopeful as regards the relations between the industrial countries and those engaged in exports of agricultural products. And whilst the stakes are not as high, commercially speaking, in this encounter as in the one opposing the industrial groups, they are probably just as significant from a political standpoint. The advance achieved towards trade liberalization has laid bare the agricultural problem in all its stark reality. In 1947, when the GATT was negotiated, the question of establishing a distinction between agricultural and industrial products did not arise. Apart from a few minor exceptions inserted in the text of the General Agreement at the request of the United States and of some of the Scandinavian countries, the rules of the GATT have the same application on trade in respect of both industrial and agricultural products. Contrary to the assertions of certain European countries, the obligations assumed under the GATT are fully applicable to the agricultural sector. Countries engaged in agricultural exports have actually, since 1947, based their policies on this fact: in order to secure concessions on duties applicable to farm products exported by them, they accepted to have their hands tied in the industrial sector. As long as the industrial nations were experiencing financial difficulties, agricultural countries patiently waited for conditions to improve. To-day,
however, when the pretext of financial difficulties no longer exists, they
find that industrial nations are not abiding by their commitments, that
some of them deliberately shut out imports of agricultural products and even
go to the extent of invading the market of other countries by means of
subsidies and other governmental measures. They look upon the concessions
granted them in 1947 as of no value to them to-day, since they find that
the outlets for their farm products remain just as limited even when the
levying of import duties is suspended by those countries; they were led
to the conclusion that, for real protection, they could only rely on quota,
restrictions, on subsidies or as a last resort on State trading. The
agricultural exporting countries have come to realize, to their great
surprise, that as a result of the policies adopted by most of the industrial
countries, their own products have been kept cut off from the conditions
of the world markets, and that these industrial countries, in order to
ensure to their farmers prices which are naturally considered as inadequate
by the farmers of agricultural countries and which bear no relation to those
which would result from the free play of supply and demand, resort to
arbitrary interventions in trade operations, paying little regard to the
obligations assumed by them under the GATT.

The agricultural countries obviously cannot afford to go on playing
this frustrating game. What would be the use of their securing reductions
in customs duties and of consenting to sacrifices for the sake of securing
such reductions when they have learned from experience that such concessions
would be of no practical avail. As long as it was a question of waiting for
financial circumstances to improve, they could afford to take the risk,
but to-day, when controlled agricultural policies prevalent in Europe and
in North America show no sign of coming to an end, a fruitful participation
of agricultural countries in the Geneva negotiations is hardly likely
unless the rules of the GATT are somewhat expanded in scope. The
agricultural countries had requested that the negotiations be allowed to
cover, not only tariff provisions, but also other measures of protection
resulting from the agricultural policy of industrial countries, such as
subsidies, guaranteed prices and, in certain instances, quotas. The
fight was stiff, but finally, at our Tokyo session, the industrial countries
agreed, though ungraciously, to give official recognition to the proposal.
Nearly all these nations stated, however, that they had no intention of making use of this contingency, and it is to be feared that, for want of goodwill, the prospects of initiating negotiations between agricultural and industrial countries in Geneva are far from bright. It cannot at this time be ascertained whether the present attitude of the industrial countries is less unbending than it was at Tokyo. Since our last session, a new contingency has arisen: a common agricultural policy has been evolved within the EEC. These proposals, however, far from solving the problems of the agricultural countries, seem to move farther away from the trade system established under the GATT. Whatever may happen, the Geneva conference will be a touchstone: if, by refusing to enter into really productive negotiations with the agricultural countries, the industrial nations admit that agriculture is no longer governed by economic laws and that it is to be regarded as a self-generating activity whose development, for social and political reasons, is to depend on methods of State-controlled economy and management, then the attempt made in 1947 to create a world trade community will be seriously jeopardized. As a result of the consultations on agricultural policies which we have been holding for the past few months with our member countries, we have come to the conclusion that the farm problem, far from giving rise to difficulties solely within the agricultural countries, very definitely affects the population of the industrial nations as well, and that it constitutes, therefore, a problem of world-wide significance. When the President of the United States expresses the opinion that the American taxpayer will not be able to bear much longer the burden of the country's agricultural policy which costs him at the present time, for cereal price support only, over US$1½ million per day, such a statement warrants the conclusion that the State-planning and State-control policies so greatly favoured to-day provide no solution to the problem, and that it will be necessary, therefore, to devise, through concerted action, methods which, whilst giving due consideration to the legitimate claims of farmers in the industrial nations, will not discourage the producers in agricultural countries who are in a better position to supply at lower cost the products needed to meet general food requirements. Is it admissible that, at a time when millions of men and women in the world are under-nourished and even exposed to starvation, ways and means cannot be found to maintain
production of wheat and other agricultural products in countries where costs are lower than in others? If it ever happened, as well it might, that efficient producers, losing all hopes of finding normal outlets for their products should give up the struggle, it would be found very difficult indeed to resume such production at a later time, when it would then be absolutely essential to meet the normal food requirements of the world. This problem is not one that can be solved at short notice, and I do not think that the Geneva tariff conference will provide any general solutions to these difficulties. It is to be hoped, however, that the industrial countries will avail themselves of the practical possibilities offered to them by the revised methods of tariff negotiations to make a gesture and to show to the agricultural countries that they are prepared to co-operate with them with a view to finding a practical and reasonable solution to their problems.

A further challenge which is at stake in the tariff negotiations is the search for a modus vivendi in the trade between industrial nations and less-developed countries. I already had occasion to call to your attention the necessity of developing exports from less-developed countries to industrialized nations, from whom they have to buy the items of equipment needed for their economic development. The time has gone when government heads could content themselves with an official acknowledgment of the fact that industrial countries have certain responsibilities towards less-developed countries. This willingness should now rapidly assert itself in the shape of concrete and well-defined action, including more substantial imports of products which countries in the process of development are capable of producing and of exporting. It is not enough to evolve methods with a view to replacing the customary three-year or five-year commercial credits with medium-term credits, extending, say, over ten years; it is not enough to seek new financial formulae or to provide for a somewhat better coverage of export risks; what is needed is to place this problem squarely where it belongs, namely, within the framework of international trade responsibilities. As in the case of less-developed countries, the European nations needed and received financial assistance from the United States after the war; but they soon realized that such a situation could not last and they urged the United States Government to discontinue their financial aid and instead to open
their markets to imports of European products. As Mr. Butler, when Chancellor of the Exchequer, aptly remarked at the time, what Europe was asking of America was not financial aid, but trading possibilities. The less-developed countries feel to-day that they have every reason to make similar demands. For a number of reasons, they consider, as did Europe several years ago, that financial assistance has its drawbacks; besides they are under no delusion as to the future, realizing as they do that financial aid has more or less reached its ceiling, whereas their needs for essential imports are steadily increasing. They must draw their supplies from industrialized countries, but they rightly expect to be given an opportunity to sell their products to the countries from which they buy.

It is no longer possible under present economic conditions to go back to pre-war barter methods, whereby raw materials and industrial products were exchanged in kind. Here again, there is a fundamental decision at stake: the industrial nations must decide whether they are prepared to follow a course in the direction pointed by the political and economic trends of recent years, or whether they choose to entrench themselves behind a negative conservatism. To reduce the problem to the simplest expression, the demands of less-developed countries bear on two main points: in the first place, the countries producing colonial produce, such as tea and coffee, claim that their outlets would be vastly increased if the European countries were to give up the heavy revenue levies imposed on products which formerly were considered as symbolizing extravagant luxury. It is true to say that the industrial countries put forward a number of forceful arguments and have been juggling with more or less cogent statistics to show that any financial sacrifice they might offer would be of no benefit to tea and coffee exporting countries. The latter, however, look upon such arguments as quite unconvincing. Experiments made on the basis of reduced duties and taxes have shown that such reductions are invariably followed by an appreciable increase in consumption. It is not easy to persuade Brazilian or Indian spokesmen that the budgetary equilibrium of a country such as Western Germany would be threatened through a reduction in duties and taxes on coffee. This brings us to the second item postulated by the less-developed countries,
which refers to semi-manufactured products. By selling raw produce or raw materials, those countries are losing the benefit of valuable foreign exchange which would have accrued to them had they been in a position to process these raw materials themselves. They do not ask that the industrialized countries give up such processing activities, but merely that they desist from protecting these industries; they claim that these foreign industries do not need protection to compete favourably with their own, which in many respects are not so well equipped to turn out goods comparable in quality and in price with those produced in the industrial countries. In fact, since their request only refers to the initial stages of processing, the proposition is also in the consumer's interest, as it may be instrumental in doing away with the wasteful expenditure involved in long-distance transportation of bulky and heavy raw commodities, a large part of which is lost in processing. Instead of purchasing greasy wool, would it not be logical to import it thoroughly washed and cleaned? And instead of metals in the form of concentrates, would it not be better to import metals in ingots and bars? Hitherto, the industrialized countries, needless to say, have replied in the negative, but their arguments were for the most part unconvincing. To claim that duties on semi-manufactured products cannot be reduced because it would upset the time-honoured structure of the customs tariffs, whose rates are supposed to increase in progressive ratio to the labour included in the imported product, is to show evidence of short-sightedness. Worthy as this theory of progressive tariff rates undoubtedly is, should it be inferred that any theory which is worthy of recognition is also immutable? Admittedly, the lack of progress in this connexion is not to be ascribed solely to a want of imagination on the part of the industrialized nations: the governments of the less-developed countries have not, from their side, done all they should have done to facilitate a solution of the problem. Whilst displaying an impressive loquacity, they generally failed to direct their efforts of economic development towards export activities; too often they aimed at curtailing imports rather than promoting exports, by attempting to develop home industries which have no likely prospects of meeting foreign competition either on their own market or abroad. More systematic efforts in the search for export possibilities on their part would undoubtedly achieve a better balance in the trade between
less-developed countries and industrialized nations. I hasten to add, however, that it would serve no useful purpose to urge the less-developed countries to concentrate their efforts at economic expansion on promoting exports if such exports are likely to be systematically shut out from the countries where they should find outlets. This brings us to the conclusion that the problem under reference cannot be solved satisfactorily unless the industrialized nations and the less-developed countries, rather than elaborating more or less skilful controversies, resolve to work in close co-operation to investigate, on the one hand, the prospects of promoting the production of exportable commodities in the less-developed countries, and on the other hand, the possibility of providing guarantees for the development of stable outlets for such products in the industrialized countries. Only on that condition will it be possible to eliminate the political and social dangers of international pauperism and to effectively counteract the economic threat from communist countries.

Whilst the Geneva conference cannot be expected to solve this problem in its full scope, it will afford, as in the case of agriculture, a unique opportunity for the industrialized countries to show, through concrete concessions — modest as they may be, and even only symbolical — that they are firmly determined to embark on a course of active collaboration rather than being content with financial assistance. Such a demonstration of goodwill would be of particular importance at the present moment. The less-developed countries — and others as well — are exposed to too many tempting offers: economic competition from the communist countries, notwithstanding an all too prevalent inclination to deny its seriousness, is becoming increasingly evident. Politically, as well as economically, it is in the interest of the European and North American countries to seize this opportunity promptly and resolutely.

I would now like to mention another aspect of commercial relations which may come within the scope of the tariff conference and which will have to be discussed, if not on this occasion, at least in the near future. Hitherto, the GATT has turned its attention almost exclusively to the trade relations between countries whose economy was based, in varying degrees, on free enterprise. Whilst the participation of a country practising State trading, such as Czechoslovakia, is in the nature of an
exception which confirms the rule, in recent years a few Eastern European countries have been trying to find a practical way to join in the work of the GATT. Some timid attempts have been made, and two formulae have been worked out on an "associative" basis, namely, in the case of Yugoslavia and Poland. The nature of this "association" is purely theoretical and entails no specific commitments on the part of the participating countries. In the case of Poland in particular, but also in regard to Yugoslavia, this association represents but an initial step, and it would seem—although this opinion is not shared by all our members—that the trend in that direction which started to take shape a few years ago will not stop there, and that the time will come when some way must be found, either within the framework of the GATT or otherwise, to apply well defined rules to the trade between free enterprise countries and countries operating under a system of controlled economy, along the lines of the rules governing trade relations of free enterprise countries between each other under the GATT.

The question of bringing the trade relations with controlled economy countries under regulation is not one that should leave the Western countries indifferent: the countries of the controlled economy bloc have long remained entrenched behind an economic iron curtain, their participation in the activities of the world's trade community being only marginal. To-day conditions are entirely different: the participation of these countries in international trade is steadily increasing, and their existence can no longer be ignored. International trade relations are influenced in two ways by the countries operating under a controlled economy system. In their relations with industrialized countries, particularly those of Western Europe, they maintain a network of bilateral agreements often involving, on the part of the free enterprise nations, the application of restrictions which affect imports not only from controlled economy countries, but from the other countries as well. The adverse effect resulting therefrom was not of great significance as long as a major portion of imports was everywhere subject to control measures, but to-day, when trade liberalization is becoming the general rule, the interference brought about by these bilateral agreements with Eastern countries in the general trade operations of the industrial countries is
likely to become increasingly awkward. Let us assume, for instance, that a country had to undertake to purchase 1,000 or 2,000 motor cars from the USSR to make sure that its export programme to the USSR will be carried out: the country concerned may quite possibly find it necessary to curtail its imports from other Western countries in order to indirectly force its domestic demand for motor cars to switch over to Soviet-made vehicles, which otherwise would not stand up against normal competition. Moreover, in their trade relations with less-developed countries and with those relying on exports of agricultural commodities, the nations operating under a controlled economy system can avail themselves of very effective competitive methods. Taking a recent instance, there is no doubt that Cuba was most favourably impressed by Mr. Mikoyan's offer to purchase from her 5 million tons of sugar over a period of five years. The offer was practically irresistible, and no free enterprise country could have matched it. To make a stand against such economic penetration, which in the opinion of most statesmen is more serious than the military threat, the Western nations cannot afford to shut their eyes to the trade problem; it is more likely that the problem will eventually have to be tackled in earnest in order to devise practical means of regulating trade between the two systems of economy on the basis of well-defined and effectual rules and provisions.

The problem has not yet come to a head and the 1960-1961 conference will not be called upon, therefore, to find a solution to it. It is interesting to note, however, that the conference will afford an opportunity of exploring - provided the governments are agreeable - how a modest reform of the bilateral system now in effect could be initiated. The Polish Government, referring back to a proposal which had been made by the GATT secretariat some time ago in Warsaw, indicated its willingness to commit itself, in exchange for tariff concessions, to certain minimum purchases of a number of products likely to be of interest to GATT member countries. Should such an attempt lead to positive results, the trade relations which are developing with the East could be pulled out of the rut of bilateral agreements. It is too early to judge what such a suggestion may be worth; the Polish Government is looking for partners in the proposed deal, but I cannot say whether there are any prospects of
negotiations on such a basis being initiated during the forthcoming tariff conference. My main purpose in mentioning this possibility was to show that the GATT avails itself of every opportunity of making the rules of negotiation more flexible with a view to broadening their scope and to taking full advantage of tariff negotiations not only to promote the expansion of particular sectors of trade, but also to try and solve the major problems which affect world economy first and foremost, and to a certain extent also international politics.

Such are, in their general outline, the objectives which are at stake in the forthcoming Geneva negotiations. The most tangible results to be expected will most certainly be those arising from the negotiations between industrialized countries. These negotiations, as previously mentioned, will be conducted under the traditional rules which we have inherited from the obsolete policy of bilateral agreements. Even if the governments wanted to, they could not, at this juncture, disregard these rules at the risk of having the United States delegates stay away from the conference. There is no hiding the fact, though, that the necessity of adhering to the prevailing rules will singularly restrict the progress that may be expected to be achieved. We have attempted to make these rules more flexible: the amendments which they have undergone have certainly been helpful, but it must be recognized in the final analysis that they have achieved about all that could be expected of them.

We have realized for several years that, if further headway is to be made towards tariff reductions, new methods must be introduced. We attempted to launch the theory of flat overall reductions: i.e. instead of applying a system of reciprocity based on balancing reductions on individual items against each other, the governments would agree on a fixed target for their negotiations; the target might be, for instance, a flat percentage of reduction on the overall weighted incidence of their tariff to be achieved over a specified number of years. Within such a fixed programme agreed upon as a starting point, the governments could either be afforded some degree of latitude in determining the reductions on individual commodities, or proceed to negotiate item by item, as is
being done to-day, until the agreed target is reached. At the time this idea was propounded, it was looked upon as utopian, although it had elicited some interest on the part of the Randall Commission which President Eisenhower, when first elected, had appointed to advise him on the trade policy to be adopted by the United States. Unfortunately, whilst the Randall Commission retained some features of the proposal, such as the paring off of high rates and the spreading of reductions over a number of years, it rejected the pivotal idea of the scheme, which introduced a new concept of reciprocity. Those notions, which looked over-optimistic a few years ago, have since been adopted in the Rome Treaty and in the Stockholm Convention. In either case, to determine the reductions which the Six have granted each other or those which the Seven are to grant each other, the principle of periodic negotiations item by item has been dropped in favour of the method whereby the scope of the negotiations is fixed beforehand. The Montevideo Treaty, likewise, provides that the yearly negotiations shall result in a reduction of 8 per cent in the overall weighted incidence of the tariff of each Member State. Here again, the method of negotiations adopted is based on the theory put forward by the GATT.

To-day the trend is in the same direction, at least as far as Europe is concerned. In the proposals which have been aired recently with the object of bringing about a rapprochement of the two European groups, the idea of flat overall reductions has also been advanced as a substitute to item by item reductions. This is only logical, for the simple reason that, since the principle of a complete elimination of restrictions has been accepted by a group of European countries in their trade with their co-partners, some of whom are in many cases their most dangerous competitors, the whole problem of tariff protection takes on a very different aspect. Tariff protection can no longer be considered in the same light as in the past, seeing that it could be completely eliminated as between particularly dangerous competitors. What would be the use of a tariff protection with one law for one's friends and another for one's foes? What would be the military value of a fortress, half of which had been levelled to the ground? Just as the defenders of the fortress would not argue very strenuously whether the undestroyed half should
be raised by one inch or two, so also have the governments given up attaching the same importance to minor and scattered variations in tariff protection. It is reasonable to expect, therefore, that countries that have become accustomed to a method based on a pre-determined flat percentage in their intra-regional relationships will be prompted to extend this method to the trade relations between groups of countries. So have the Seven of the EFTA, in their Vienna communiqué, agreed to extend to the Six of the EEC the reduction of 20 per cent which they grant to each other, on condition that the Six grant to them the 20 per cent reductions which, under the Rome Treaty, are scheduled to take effect on 1 July 1960. Likewise, the EEC proposal to accelerate the application of the Rome Treaty provides for some fixed percentage of reduction to be granted to the Seven, subject to reciprocity. It will be seen, therefore, that the principles underlying the plan proposed by the GATT are already being enforced within the two European groups, and that the idea of applying this same method to the relations between these two groups is making some headway.

However, as the Member countries of the EEC and of the EFTA are nearly all parties to the GATT, it follows that, under Article I of the General Agreement defining the obligation to afford most-favoured-nation treatment, to which all GATT members are entitled, any tariff reductions granted to each other by the EEC and the EFTA are to be extended to all GATT members. No exception is likely to be made to this rule, unless the European countries were to agree to form a customs union or a free-trade area. The Six and the Seven are well aware of this legal basis: in fact, the Vienna communiqué specifies that their offer of a 20 per cent tariff reduction would be extended to all of the GATT members, and the proposals of the European Commission are drafted along similar lines. Besides, it could not possibly be otherwise, since the governments concerned have agreed to the appointment of the so-called Committee of Twenty-One, whose official designation is "Committee on Trade Questions", and whose terms of reference are strictly consonant with the provisions of the GATT.
It would seem, therefore, as though this would be the proper time to replace the traditional method of negotiation with revised methods which would be based on the GATT plan and in extrapolation of the measures taken within the two European groups. There remains, however, one serious difficulty, namely, that other countries, and particularly the United States, are not yet prepared to accept this method of negotiation. The President of the United States is bound by the legislation on reciprocal trade agreements which makes it mandatory for him to negotiate on a selective basis and to be able to show proof that concessions granted are exactly matched by concessions received; unfortunately, neither the American legislation nor the conventional American practice allows for reciprocity on an overall fixed basis. There is no ground for hoping, therefore, that the American delegates might come to the 1960-1961 tariff conference with instructions enabling them to agree to the principle of fixed overall tariff reductions, insofar as their Government is concerned. In the circumstances, the Six of the EEC and the Seven of the EFTA will be faced with the necessity of making concessions to the United States on a sort of short-term advance basis, in the hope that, during that short period, the United States Government might decide either to agree during the forthcoming negotiations to grant compensatory concessions deemed satisfactory to the Six and the Seven and enabling them to confirm as definitely binding the fixed overall reductions granted by them on a provisional and unilateral basis, or to resume negotiations at a later date on the basis of the revised methods.

Such compensation could, to a certain extent, be arranged during the forthcoming negotiations. In the first place, if the Six agree to offer flat overall tariff reductions to the Seven and to the other GATT members, they could make use of these concessions to offset the increased duties in respect of which they are liable, under paragraph 6 of Article XXIV of the General Agreement to provide for compensatory adjustment; secondly, both the Six and the Seven could avail themselves of these concessions as a means of bargaining within the Dillon negotiations proper. After these two phases of the conference, the Six and the Seven could draw up a balance sheet to see whether there is still a debit of concessions outstanding against the Americans. If so, the European countries would have the
choice of two possibilities: either to withdraw the concessions granted unilaterally and not yet bound, or - paying due regard to the United States' balance-of-payments situation - to agree to a period of grace during which the United States Government could secure authorization from Congress to resume negotiations on a revised basis. The European countries would thus be in a very strong moral position and the United States Government would be provided with particularly valid arguments to obtain from Congress broader powers of negotiation for the President. There is every likelihood that the United States Congress could not ignore the advantages which would accrue to American exporters if the concessions granted by European countries on a unilateral basis were made binding, and inversely, the harm which would result to them from a withdrawal of such concessions.

In the event that following the Geneva negotiations the United States Government is not in a position to make concessions as a set-off against a substantial number of concessions granted by the European countries - a possibility which is not to be ruled out - then the problem of a reform of the methods of negotiation will inevitably arise, and the Geneva conference will have to be followed within a short time by another conference, in the course of which the question of negotiating on a fixed overall basis will most probably come to a head. This contingency is based on assumptions and a great deal will depend on the outcome of the deliberations of the "Committee of Twenty-One". If this Committee succeeds in laying the foundations of an agreement between the European countries, it is quite likely that such an agreement will, to a certain extent, provide for the application to third countries of the flat overall reductions, as laid down in the Rome Treaty and in the Stockholm Convention; and since all countries are determined to abide by the rules of the GATT, such reductions would also be applicable to other countries, and, in particular, to the United States. Whilst such an arrangement would provide for adequate reciprocity between European countries, the concessions extended to the United States - unless the European countries were willing to give them something for nothing - would only be of a temporary and rather precarious nature. In the circumstances, as I previously mentioned, the European countries would "advance" the concessions to the United States on a short-term basis, in the hope of being repaid for this advance at a later date.
It has been objected that such a solution would entail too great a display of generosity on the part of the European countries towards the United States. I admit that it would be a most unselfish deed, but I still think it would be good policy to make this gesture. In the first place, it would be an elementary token of gratitude for the assistance extended by the United States to Europe since the war, and besides, the commercial risks involved in such a gesture would be trifling. It should be borne in mind that, apart from financial assistance, the United States granted to Europe in 1947 tariff reductions amounting to no less than 50 to 75 per cent and that, barring a few minor exceptions, these reductions, which have enabled the European countries to restore their trade balance with the United States and to replenish their dollar and gold reserves, have remained unchanged even though the United States agreed to forgo for ten years the benefit of tariff reductions as a set-off against their concessions. For ten years the European countries went on restricting their imports from the United States and applying a harsh discrimination between American products and their own. Thanks to the United States' generous attitude Europe's financial situation was completely rehabilitated, and it is no overstatement to claim that the tariff reductions granted by the United States at the time were largely responsible for this reversal of the situation which, incidentally, was instrumental in bringing about a crisis in the United States' trade balance during recent months. It should be realized in Europe that whilst the United States cannot be said to be desperate about the heavy gold withdrawals which occur almost every week, public opinion nevertheless is very upset and could quite easily be persuaded by American protectionist circles of the necessity of throwing over the liberal policy pursued by the United States Government. Europe certainly has no interest in precipitating such a move, and there is no doubt that a gesture from the European countries would be interpreted as a contribution on their part to the improvement of the financial situation in the United States and would considerably impress American public opinion. I earnestly believe that the assistance which the United States have extended to us since the war deserves such a gesture on our part. Besides, what danger is there in making such an advance of tariff concessions for a relatively short period? I think that manufacturers should investigate to what extent such concessions would affect their
particular sector of industry, giving due consideration to the fact that duties on European goods would also be reduced by the United States. They would probably find that, in a general way, their industries would not be appreciably affected, since American prices - especially in the equipment sector - have seemingly ceased to be competitive. In the course of my travels through Asia and Latin America, I found that European industries are quite capable of competing successfully, particularly in the field of heavy machinery and equipment, with American manufacturers and exporters. This may eventually change, but as regards the immediate future and as long as the dollar remains at its present rate, a reduction of import duties on American products does not appear likely to involve serious hazards. In fact, the risks incurred would be far less than in the case of a devaluation of the dollar. Whilst this is not to be considered as an immediate possibility, the United States Government may find it necessary to alter its present policies if the problem of its trade balance cannot be solved within a short time. It might be a matter of choosing between three alternatives: either a drastic curtailment of assistance to less-developed countries, or a devaluation of the dollar, or a reduction of imports. Whatever the decision may be, European interests will be adversely affected: it will mean either that exports from Europe will be jeopardized, or that American competition will be considerably strengthened, or that Europe will be called upon to take over from the United States the responsibility for assistance to less-developed countries. In any event, these alternatives are fraught with a great deal more danger than the slim possibility, as I see it, of an alarming expansion of American exports to European markets. And lastly, by agreeing to such a short-term advance of tariff concessions to the United States, the European countries would greatly facilitate a solution of the present divergences between the Common Market and the other European nations, as well as with countries in other parts of the world.

In concluding, I would stress the fact that there is much more at stake in the 1960-1961 tariff conference than there was in the case of previous conferences. If well conducted, the forthcoming conference can contribute a great deal to a solution of the problem which divides Europe into two camps. The preferential effect of the EEC common tariff and of
the arrangements within the EFTA will be much easier to bear if, as a result of multilateral negotiations, the level of customs duties - and consequently the margin of preference - can be brought down. Without taking an unduly pessimistic view of things, it must be admitted that a feeling of uneasiness prevails in Europe which it is in everybody's interest to alleviate, and even to dispel entirely. The conference will be afforded an opportunity of arranging, or at least of laying the foundations, for a reasonable modus vivendi with regard to the trade relations between industrialized nations and countries relying on exports of agricultural products. It should also provide the means of initiating a structural conversion of the trade between industrialized nations and less-developed countries so as to create the proper conditions for the latter countries' economic development and for a smooth expansion of the industrial nations' exports to the countries in process of development. These are the main objectives of the 1960-1961 tariff conference. It cannot be expected, of course, that all the problems involved will find a final solution during the course of this conference. It is of utmost importance, however, that all governments should realize the immense scope and the economic and political significance of the coming conference. The time has passed when trade problems could be regarded as being of interest to economists and businessmen only. To-day they are to be considered from a political angle also, for politics are often governed by economic factors. Without indulging in undue optimism, it may at least be hoped that this conference will afford an opportunity for the governments to awaken to the consciousness of what is at stake in the deliberations which are to open at Geneva and to continue unabated at subsequent conferences. The governments will realize, I trust, that the time has come to drop their natural inclination to passivity or to mere oratorical action and to launch into earnest endeavours to find, in co-operation with all of the countries concerned - and not merely with a few of them - a concrete and practical solution to the problems which arise almost daily in the field of international trade. There is nowadays an unmistakable tendency among governments to retire within themselves: industrialized countries prefer to deal with their problems, and even with their relations with other nations, within an inner circle, variously known as "wealthy nations club" or "transistor manufacturers fraternity". I cannot say whether this trend will ultimately prevail
over the other concept - which to my mind has obvious advantages politically - whereby all well-meaning nations join together to look for reasonable solutions to the problems which concern them. The experience of the GATT has shown that, contrary to a widespread opinion, a world-wide approach to such problems is just as practicable and effective as a regional approach. I earnestly hope that the outcome of the Geneva tariff conference will be such as to prove conclusively to all and sundry the soundness of this viewpoint; I trust, also, that the free economy nations will avail themselves of this opportunity to retain their leadership in the world's economic affairs rather than allowing themselves to be outdistanced by countries which as yet have not agreed to the standing rules introduced by us in 1947.