THE GATT TARIFF CONFERENCE 1960-61

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In the ordinary course of events the convening of another GATT tariff conference would arouse only a comparatively mild interest. The context of the 1960-61 negotiations, which open here on 1 September, is such as to lend them an unusual significance and interest. During the last few years developments have been occurring which will fundamentally affect the structure and pattern of international trade. If, in some respects, the 1947 negotiations - which gave birth to the General Agreement - may be said to have set the pattern for commercial relationships in the decade and a half since the war, the 1960-61 negotiations may well set the pattern, or provide the basis for setting the pattern for the 1960's. The first and foremost of these developments is, of course, the establishment of the European Economic Community. This had its first and most dramatic impact in Europe, leading to the long and hitherto fruitless negotiations for a wider free-trade area, to the negotiation of the European Free Trade Association, and the present division of Europe into two trading groups which are still in an uneasy colloquy as to the means of avoiding dislocation in the traditional patterns of European trade.

The impacts of these European developments on the rest of the trading community have received less public attention, but have nevertheless been a continuous source of discussion and nagging concern in the meetings of the Contracting Parties to the General Agreement. The United States has welcomed the foundation of the EEC mainly because of the Community's bias towards European political federation which has long been a prime objective of United States foreign policy. This political bias has largely outweighed whatever short-term disadvantages the commercial provisions of the Rome Treaty might threaten for United States exports. Nevertheless, the United States has continually maintained its interest in seeing the Community adopt a liberal commercial policy which would enable the United States to retain and expand its export markets in the countries making up the Community. This desire is indeed one of the main reasons for the convening of the 1960-61 conference at this time. The United States Administration was anxious to have an early opportunity to negotiate for reductions in the common tariff of the Community and made this the central part of its plea to Congress for the renewal of the
President's powers to negotiate reductions in the United States tariff. More recently, the United States has shown acute and overt concern at the possibility that the common agricultural policy of the Six might adversely affect the very important market in Europe for agricultural products.

The dilemma posed by European developments for Canada is undoubtedly more acute. Canada understandably shares the United States' sympathy with the political objectives of the Rome Treaty. On the other hand Canada's commercial policy since the war has been firmly based on the multilateral non-discriminatory concept of the GATT which affords the best prospect for a diversification of Canada's foreign trade - a matter of vital concern for its future political and economic development. The prospect, therefore, even in the short run, of new obstacles to the development of Canadian trade with Europe occasions the most acute anxiety in Ottawa, and explains why Canada approaches the Geneva negotiations with a full sense of their importance for the future of Canadian commercial policies.

Looking further afield, the development of European groupings - and in particular the provisions of the Rome Treaty which accord a preferential position to the dependent overseas territories of the Six - has caused alarm in the underdeveloped countries of Asia, Latin America and Africa. These countries are still heavily dependent upon the export of primary products and they have visions of the rich European market being progressively captured by the competitive production, actual and potential, of the colonial and ex-colonial territories admitted under more favourable trading and tariff conditions. They feel themselves menaced by another and more forbidding Ottawa.

Turning for the moment from the purely European scene we are also confronted with another major structural problem in the treatment of agricultural and food products in international trade. In general, the liberalization of trade and reduction of trade barriers has not extended to the field of agricultural and food products which have to contend not only with high tariffs, but also with quotas, subsidies, minimum price schemes, not to mention the constant threat of surplus disposals overhanging such of the world market as remains open to exports. Much of the paraphernalia of controls which have been erected to protect domestic agriculture has hitherto been masked behind the cloak of balance-of-payments difficulties. But this is no longer the case and agricultural exporters have reached the point where they feel that they can no longer accept a one-sided bargain wherein liberalization of trade is confined to the industrial sectors whereas access to world markets for agricultural and food products remains rigidly restricted.

The drive for economic development of the less-developed areas is at last expressing itself in the field of commercial policy as well as in the field of capital investments. The less-developed countries are faced with heavy
expenditures for capital equipment, for maintaining imports of essential consumer goods, and increasingly heavy burdens for the service of loans. They urgently need, therefore, to expand exports which, apart from capital movements and credits, are their only source of foreign exchange. Although much depends upon the policies of these countries themselves there is a growing awareness that it is in the common interest that their access to markets should be facilitated. This is a subject which is being thoroughly ventilated in the GATT and the less-developed countries have been encouraged to hope that the industrialized countries will take account of these urgent necessities in the shaping of their commercial and tariff policies. With these considerations in mind the less-developed countries may take a somewhat quickened interest in the Dillon negotiations (i.e. the general round in 1961) as a means by which this recognition of their export problems could be translated into concrete and specific action through the reduction of trade barriers.

These are some of the structural problems which provide the background for the tariff conference. How are they likely to find expression in the negotiations?

(1) The Six and the Seven

The Six have from the outset welcomed the Dillon negotiations and have cited their willingness to submit the common tariff so early to international negotiations as an earnest of the sincerity of their intentions to pursue a liberal external policy. As we have seen already the possibility of negotiating for reduction in the common tariff was the principal motivation of the United States in proposing negotiations to the other contracting parties. Understandably enough the EFTA Seven, though willing enough to engage in negotiations with the United States, have been somewhat reserved in their attitude to negotiation with the Six, so long as there appeared a prospect of some broader European arrangement. The Paris conferences in the early part of 1960 and the subsequent discussions in the Committee on Trade Problems (usually known as the Committee of Twenty-One) have directed attention to the possibility of negotiations between the two European groups in the framework of the GATT tariff conference as a means of reducing tariffs in the more important sectors of European trade so as to avoid the disruption of traditional channels. The work of the Twenty-One has therefore tended to become a preparation for the negotiations under the auspices of GATT. To the extent that such negotiations are successful in lowering trade barriers between the two groups they will play an important part in minimizing the possible disruptive effects of the co-existence of two distinct trade groups and at the same time facilitate an ultimate closer rapprochement which seems to be increasingly desired on both sides.
The limiting factor, however, is that any tariff reductions negotiated between the European groups have, under the most-favoured-nation rule, which is central to GATT, to be extended to all other GATT members. This would mean, in particular, that substantial indirect benefits would accrue to the United States, which is a substantial supplier of products which enter importantly into intra-European trade. Whilst European countries, conscious both of the continued generosity of the United States towards Europe and the serious concern of the United States about its export trade and balance of payments, will no doubt be disposed to be generous to the United States they can hardly be expected to accord substantial tariff benefits to United States exports without a measure of reciprocity. The United States bargaining authority - reductions of up to 20 per cent on individual items, spread over four years - is strictly limited. The United States Administration will necessarily have to proceed with some caution and "peril point" procedures may severely limit its freedom of action on "sensitive" items. The "sensitive" items, such as woollen textiles, chemical and pharmaceutical products, bicycles etcetera are also those which are of most interest to European exporters. So that after the United States has provided payment for the concessions which it is seeking in direct negotiations with the European countries - particularly with the United Kingdom and the Six - there will not be a great deal to spare to pay for indirect benefits derived from intra-European negotiations. This is a limiting factor on the scope of the negotiations which should not be underestimated.

(2) Agriculture

The agricultural exporters will be seeking in these negotiations for a greater degree of access to markets for their traditional exports. Tariff concessions will not be of great interest unless assurances can also be obtained that tariff concessions will not be frustrated by quotas, subsidies, minimum price schemes and other non-tariff measures. The agricultural exporters have obtained agreement that the negotiating rules will be widened so that non-tariff measures will be "negotiable" at this tariff conference. But this concession has been accompanied by clear warnings from the importing countries that this agreement on "negotiability" is quite different from agreement to negotiate, and there is little disposition evident so far to negotiate binding commitments on non-tariff measures for the protection of agriculture. Here, in brief, the prospects are either that there is a new deal - or at least the beginnings of a new deal - or no deal.

(3) The less-developed countries

Hitherto somewhat indifferent to tariff negotiations the less-developed countries may well modify their position if the negotiations promise real benefits for their exports. Their demands are likely to take four forms.
First, those that are beginning to emerge as manufacturers will seek assurances that their manufactured products are given reasonable terms of access to world markets. Secondly, the progress of the discussions on agriculture will be closely followed by the less-developed countries which still remain very much dependent on agricultural exports. Thirdly, they will be anxious to negotiate for mitigation of the Rome Treaty provisions which give preferential advantages to the overseas territories of the Six, in order to maintain access to the rich and growing European market. Fourthly, strong pressure must be expected from countries such as India and Brazil for the reduction of heavy consumption taxes on tropical beverages, tea and coffee in particular. These again have been admitted as "negotiable", but with the same warnings that agreement on "negotiability" is different from agreement to negotiate. Lastly, they will be concerned to probe the possibility of some modification of the traditional policy of the industrialized countries of granting free entry or low rates of duty for primary products while maintaining high protection on semi-processed materials.

This account of the issues underlying the negotiations and of the question marks hanging over these issues will show that too much should not be expected as the immediate outcome. There will certainly be some progress in tariff reduction, but the basic issues and the shape of future solutions can only be outlined during this negotiation. It is well, however, that this should be done at this time so that the new administration which will shortly be established in Washington will have a clear picture of the context of future United States policy and the type of negotiating powers which it will be necessary to provide for in fresh trade legislation if the great trading powers are going to march together towards world-wide tariff disarmament which economic conditions in the sixties render both possible and desirable.

Fortunately the Dillon negotiations, opening early in 1961, will be preceded by renegotiations with the Member States of the EEC, arising from the necessity for the Six to change existing rates of duty which are "bound" under GATT, in order to align them with the corresponding duties in the future common tariff of the Community. This will be a useful breathing space during which the negotiators will be able to have a preliminary exchange of views and reach an assessment of the opportunities and problems which will present themselves in the New Year.