GENERAL AGREEMENT ON TARIFFS AND TRADE

GATT Training Programme Manual

Part I - The Main Features of a Multilateral Trading System

1960

Villa Le Bocage, Geneva
## CONTENTS

**PART I**

**THE MAIN FEATURES OF A MULTILATERAL TRADING SYSTEM**

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I. THE IMPORTANCE OF COMMERCIAL POLICY FOR UNDER-DEVELOPED COUNTRIES

You have examined last week the various procedures and methods which have been used during the last twelve years in order to establish a system of multilateral trade in the world. Now during the next few days I am going to try and draw conclusions from various talks you have listened to and discussions you have taken part in. The question is, what is of practical use for under-developed countries of the matters raised in these discussions. How far can these methods and procedures be of value to countries which are in the process of economic development? I am not going to discuss all the various points but will try to segregate the major points in order to focus on what appears to me to be the essential problem.

Until very recently the general reaction in many under-developed countries was that all these efforts at finding ways and means of establishing a world-wide trading community were not of particular interest to under-developed countries. And there was even the feeling that commercial policy in an under-developed country is something of very minor importance.

Today I am going to discuss this first problem: is commercial policy important for under-developed countries and why? There is a theory which has been accepted in certain quarters that foreign trade is a very important part of national policy in under-developed countries, but that the under-developed countries cannot exercise much influence on the trends of foreign trade because they are under-developed. That is the famous theory of the peripheral countries, which has been developed very ably by the leaders of the Economic Commission for Latin America, and which runs this way: the under-developed countries are exporting mainly primary products; as the market for primary products depends essentially on the level of economic activity in the industrialized
countries and as the terms of trade are more or less imposed by the importing countries, the primary exporting countries can only accept whatever terms, whatever demand is in existence at any given moment; therefore they have not much latitude either to develop their markets, because the demand is more or less predetermined by the situation in the main industrialized countries, or they cannot have much influence over the terms of that trade - that is to say, the price that they can obtain from their export goods, because of the tremendous predominance of the industrialized countries in world markets. So, if this theory were true, it would lead to the conclusion that, although foreign trade is of major interest to the primary producing countries and, therefore, to the developing countries, commercial policy cannot have the same importance as in industrialized countries for the very reason that the developing countries can neither exercise much influence on the volume of goods which they can export, nor on the price at which these goods are sold; and, as industrialized countries need these primary products it is not in their interest to put any obstacles on the trade in these products; therefore, the scope for an active commercial policy is limited. It is stated that, whereas industrialized countries in their exports have to meet very substantial obstacles such as tariffs, quotas, etc..., because of the competition with national industries in the importing countries, exporters of raw materials do not face these problems, because, in their own interest, importing countries have to keep the level of these obstacles to trade very low. I have stated this problem in very clear terms, because it is an important question to all the developing countries. That is why they have to see whether they have a real interest in developing an active commercial policy.

Now, is it true to say that commercial policy has only a minor part to play in the national policies of the developing countries? I think that it is a fallacy to believe that commercial policy is only of interest to exporters of industrial products, and for the three reasons that I am going to develop.
The first reason is that commercial policy has an important part to play in connexion with the programmes of economic development, and I would go so far as to say that, in present circumstances, one of the serious weaknesses of development programmes in many undeveloped countries is the fact that commercial policy considerations have not yet taken a sufficiently important part in the framing and execution of such programmes. Because of the theory which I have explained before, countries have concentrated their development programmes only on import substitution. In other words, they have come to the conclusion that, in order to find the necessary foreign exchange which is indispensable to implement their industrialization programmes, and to purchase abroad the capital equipment essential to their economic development, what they have to do is to cut imports and to replace imported manufactured goods by similar goods produced at home. In other words, development programmes have concentrated on the domestic market and have not attempted, at least sufficiently, to provide for new or expanded production of export goods. This is a very important consideration, because I do not think that it is possible to reach a balance in the trade of the under-developed countries by cutting down on imports only. Import requirements of capital goods, of various raw materials, and fuels are such that practically all the developing countries, with the exception of those who are rich in oil deposits (and even then they naturally develop exports) are obliged to supplement their present exchange receipts by the export of additional goods. Therefore, no economic development programme is possible at present if there is not a substantial part of this programme which is devoted to the production of additional export goods. We will see later what kind of export goods should be developed, whether they should be primary products, semi-manufactured or manufactured products. But, in any case, I think that it is now impossible to envisage a harmonious development of the economies of the developing countries unless these countries are devoting part of their resources, part of their manpower, and part of their capital to the production of additional export goods. This means that development programmes can only be established in conjunction with the people who are responsible for commercial policy, who
are the only persons able to determine what kind of products will be exported, at what price these products will have to be produced in order to be competitive on world markets, and where these products should be sent. Therefore, it is indispensable for developing countries to have an active commercial policy as a guide to the establishment of economic development programmes.

The second reason, which is also of general importance, is the danger of inflation. As you know, practically all the countries which are developing, as well as a large number of industrialized countries, are faced all the time by the threat of inflationary pressures, and although ten years ago it was fashionable to think that economic development had to be based on inflation, it is now recognized everywhere that inflation is a mortal enemy of economic development. Indeed, if you indulge in inflation, you may well increase your nominal national income, but all of the advance made would be eaten up by a corresponding increase in prices, which in the end would mean that (if you think in real terms) you will have no increase in the standard of living of the country concerned and, in a number of cases, you will even find out that there has been a regression, because inflation involves distortion in the pattern of production and results in a misapplication of your resources and in a net deterioration of your productive activities. During the past twelve years, commercial policy has become an important weapon against inflation. Governments have found out that in most cases the only practical effective way of combating inflation is to stem the scope of competition by bringing in foreign suppliers. I give you just one instance, the case of Germany, which is not an under-developed country, but which, nevertheless, feared inflationary pressures some years ago. After having tried a number of methods, the German Government thought that the best way of keeping prices under control was simply to cut down drastically the obstacles to trade, that is to say the tariffs, by 25 per cent. That was done for no other reason but to try and keep prices down and therefore to avoid a vicious spiral of inflation. Now it is quite clear that this type of method which has been used with success in a number of countries is also something which can be applied by under-developed countries. In a number of cases the under-developed countries
have used this method, not necessarily in the same form as Germany had, and not necessarily in the form of a cut of 20 or 25 per cent of the import duties, but in other forms, which we will consider later on. In particular, in the case of countries which have export duties, they have varied the rate of the duty precisely in order to wipe out additional purchasing power and bring down prices indirectly. But you can also have the method of reducing the obstacles to import trade, as in the case of the Australian Government, which decided a few weeks ago to get rid of its import controls in the form of quotas. The main motive for it was that, unless the Australian Government were prepared to slash the obstacles to imports, it would not be possible, by domestic measures, to prevent prices from soaring, and inflation from having a bad influence on the economic activity of the country. This is the second reason which is of particular importance in view of the very serious danger of inflationary pressures in under-developed countries. That is why the very powerful weapon of commercial policy has to be used in order to combat these inflationary pressures. And, in order to use that weapon, you must have people who know about commercial policy and what are the effects to be expected from one particular measure of commercial policy or another.

The third reason is more directly connected to trade itself. It is not true to say that exporters of primary products have no influence over the volume of trade or the price at which their export goods are sold. There is, of course, one way of improving exports, and that is to be more competitive than the other suppliers. Even if it is true that the total demand for one particular product may be determined by the degree of economic activity in the major industrial countries, it does not follow that the suppliers will be affected exactly to the same degree. For example, it is true that, if there is a slump in the motor car industry, the demand for a certain number of products which go to that industry, such as lead, or tin, or aluminium, would be affected. But it is not absolutely true to say that all the suppliers of these materials will be affected equally. The competitive position of the various suppliers will come into play, and if we look at the statistics for the last ten years we shall see that, during the recessions which have taken place, the various
suppliers of the various primary products have not been affected equally; some have resisted more successfully than others. Why? Mainly because they have been able to sell their goods under better conditions than others. For instance, you can have a better quality, and that is where export promotion comes into play, which is part of commercial policy in any country, whether it is industrialized or not. Or, you can produce goods which are better adjusted to the market. Take rubber, for instance: it is quite clear that rubber at present is suffering from competition in many fields from the synthetic product. There are certain countries which have been making very important experiments in order to produce not the common or garden type of smoked ribbed sheets as were usually provided for on the rubber market some years ago, but new types of rubber, which has undergone some chemical processes and is now in great demand for special uses, competing successfully with artificial or synthetic rubber. But there are other countries where such experiments and such progress have not been made. So, it is quite clear that the first set of countries will be in a better position to resist any slump in demand than the other countries which have not progressed to the same degree.

What I say of rubber is true of other commodities. If you have the type of product which is homogeneous, and in conformity with the standards of the world markets, you have better chances of selling your goods when there is a slump than if you produce the type of goods which is not easily saleable. If you sell wool, and if your wool is graded, you have better chances of selling it on the market than the exporters who are selling various kinds of ungraded wool. Or, if you sell wool which is clean and of good quality, then you have better chances than if you sell wool which is not well prepared, not well packed, not well cleaned, and so on. These are very important considerations. That is why the developing country should see to it that its exporters are meeting the standards and are keeping their competitive status whenever there is a decline in world demand.

This part of export promotion is one which is usually considered as being of minor importance, whereas, in my opinion, it is probably one of
the main activities of the commercial policy that administrations in all the developing countries should attend to.

This is a case which is well known. It is quite clear that Australian wool, and even New Zealand wool or South African wool, is easier to dispose of on world markets than wool which is produced, let us say, by Pakistan, or even by Uruguay, and, in certain cases, by Argentina. This is purely a question of export promotion, i.e., the establishment of export standards and the supervision, by the Government, of the quality of the product exported.

But export promotion is not enough; you have also to organize your trade. You cannot just let the customer come and buy your goods - you have to do what every merchant, every shopkeeper does - you have to go to the consumer, you have to go to the importer. You have to get a sort of trading machinery which can really bring the buyer and the seller together. All the governments have understood the need for a very active network of commercial counsellors, officials who are posted in the various countries, and are ready to help their exporters, to publicize the value of their goods, to give indications on where to find the goods, what are the conditions, and so on. This is also a very important part of the machinery of commercial policy. There are a number of countries - developing countries - which are not doing as well as they should in their export trade simply because this type of machinery does not exist. Or when it has been established, it has not been established in the right manner. Let me give you one example. The Burmese Government, after the war, nationalized the export trade in rice, and set up governmental selling agencies in various countries. This type of apparatus was certainly not comparable to the selling apparatus of a number of other countries, and, especially, of the countries which were relying on private trade for this sort of export. As a result Burma was able to sell its rice when the going was good, but when rice became available again on world markets after the end of the war, and as soon as the supply position changed, Burma did not sell its rice as easily as her other competitors, mainly because of the defects in the arrangements for a mutual export trade.
The Government has to play an important part in trying to educate its exporters and, in particular, to give them the necessary assistance in the organization of their sales abroad. This does not mean that the Government should take over the export trade - I don't think that is a very good method - but it should be ready to give assistance to its traders whenever they have to enter a market, in providing all the necessary technical information which they require about formalities, tariffs, arrangements for freights, insurance, and everything which is so essential in international trade, and which is not necessarily available to the exporters or the producers in the exporting countries.

The other question of major importance to commercial policy which justifies the establishment of the commercial policy administration, and a powerful one at that, in the under-developed countries, is the fact that it is not true to say that sales are not hampered in world markets by obstacles when you have to export primary products. First of all, even in the field of raw materials, minerals, ores and so on, there are still obstacles. We have seen the United States imposing quota restrictions on the imports of a number of non-ferrous metals, lead and zinc. We have seen that there are tariffs still in existence in a number of industrial countries, in Europe, for some of these products. We know that in the case of aluminium, which is one metal which primary producing countries may develop, in Africa in particular, there are obstacles to their trade; the tariffs have not been removed in all the importing countries. Further, if we enter the field of agricultural raw materials or products, it is quite clear that you have to face at present even more serious obstacles, both in the form of quantitative restrictions, and in the form of tariffs. That is something which you have to fight against if you want to develop your trade, or even if you want to keep your share of the present trade. Then, it is not true to say that you are absolutely passive. If you remain very passive you will not get anything at all; but if you are active, you are going to get more than you would otherwise get. But, in these fields, you have not only to deal with tariffs and quotas; you have also to deal with competitors who are financially strong and who may become exporters on the world markets and may grab part of your share if you are not careful.
I spoke of rice a moment ago. In the case of rice, you have industrialized countries which have developed the production of rice and which have become important exporters of that commodity. Some of these countries have invaded the markets which, at present, belong to a few Asian countries. It is no secret that the United States has disposed of large amounts of rice in Asia, in Japan and some other places, and in doing so has certainly taken a part of the trade which belonged formerly to under-developed countries. If these countries remain passive, they would be cleaned out of the trade altogether. You must have an active commercial policy; you have to try and keep your share, and, if possible, try and get more of your share in the future. Now what is true of rice is true of cotton. What is true of cotton may be true of other commodities. There are in a number of European countries either regular surpluses or accidental surpluses which have to be disposed of on the world markets, and may perturb the world markets to the detriment of the under-developed countries. And, if the under-developed countries take the view that this is of no interest to them, they are not going to keep their stand on these markets, quite clearly. Then, you have countries which are in a position to subsidize their exports of primary products, and there again, you have a very important problem to tackle, and it can only be tackled if you have an active commercial policy. There are other cases in which you can also influence, if not the volume of your trade, at least the terms of that trade. It is, of course, true that you cannot create a demand where a demand does not exist. But the elasticity of the demand may be influenced by the price. For instance, the elasticity of the demand for raw materials may not be very large; but, if prices are good, you may induce enough importers or producers to buy for stock during a period of slump. You cannot just judge the market possibilities by taking into account only the current demand. We all know that, quite apart from the current demand, there is an important element in the establishment of the market conditions, and that is, of course, the movement in stocks. Now everybody in business is ready to buy goods for stock if prices appear to be reasonable. Therefore you can have the possibility of maintaining part of your sales, even during a slump, if your terms are attractive enough to induce the
importers and producers to buy for stock. It may be that, in the long run, this will be made up by reduction in their purchases in times of boom, but for the primary producers it is important to have some sort of stability and not to have just booms and slumps. Therefore, it is of interest to see that you have a more stable movement in the sales of the individual products. There again, you have to assess what is in your interest: whether it is in your interest to keep the stocks for yourself during the slumps so as to be able to discharge them on the market when there is a boom; or, whether it is in your interest to get the financing of the stocks done by the other side. And that is, of course, a problem of commercial policy.

Now, it is not absolutely true to say that you cannot influence the prices. There have been a certain number of attempts made to stabilize the prices of certain commodities. Some attempts have been made by individual countries. You know that, before the war, the Brazilian Government, for instance, tried to keep the price of coffee at a somewhat higher level than would be the result of disorganized markets, by taking part of its current production out of the market, and by keeping and financing the stocks. This, of course, was not a very successful operation in the thirties, because, quite clearly, if you have a depression such as there was at that time it was beyond the reach of any government to try and stem the tide - this amounted to the same exercise as King Canute tried to do in the Middle Ages: to keep the sea off the shores of Britain - but there are circumstances in which such an action, even done by one country, has proved to be successful. I give you one instance - it was two or three years ago when there was a fairly unfavourable position on the cocoa markets. The Brazilian Government (which, decidedly, likes this sort of operation), managed to keep its stocks of cocoa off the markets for a certain number of weeks, because it did not want to sell below a certain predetermined price. For a number of weeks, it was touch and go, because the importers in New York, mainly, were holding out, as they were expecting the Brazilian Government's operation to collapse. But, fortunately for the Brazilian Government, the technical position of the market was such that importers got towards the end of the period and wanted
to cover their needs, so that finally they sent orders and accepted the price which had been laid down by the Brazilian Government. Thus, the Brazilian Government managed to sell its stocks at a price which was better than the one it would have obtained if it had not played that game. I was in Accra about that time, and the Government in Ghana was very nervous about this Brazilian operation because, if this operation had not come out right, then there would have been a terrific catastrophe on the cocoa market at the time when the Ghana crops were coming on the market. But, fortunately, the Brazilians pulled it off at the right time. They tried to do it in the following year, but, I must say, with less success. I don't give you that as a model to follow, because I think it is fairly dangerous to play that game unless you have a strong hand, and, in present circumstances, it is practically impossible for one individual government to corner the market in that way. There are other operations, which are better and sounder, as for instance when you got an agreement between not only the producers, but between the producers and the consumers, and you try to maintain a certain stability in the prices of the particular commodity. This is a technique of commodity agreements, which has proved to be fairly successful in the case of tin. If you look at the prices of tin during the last three or four years, you will find that they have fallen far less than the prices of the other non-ferrous metals. This was due, quite clearly, to the existence of a surplus stock, and also, to the existence of a Tin Council which imposed a certain discipline on the producing countries, with the assent of the consuming countries. So there you have a field where you cannot say that the under-developed countries exporting primary products have absolutely no influence over the terms of their own trade. This is an example of measures which are less spectacular, but it is quite clear that they constitute a very substantial area where commercial policy can bring very practical and useful results to the developing countries.

Lastly, it is becoming clearer and clearer that all the developing countries are going to diversify their economies and are also going to diversify their exports. More and more, these countries are going to reach the stage which had been already reached by the industrialized
countries a century ago. The more you diversify your exports, the more you try to sell goods which compete with the goods of the importing countries (and that is particularly true of any processed goods), the more you need the assistance of an active commercial policy. That is what all the industrial countries have recognized for a number of years and, therefore, the trend in the developing countries is not away from commercial policy methods, but more and more to adapt the methods which are used by the industrial countries to their particular requirements. The more you diversify your economy, the more your methods are going to be similar to those which are now applied by the industrialized countries.

In brief, what I wanted to tell you today was that, first of all, this idea that commercial policy is a luxury for developing countries is, in my opinion, a fallacy. Secondly, that commercial policy is useful not only with a view to promoting trade, but also as part and parcel of the general economic policies in developing countries. That is even more important in developing countries than in industrialized countries, because of the very vulnerable situation of the developing industries to inflationary pressures. And thirdly, that, even in the field of primary exports, there is a lot which can and should be done by commercial policy in the developing countries. My conclusion is that, if you want to industrialize your country, and if you want to diversify your economy, the need for an active commercial policy will become greater and greater.
II. THE VARIOUS TYPES OF COMMERCIAL POLICY FOR UNDER-DEVELOPED COUNTRIES

During my first lecture, we saw the part which commercial policy is playing in the general economic policy of countries. We have now to examine what are the various types of commercial policies.

The easiest way is to go back to the most primitive type of trade between individuals. Suppose that you have a group of individuals or families which are producing a certain number of natural products; the first stage is for each of them to produce more or less everything which the group needs. Then gradually—this can be seen in all communities, even in the most primitive ones—one family is short of some product whereas another family has a surplus. So, the group which has a deficit will ask the group with the surplus to give them the surplus. However, the latter is not usually prepared to give it but is prepared to exchange it against something which they would like to have and which they do not have. This is the most primitive type of trade—an exchange of some products which somebody has against other products which the other has not produced. It is the simplest system of barter: an exchange of one product against another product. That is bilateral barter. At the next stage the first group feels that it might be more economical for them to produce systematically more than they need in order to be able to proceed with such exchanges; and the other group is doing the same, producing a little more than is necessary for their own subsistence. You have then a pattern of trade which develops and which is based on the most simple system of division of labour. But this does not allow the trade to develop very substantially, or to be very fruitful, because the possibilities of each small group may be limited or because you cannot find in this type of bilateral exchanges a possible balance between the products exchanged. So rapidly a position develops in which, let us say, Group A has something which they are prepared to sell; then, Group B would like to get this product from Group A, but has nothing of interest to offer to Group A; so, it is not possible to achieve a sort of balance between the two. But Group C may have precisely the product which Group A wants, and is not interested.
in the products which Group A sells, but in the products which Group B sells. So, you have a system of triangular trade which can be developed: A sells to C the products C wants; A sells to B the products A wants; and then B gets the product which is required in order to complete this sort of triangular operation.

This is the type of triangular or multilateral barter arrangement. But very soon this type of arrangement encounters practical difficulties, because it is always very difficult to get the exact equivalents between the products exchanged. You may decide, for instance, that an ox has the same value as three goats; but if you want a goat, you cannot just sell one third of an ox. There are all sorts of problems. And if you have other partners coming in, it is even more difficult to get an exact exchange for the goods. So, very rapidly, the various people involved agree on a common standard which may be a sort of symbolical type of money, but which rapidly evolves into a standard of money which has a value of itself, something like silver or gold. Then, all these operations become much more simple, because, instead of having to find the exact equivalent number of goats for an ox, or onions for a pig, you quote a price for each product and you do not exchange the goats but you exchange a certain amount of gold or silver which is legal tender, so to speak, in all these transactions. By this time you have a system of trade which is no longer a barter trade, but which is based on a currency as a means of payment.

This is the simple way in which the trading operations among individuals have developed. As soon as the various groups have traded among themselves, they followed more or less the same trend. They started by exchanging goods against goods - a type of bilateral barter trade which has been in existence for a number of years and which is still in existence in a number of countries, even after World War II. For instance, Ceylon concluded such an agreement with mainland China some years ago. Ceylon agreed to send each year a certain amount of rubber to China and China agreed to send to Ceylon during that same period of time a certain amount of rice. It was a pure barter arrangement, with no currency involved, no transfer of funds. It did not last very long, but still, it was a system which was purely barter.
Sometimes this barter system develops into a bilateral payments and trade arrangement which is slightly more refined, because you do not determine from the beginning the amounts of goods to be exchanged but you determine what amounts to the same thing, i.e., a ceiling of the values to be exchanged on each side. In other words, country A sells to country B a certain number of products up to a value of, let us say, 100 million dollars. Instead of getting the payment for these goods in cash, they obtain a credit in the central bank of country B; in other words, they have their blocked currencies which cannot be withdrawn from the bank except in the form of goods purchased from country B; and then, they buy from country B up to the amount which has been determined in the bilateral agreement. If this operation is slightly more refined than the pure barter agreement, the economic effects are about the same, because it means that you have to get a balance each year between the amounts purchased and the amounts sold, and you have the same problem as you had before between A and B when you could not get exactly the products you wanted to buy.

The experience of these bilateral agreements has shown the very serious limitations of this type of trade. To give you an instance, Burma, at one time was unable to sell its rice in the same quantities as before, and was trying very hard to get foreign exchange against this rice. In those circumstances, Burma signed a bilateral agreement with China along the lines I have described. China took the rice off the hands of the Burmese producers, but when the Burmese wanted to buy something in China they did not find there the type of goods which they would have liked to purchase. Their main need was for clothing and cotton piece goods, and, at that time, China was not in a position to produce and export these goods. So this bilateral agreement was not successful during a period of two or three years simply because Burma could not find in China the type of goods which she needed; and, as she could not use the blocked account for anything but purchases in China, when selling her rice, she had not obtained anything to buy imports with. The same experience was so familiar to the Eastern and Southern European countries during the thirties. It was a system of clearing arrangements.
tobacco from Bulgaria because Bulgaria could not dispose of its tobacco on the world markets. Bulgaria received in exchange a blocked account at the Reich Bank in Berlin. But when, at that time Bulgaria tried to buy things of value from Germany, she could not get what she wanted, but was offered mouth organs, aspirin tubes, etc. in vast quantities. So their blocked accounts in Reich Marks were not of much use to them. This was due to the bilateral pattern of trade they had decided to agree upon.

What was true of Bulgaria was true also of Yugoslavia, of Greece to a certain extent, and of other countries. It is quite clear that one of the main defects of this bilateral system of trading is the fact that you have to strike a balance, and the balance is always at the lower level of the two parties; in other words, if one country is not able to export, then there is a deficit for that country and a credit for the other, and the other has to reduce its exports so as not to accumulate blocked currency which would not be of use to them. So the tendency for the bilateral trading system is to adjust the equilibrium downwards. In other words, the bilateral trading system is a system which tends to depress the level of trading to the lower position of the weaker party.

This has been corrected to a certain extent by a number of additional features. Instead of providing for a rigid balance during a period of a year or so, you may have what have been called the "swing credits", i.e., the possibility of exceeding the ceiling because the creditor country is prepared to grant credits to the other one in the hope that, in the next period, the balance will be restored because the weaker partner will be in a position to expand its trade. The swing credit has been of great assistance in the working out of these bilateral agreements; but usually, the tendency is for the weaker partner to remain weak and for the swing credit to be frozen after a short while.

The next step was to try and see how far it might be possible to obtain the balance by introducing the triangular scheme I explained to you earlier. There are a few examples of that. You have, first of all, the agreements which Finland had concluded some years ago with the USSR and Poland, on the one hand, with the USSR and Rumania on the other hand. Finland had a sort of
structural surplus with the USSR, and the USSR was not in a position to bring its exports up to that level. So the deficit was met by exports of coal from Poland to Finland or by exports of oil from Rumania to Finland. This type of triangular settlement took advantage of the structural position of the three countries in their bilateral relationships. It did not continue for one very simple reason, which was that Poland or Rumania thought that they were selling a product which had a good world market and could be sold for convertible currencies, which were more attractive in many ways than the blocked Rouble accounts which they were obtaining through this arrangement. And, as soon as they were politically strong enough to make their claims heard, they cancelled this arrangement and asked Finland to pay for their coal or their oil either in convertible currencies, or through the purchase of Polish or Rumanian goods. So, even in this sort of set up, there is a tendency for the arrangement to be of short duration, as soon as one of the partners considers that it can get a better deal through changing to a more multilateral system of trading. You have another example of the same nature in the case of Burma. Burma had a bilateral agreement with the USSR which did not work because the USSR was not in a position to sell to Burma precisely the goods which Burma required, and, although the USSR tried to make up the balance by building a stadium and a hotel in Rangoon, the Burmese found that it was not exactly what they wanted because they could very well do without a hotel or a stadium; they needed cotton piece goods to clothe their inhabitants. Then, the USSR agreed to make a triangular arrangement with Czechoslovakia which was in a better position than the USSR to provide the Burmese with the goods which they wanted. So there was a transfer. The Burmese Government was authorized to use the blocked roubles not only for purchases in the USSR but also for purchases in Czechoslovakia, which meant that by this arrangement Czechoslovakia increased its holdings of blocked roubles in the USSR. This is one type of arrangement which gives some more flexibility to the bilateral payments and trade arrangements I talked to you about.

There are other forms of bilateral payments and trade agreements which we will discuss later on, but I just wanted to indicate to you this type of bilateral agreement which is the result of the natural tendency to expect a
balance between two partners. As soon as you have at your disposal something which looks like a currency, either the symbolic shells which are used in primitive trading groups, or gold, or any other standard which represents an intrinsic value, then the advantages of the bilateral trading system disappear completely. Why? Because it is, of course, better for a country to try and have more than one customer for its products. That is a trading system which any shopkeeper knows; if you are obliged to sell to one customer only, you are at the mercy of that customer. It is the situation of monopoly which the economists describe in their textbooks. Therefore, as soon as you can get convertible currencies or something of value from various customers, your interest is to try to offer your goods on a certain number of markets and to choose the customer who is prepared to pay you the highest price. But your interest is not to have a bilateral agreement which will introduce an artificial system of prices, which is naturally to the detriment of the weaker partner. In the same way, if you get convertible currencies or anything which is of common value to a number of countries, your interest is to pick and choose among your suppliers in order to get the best price, the best quality, or the best terms. So, as soon as you introduce the idea of a common standard of value, your interest is to get into a multilateral system of trading — a system which enables you to pick your customer or your supplier for any type of transaction without having your hands tied. That is why you have a complete change of approach as soon as you introduce an international system of payments. And that is why there is a very clear cut link between the payments system and your system of trading.

If you take the situation of the sterling area, for instance, after the big depression in the thirties, you will see that whereas trade was limited or restricted practically everywhere in the world, it was possible to maintain a fairly free flow of trade inside the sterling area simply because there was a common standard of value within the area and the possibility of using the sterling practically as legal tender in all these territories as it was before. Because of the existence of this international means of payment the sterling area countries were in a position to maintain a free flow of trade. After the war you had again the same situation when the sterling area remained as
a sort of currency system by itself. Sterling was no longer convertible into other currencies; and, apart from the American dollar, the Canadian dollar and the Swiss franc, all the other currencies were inconvertible. So the countries had to develop a system based on this inconvertibility of currencies. They had to resort to or maintain bilateral systems of payments, which meant that they had also to maintain a bilateral system of trading. The next step was for the Western European countries to try and develop a system of clearing among themselves. This started by a rather crude system of clearing or compensation, but gradually it evolved into what was called the European Payments Union, a system by which, instead of having bilateral balances, credits or deficits, you had a general pooling of all these bilateral payments agreements and a possibility of compensating deficits in one bilateral relation with balances or credits in the other. And, with the existence of a special central fund and a special arrangement according to which one part of the multilateral debt was paid in gold, or convertible currency, and the other was in the form of a debit, the creditor would get only one part in gold, and the other part in terms of credits. You were then able to maintain a multilateral system of trading because there was no point in maintaining bilateral channels of trade. But this arrangement was confined to the EPU area. Although, and this is an anomaly, the currency areas of the participating countries, and in particular the sterling area, were part of this system of clearing (as all the payments between the sterling area and Western Europe went through the EPU), it was not possible to extend the trading system to all the partners in the monetary arrangement. The advantages of the multilateral trading system were limited to the European members of the EPU and to the overseas dependencies of these countries, but were not extended to the other members of the sterling area or other currency arrangements which were only parties to the purely payments arrangement. You had a situation in which trade was going on mostly on multilateral lines, between the European members of the EPU, but in which trade continued on bilateral lines with most of the other countries of the world, because the currencies of settlement in the EPU were not convertible but simply transferable among the EPU countries. You could not use your
credits in the EPU fully to buy from the convertible areas, such as the United States or Canada, and therefore you had a system of trading which was not the same in these three sectors. There was a system of trading with the dollar area which was generally more restricted than with the other currency areas; then there was the most liberal system which was the trading going on on the basis of the EPU arrangements; and lastly you had the bilateral trading channels which remained with the countries whose currencies were neither convertible nor transferable. When the position in Europe improved, it was possible to modify the set-up of the EPU in such a way as to increase the parts of the settlement which would be in gold or convertible currencies, until you reached a point where most of the countries in Europe decided to make their currencies externally convertible; that is to say, their transactions, instead of being based partly on cash and partly on credit, were based fully on cash. By that time, the European system of payments was no longer different, at least so far as foreign trade is concerned, from the arrangements with fully convertible currencies. And when that point was reached the European countries had to merge their trading system and to extend their multilateral system of trading over the convertible areas. So today you have a big convertible area and a big multilateral system of trading which covers all the convertible currencies and all the currencies which are externally convertible, and the bilateral system of trading is limited to the cases in which trade is not conducted in convertible currencies. But that does not mean that the trading which goes on with countries outside the area of convertible currencies is based on bilateral payments agreements. In a number of cases, the trade goes on on the basis of payments in convertible currencies, which allows the incorporation into the multilateral system of trading. This development of trading systems affects the systems of commercial policy which the countries are applying.

The first stage was that of autonomous commercial policy, which means that each country decided for itself the type of action which the government would take in the field of trade. Such a system has been going on for a number of centuries and until recently a country like the United States, for instance, did not accept any other form of commercial policy. Until
1934, and the Reciprocal Trade Act, the United States had not accepted any international commitment regarding its commercial policy. In other words, the country was following a purely autonomous policy; this explains why, even today, it is so difficult to obtain from the American Congress the acceptance of any trade commitment on an international basis. It is simply because until thirty years ago there was nobody in the United States who thought that they could limit their sovereignty in the field of commercial policy and trade. This is a situation which existed in practically all industrial countries until a century ago. Indeed, the first important trade agreement was the Franco-British Agreement of 1860; it was the forerunner of a series of agreements which have been negotiated and concluded practically every year between the European countries since that time. But in most other countries, and especially in the under-developed countries, there was no idea that any other form of commercial policy was required. In most of these countries the type of commercial policy which was followed was a purely autonomous one. But, as soon as the exchanges become more diversified, as soon as the export interests have to be protected against obstacles abroad, these countries come to the viewpoint that this type of anarchical situation is of no use and is dangerous to all concerned. These governments gradually try to see how they can protect their export interests by negotiating with their customers or with the governments where their principal markets lie. The natural consequence is that in order to protect your export interests you are obliged also to give guarantees to the export interests of your partners. And the only solution is to accept the second type of commercial policy which is the bilateral commercial policy. This means that there is an agreement between two countries to the effect that each will limit its freedom to intervene in import or export trade, provided the partner is prepared to do the same. This arrangement maintains the necessary stability for the exporting countries to plan ahead their programmes of production and enables them to continue to derive the benefits of foreign trading. This second type was, of course, particularly difficult to achieve because in the nineteenth century the governments had a very high concept of their sovereign rights, and it was extremely difficult to obtain from these governments any kind of limitation of those rights, either politically or economically.
But the pressure of the facts was such that gradually, during the second part of the nineteenth century, there developed a very close-knit network of bilateral agreements among the industrialized countries of Europe. At that time there was a certain stability in trade in these countries, which explains to a large extent the growing prosperity of these countries during the latter part of the century and the first part of the twentieth century.

What were the general elements and features of these bilateral agreements? I have indicated to you that this was essentially a limitation of the freedom of the governments to intervene in import trade, except within certain limits. In those days, things were comparatively simple because the governments had only invented one type of intervention in trading, the customs duty. During that period, there was practically no other means of government intervention; the government did not dream of imposing prohibitions except for a number of extra-economic reasons (prohibition of obscene publications, goods produced in prisons, for instance, but the number of exceptions of this kind is very small). The idea of limiting imports by administrative measures, by fixing a ceiling or a quota, was not popular either, and it was generally accepted that the government should limit its intervention to making the price of the imported product more expensive than on world markets, in order to limit the impact of the competition of these foreign goods on its own market. Since the intervention of the State was limited to that factor, it is quite clear that the objective of the bilateral agreements of that time was to limit this power of action of the government, by two methods. The first one is the so-called binding against increase, that is the commitment by the government not to raise the tariff on any particular item above a certain level; very often it was considered sufficient for the other exporting country to obtain a guarantee that the rate which was applied at that time would remain at that level and not be increased during the next year or for several years. The second method was that of a reduction of the duty. When the exporting country felt that the duty was particularly damaging to its export trade, it tried to improve its export position by obtaining a reduction of this barrier. Naturally, these bindings and these reductions were on a mutual basis. If a country was prepared to
grant a concession of this kind, it tried to obtain for its own export trade
the same advantages. So that, by means of these bilateral agreements, there
was a constant process of lowering the obstacles to trade on a mutual basis
which enabled the export trade on both sides to develop. At the same time,
the importing countries were in a position to assess with some precision the
impact of these commitments so as not to create undue difficulties for their
domestic industries. This is the pattern of a bilateral agreement of the
old type.

This was, of course, a great step forward in the development of foreign
trade. There were, however, a number of imperfections in this system of
bilateral trading. The first was that usually these bilateral agreements
were not of a very long duration, they were commitments of a tentative
nature - the governments wanted to feel the position, and they usually
signed these agreements for a short period, reserving the right to renew
them or not, so that the resulting trade stability was not of a durable
nature. The second point - and we have seen it also in the bilateral
trading methods between individuals - is that there are a number of difficulties
in obtaining the best trade advantages if you conduct your trade along
bilateral channels. It is because of these imperfections that from the
very beginning of the bilateral system the countries introduced in the bilateral
agreement a clause providing for what was called, and is still called, the
most-favoured-nation treatment. The habit has been to try, in these
bilateral trade agreements, to obtain the most-favoured-nation treatment
not only for the products on which specific tariff concessions were asked for
and granted, but to have it applied as widely as possible, and this led to
the introduction of what was called the most-favoured-nation clause in its
unconditional form. That means that the most-favoured-nation clause would
extend to all the tariffs, to all the products, and not only to the
products which had been negotiated. It took some time before this form of
most-favoured-nation treatment was accepted, but gradually the countries
accepted this grant and asked for this very wide guarantee against competition
from other suppliers. Such is the bilateral system which, as I have
said, has been in force from 1860 to roughly 1930 in most industrialized
countries and which has been accepted by other countries as well. And here, the word "bilateral" has a slightly different meaning from the word "bilateral" which I used when describing bilateral trading, because so long as the bilateral system is based on the most-favoured-nation treatment, it applies not only to the bilateral system of trading, but also to the multilateral system of trading. It is only when it is based on preferential treatment that it coincides with the notion of bilateral trading.

The bilateral system of commercial policy collapsed with the depression of the 1930's when the tariffs were washed overboard. And, owing to a large extent to the complete disorganization of trading during the thirties and also during the Second World War, the idea prevailed in those days that the bilateral system of commercial policy had completely failed and would fail again unless a completely new system was introduced. Instead of having bilateral contracts which could be different from one country to another, the idea was to substitute a code of commercial policy which would be accepted by the bulk of the trading nations, and applied by them as a contract, not as a public law, but with the value of a law in the sense that the same rules would apply to all the partners. This is the system of multilateral commercial policy which has evolved during the post-war period. Quite clearly, the main instance of this type of commercial policy is the one which is exemplified by the GATT. It is not, however, the only system of multilateral commercial policy which has evolved. There has been another attempt on a more limited basis which was that of the OEEC. In that case an attempt was made to evolve rules of commercial policy which would be accepted by a number of countries, and which would constitute the standard for their commercial policy. It would no longer be a system of rules, accepted bilaterally, after negotiations and for a short period, without any method of real enforcement, as was the case with the bilateral system.

The system of the OEEC has been very useful and has given good results but at present the tendency is to merge the OEEC system of commercial policy into the wider system of the GATT. I will discuss that later on, when we examine the relations between the GATT and the other organizations. But there
is one decision which was taken in 1960 at a Ministerial meeting which was considering the structure of the new organization called OECD (which would be the successor of the OEEC) that I want to mention. It was decided at that meeting that the main code of the OEEC, the so-called code of liberalization, will not be continued, and the only code which will survive in this particular but most important branch of commercial policy, will be the GATT commitments in which practically all the members of the OEEC participate, or will participate in the very near future. I mention this to show that there is no reason for not having one code for a part of the world and a wider code - that of the GATT - for the entire world existing at the same time. It is possible in the future to envisage situations in which countries in limited parts of the world might be able to go further than the wider organization in the regulation of their commercial policy. It is clear that if you have to deal with a very wide membership with countries at different degrees of development or in different situations, and having different economic structures, it is more difficult to obtain from them the acceptance of very detailed rules; whereas, if you have to deal with countries having a very active trade among themselves, having more or less the same level of development, and the same traditions, it is possible to go further. This does not exclude the possibility of adding to the GATT code for special reasons, but always on the assumption that everybody would accept the minimum rules contained in the wider code.

In connexion with the advantages and disadvantages of the multilateral approach as compared with the autonomous or bilateral approach, but I want to stress two or three points. The first one is that the autonomous approach is only possible when you have no substantial export interests or when your export interests do not meet substantial obstacles. For a country like the USSR or the United States, it is clear that as foreign trade is less important for their standard of living and their economic activity, the pressure of a multilateral code of approach is less than for a country which is extremely dependent on foreign trade. Or, if you are only exporting products for which there is no obstacle to trade, i.e., some raw materials on which there are no duties or import restrictions, then of course there is not much point in
joining a multilateral system of commercial policy. I would not say it is unnecessary, but the price you will have to pay for participating in this system should be a nominal one or, at any rate, should not be a very high one. But as soon as you have substantial export interests, and as soon as these export interests have to be protected — and that is unfortunately the case for practically every country in present circumstances — then you must get this type of protection and you have to abandon part of your sovereignty which you could maintain in an autonomous system of commercial policy. Each country has to make up its mind and weigh the advantages and the disadvantages of belonging to a system which, to a certain extent, limits its freedom of action.

Now, I shall take the system of bilateral system of trading versus the multilateral one. In most cases you will find — and I don't say that the bilateral system of trading is one which you have to discard completely — that there are certain circumstances in which recourse to that system is either necessary or profitable, but as a general proposition the bilateral system of trading has very important drawbacks. The first one is that it is of short duration. When bilateral agreements can be terminated after six months, or after a year, you cannot build an export trade on such slender guarantees. The multilateral system of trading has the great advantage of interlocking the interests of a large number of countries. Even though a country may withdraw from the GATT by giving sixty days' notice, I think that, in fact, no country is at present prepared to leave the GATT because it would mean that it would sever its relationships not only with one country but with the entire group, thus losing all the advantages it has derived from its participation in the GATT. That is really the reason why the GATT is solid; not because it is a long-term agreement, but because the interests of so many countries are so closely intertwined that it would be extremely complicated for any country to get out, even if it is entitled to do so. The second disadvantage of a bilateral system of trading is that, in present circumstances, and especially in circumstances where you may have balance-of-payments difficulties, you cannot rely on a system which does not provide for arbitration. If you have a dispute, or any problem inside a
bilateral system, it is very hard to get a solution simply because each partner will insist on its own interpretation of the Treaty. Or, if you find a solution, it is based on force and not on law. The great advantage of the multilateral system of trading in commercial policy is that it has introduced an element of objectivity in the discussions of trade disputes. What is more important is the interpretation of the circumstances in which a country is authorized under the code to take this or that action. That is one of the main features of the multilateral system of trading. Then, finally, the bilateral system, as I have already hinted, is one in which the terms of the contract, its conditions of application, are based on the bilateral relationship of the two partners, which means in the last resort, on their relative political strength. It is quite clear that whatever you do, whether you like it or not, the stronger partner will be in a position to get better terms than the weaker partner, and nothing will ever remedy that situation. Whereas the multilateral system of commercial policy has the great advantage of giving not only nominal equality, but also a substantial degree of real equality between the partners, because there is always a group of countries which form a sort of third party which have no interests in the matter, but which will see to it that everybody gets its fair share. And, what is more, you have a system of rules which are equal for all. If we, in the GATT, have made some countries more equal than others, it is by giving more facilities to the countries in the weaker position, as compared with the countries in a stronger position. But the reverse has never been experienced because of the particular set-up in the GATT in which each country has one vote. Therefore, there is no possibility of getting some of the bigger countries impose their will against the smaller brethren. And that is true also of the OEEC; it is true of any other multilateral system of commercial policy because it is a protection for the smaller partners.

These are briefly the main systems of commercial policy which have evolved as a result of the developments over many years in the field of international trade. But before I finish, I want to draw your attention to one particular factor which explains, to a large extent, the evolution both
in the system of trading and in the system of commercial policy. Going back
to two or three of our primitive families or individuals who started trading
with their own products, you will see that the trading was on what I would call
a complementary basis. That is to say, the man "A" who tried to buy from "B"
is trying to buy something which he has not got, which he doesn't produce.
In certain cases he may buy something which he produces but only if he has a
shortage. The basis is really that of complementary trading. If you look at
the structure of foreign and international trade until the beginning of the
nineteenth century, you will see that trade amongst the nations was also a
more or less complementary trade. If you take the relations between the
industrialized countries during the nineteenth century and the under-developed
countries, you will see that trade was also complementary. The under-developed
countries were selling raw materials and foodstuffs to industrialized countries
and, with the exception of certain agricultural products, these raw materials
were not produced or were no longer produced in the industrialized countries.
In the same way, the under-developed countries were buying from the in-
dustrialized countries consumer goods which they did not produce, because of
the competition of more elaborate techniques. So your trade was on a purely
complementary basis.

It is quite clear that some trade is based on this simple division of
labour, and the government has very little to do. The government is not trying
to stop the goods from leaving the country. It is not trying to stop the goods
from entering the country, and its only interest is to use a very simple tech-
nique and to see that the goods coming in or going out have to go in or out
through a certain number of ports or a certain number of places on the frontier,
where it is easy to control the trade and to levy at that moment the duties or
charges to provide the revenue which the government needs. The government was
interested in foreign trade mainly because it was an easy way of getting
revenue. But apart from that, the government had practically no interest in
intervening. Then, after the industrial revolution, in the relationships
between the industrialized countries, you had a situation which was completely
different: trading was no longer complementary, it was competitive. One might
have thought that as soon as, say, Germany, or France, or the United States
developed an industry, they would stop buying from the United Kingdom, which was practically the only producer of consumer goods. But that was not the case; on the contrary. There has been a brisk trade going on among the industrialized countries, and even now it is easier to expand trade among industrial countries than between the industrial countries in the rest of the world. Why? Because today the system of division of labour is more refined than the simple division which existed in the nineteenth century between the industrialized countries and the various types of consumers; in particular, for each branch of industry it is often necessary today for the consumer to be in a position to compare the domestic goods with the goods which he can obtain from abroad. That is why the government is taking a more active part in commercial trade policy than ever before. There are now two conflicting interests. You have the interests of the producer, a domestic producer, who wants naturally to be protected; and if he can, he will want to try to get a complete monopoly and exclude foreign products completely. On the other hand, you have the interests of the consumer, and of the country at large, to get the cheapest and the best goods, which means that there should be a possibility for the consumer to choose between the domestic product and the products from abroad; and all the time, the government has to strike a sort of balance between the interests of the producer and the interests of the consumer in order to see what degree of competition it is best for the country to maintain. That is why the problem of an active commercial policy of the government is far more important when you abandon the complementary type of international trade and you enter the field of competitive trading because, there, the government cannot escape its own responsibility. It has to decide, it has to take a stand on all the products as soon as there is a production in the country. And that is why countries can no longer remain aloof. The governments cannot even accept the idea of autonomous policy because, there again, you have another type of conflict, and that is a conflict between the domestic producers who want to shut the doors to the imports and the exporters who want to be protected against the same process in the importing countries. There again, the government has to arbitrate between the domestic producers interested in the domestic market, and the exporters who are interested in foreign markets. And as all the governments become interested, they find that if they remain with an autonomous policy they are going to be sunk. So, they have to come to terms, and therefore they have to enter, first, the bilateral system of commercial policy, and gradually shift to the multilateral system of commercial policy.
III. THE TRADE OBJECTIVES OF A COMMERCIAL POLICY IN DEVELOPING COUNTRIES

In this lecture we are going to examine the particular trade objectives of commercial policy and to see what are the general lines which should be followed in developing countries. I indicated to you in my last lecture that there are three main objectives; the first one is fiscal, the second one is protection of specific industries, the third one is protection of balance of payments.

1. The Fiscal Objective

It is well known that in practically all countries the government has used its customs administration for the collection of revenue. The reason is mainly one of convenience, because with a modicum of staff you can collect the revenue easily when goods cross the frontier, and especially if you have extensive sea frontiers; whereas the collection of internal taxes requires a far more elaborate system of administration, of control, checking, and so on. Quite naturally, the governments have therefore interfered with the flow of trade, not in order to limit it but rather to collect from it the maximum possible revenue. However, if you look at the position of industrialized countries at present, you will find that the actual revenue derived from customs plays a comparatively small part in the total revenue of the State. In certain countries the figures may even be deceptive. That is particularly true of the United Kingdom where the customs revenue still looms large, due to the fact that most of the revenue duties are made up of internal taxes. They are the counterpart of the excise duties which are levied on the domestic products. In other countries the system is different, and the customs duties are kept separate from internal taxes; so that whenever foreign goods enter the country they are subjected to an internal tax which is distinct from the customs duty. In certain cases this tax is called a countervailing duty, or some other name, but it is really the replica of the excise, turnover and other taxes levied on domestic goods.

Now, if you look at the situation in the industrialized countries you will find that the revenue duties are limited to a few products, mainly traditional luxury products such as wines, spirits and sugar, because all
"Colonial" products such as coffee, tea, spices and a few other "luxuries" were considered to be a luxury years ago.

Then you have a second group of so-called revenue duties which are, in certain countries, revenue duties, and in other countries excise taxes. They affect mainly oil products. That is about all.

In primary producing countries, on the other hand, the system is quite different, in the sense that you have duties or taxes levied on practically all the consumer goods which are imported. Instead of having revenue duties which are limited to a small range of products, you have a broader net in which you catch practically all the consumer goods which are imported, and at the same time, there are no or very few taxes on the goods which are produced domestically. Then, apart from the import duties which are levied for revenue purposes, you have what you do not find usually in industrialized countries, i.e. quite a range of export duties, also levied for revenue purposes. This is particularly true of the exports of mineral products like metal ores or oil, but it is also conspicuous in the case of other export products such as coffee, tea, cotton, jute and quite a series of primary products. These export duties are also a form of taxation and take the place of the various corporate taxes and other forms of direct taxation which you have in the industrialized countries. This is very important, for the reason that the existence of this type of revenue customs duties is creating very difficult problems when the countries are developing and want to use the tariff as a means of protection. The change over from a revenue duty to a protective duty is something which is not so easy as people may believe. In this connexion you have to remember that practically all measures of commercial policy have three effects. They have a revenue effect; they have a protective effect on domestic production; and they have also a balance-of-payments effect because they limit the demand for imports. And, whatever you do, these three effects are there in the case of tariffs and at least two of these effects are there in the case of a quantitative restriction. You cannot separate one of these effects from the others; so that if you put on a duty for revenue purposes, if there is any domestic production this revenue duty will have a protective effect, whether you call this duty a revenue duty or not, and whether your prime intention is to bring in revenue or not. That is why there are a certain number of countries, such as India or Pakistan, which classify their tariffs
into revenue duties and protective duties. But you cannot do that because, even if it is called a revenue duty, and you have a domestic production, it is a protective duty at the same time as it is a revenue duty. Also, a tariff is bound to have an effect on the balance of payments. Quite clearly, if you raise the price of an imported product this will reduce the demand for the imported product and therefore will have an effect on your balance-of-payments situation. In the same way, if you have a quantitative restriction, and if you have it for protective motives, it can have a balance-of-payments effect; and if you have it for balance-of-payments reasons it will have a protective effect so far as you have domestic production. But it has no revenue effect. It does not bring any revenue to the State, although sometimes it brings income to the officials who administer the system and to the people who benefit from the issue of the licence, and are prepared to pay part of the profit of the windfall to the officials who give the licences, though this is not a properly called revenue effect. It has, in any case, the same effect upon prices as a tariff would have, and that is quite an important point.

2. **Methods of Protection for Specific Industries**

Now, coming to protection, the object of the protective measures may be to prevent competition from foreign sources, and that can be obtained by means of an administrative prohibition or by means of prohibitive tariffs. There are not so many prohibitive tariffs in existence at the present. But, nevertheless, you can have a tariff which is so high that nobody would be prepared to pay the price for an imported product. But, if you want to kill competition altogether, prohibition is the most perfect weapon you can devise. It is so perfect that it is used only in very few cases, because one of the features of the methods of commercial policy is that they are only good when they are imperfect. (When they are perfect, they are just like horse medicine; they cure the patient at the same time as they kill him.) That is why I am always impatient with the people who say that this method of commercial policy is more efficient, more perfect - I say "Well, yes, this is rather dangerous, and I much prefer the imperfect ones".)
So, as regards protection, what do you want to do? If you don't want to prohibit competition from foreign sources, your problem is to enable the domestic product to sell on the market in spite of certain deficiencies, while allowing, at the same time, some kind of competition with the foreign product. That sounds simple but it is not as easy to solve as an equation. The problem is therefore to protect at the same time the producer and the consumer. You do not want, by limiting the field of competition, to give to your domestic producer a quasi-monopolistic position on the market because you are sure that he will abuse the situation and make excessive profits to the detriment of the consumer. Some countries feel they can remedy this situation by price control, and some countries have tried price controls. I think it is generally recognized that these countries have failed, because while it is extremely difficult to enforce price controls in industrialized countries where you have a pretty good administration, it is hopeless to try and enforce price controls in a country where you have not reached the same level of administrative standards and where you have not enough officials to go around and do the necessary checking. In all countries where price controls have been introduced, except in times of emergency or of war, the natural tendency has been for a flourishing black market to divert large parts of the resources; and the black market was very often organized and supplemented by very elaborate smuggling devices which are very efficient in industrialized and non-industrialized countries alike. So, most of the countries have found that they could not really afford to give to their domestic producers a type of protection which would make them the masters of the situation and impose their prices on the market. The corrective to that is a certain degree of competition, and that is why, in all countries, the attempt has been made to find forms of protection which would take into consideration these two major motives: first, to protect the consumer against excessive squeezing by the producers; and secondly, granting the producer a reasonable degree of protection.

What are the particular problems which you encounter in developing countries? There was a time when protection was considered as being rather abnormal, where the ideal was free trade, and where protection was justified
only as a sort of temporary educating method, a system to be used only to allow your infant industry to become competitive and to overcome the particular disabilities which any new industry faces, and faced even more in the nineteenth century than now. You have had the famous German theories about this type of protection. You have the same ideas prevailing in the United States and other places; but industries in these countries were never educated, and they always relied more or less on protection. After they had overcome the deficiencies of early production, then there were other problems. There were the questions of labour discrepancies, taxes, and the price which they had to pay for their coal, steels etc.; so that there was always an excuse for keeping some form of protection. It is because the autonomous system has been replaced by the bilateral and the multilateral one that it has been possible to exert some pressure on the level of protective devices. But if the governments were left alone in face of their industries or their agriculture they would be surrounded by a terrific wall which would make competition practically impossible. One reason for that state of things is that producers are very well organized; whereas the consumers are not organized, and can hardly be organized in any country because very often the major group of consumers, the workers, have a divided mind over the problem of protection. As consumers they would like to have the goods as cheaply as possible, but as part of the productive apparatus, they are afraid of losing their jobs, and are therefore afraid of competition, so they generally side with the employers in resisting a liberal commercial policy.

This varies from country to country. If you take the Scandinavian countries for instance you will find that, by and large, the trade unions are in favour of a liberal commercial policy and are opposed to high tariffs or to restrictive policies. On the other hand, if you take countries like France or Italy, you will find the trade unions strongly protectionist. If you take the United States you will find two trends of mind: you will have one group of the trade unions which is fairly liberal in its outlook, and another group which is fairly protectionist. This reflects the competitive situation of the various industries, and there has been a tendency during the last two or three
years for the trade union movement to move away from its liberal commercial policy standpoint. This tendency towards a rather restrictive policy is due to the balance of forces inside the countries being rather in favour of the producers against the consumers.

You meet the same situation in the developing countries, and I would even say the position is worse, because there the government is at pains to develop production. But, in order to stimulate production, it is also obliged to give guarantees to the entrepreneurs - a thing which the government in industrialized countries is no longer obliged to give. This means that, in order to induce domestic investors to start production the government is prepared to attract them by giving them a degree of protection which doesn't exist any longer in the industrialized country, and, where it tries to attract foreign capital, it is also obliged to offer a certain number of guarantees to the foreign investors. This is of course fairly dangerous for the developing countries, because it means that the development programmes cannot be implemented as economically as they should. The country has to pay too high a price for the venture capital, and when it is obliged to do that there are two consequences. The first one is that any import substitution of necessities of life or goods of pretty wide circulation is going to be more expensive than the goods imported; and therefore, any increment to the nominal national income will be deflated or sometimes nullified by the reduction in the real purchasing power of the population. In other words, the government will be thrown into the process of inflation. The second consequence develops as soon as the government tries to export, not only the new products, but also the traditional export goods. Because of the effects on the cost of production in the traditional lines, the government will find itself less competitive than before and, in very competitive markets, will find that its exports will be reduced or that it will be necessary to lose part of the earnings in the national currency. In other words, the exports will have to be subsidized, either by price reduction on the part of the exporters, or by some form of aid to exports given by the taxpayer.
This is one of the most important factors in economic development. It has the natural tendency to inflate prices because of the lack of managerial resources, the lack of venture capital inside the country, and the diffidence on the part of the foreign investor who is prepared to take the risks of investing in those countries only if there is a big reward, or if his capital can produce more than on the markets of industrialized countries.

This is, of course, one of the serious problems of economic development in present circumstances, and it is all the more necessary for the government to use the weapon of commercial policy to combat these tendencies. Therefore the government must be extremely careful in granting protection to the new industries. The government must really look at the problems, not only from the side of the producer, but from the side of the consumer, and from the side of its general economic policy. Unfortunately, this is a task to which the developing countries have not been trained because this is a new trend. When, before, they were exporting their primary products and importing the consumer goods, the governments had not to interfere because there was no question of protection, it was purely a complementary trade, and the only interest of the government was to see to it that the taxes levied on imports or on exports would not kill the goose that laid the golden egg. In other words, its only preoccupation was to maintain the volume of imports so as to maximise the revenue derived from the taxes. It is now a completely different proposition because what the government has to do is to try and set up a system of protection which will not stimulate inflationary pressures and which will at the same time give to the new industries a decent and reasonable protection.

I do not want to enter into the details, but I do want to draw your attention to the need for a system of enquiry into the problems of protection, which should afford some guarantee of impartiality and expertise. Leaving this decision in the hands of government officials is somewhat dangerous; leaving it to the private sector, to groups of private
Interests is also fairly dangerous; and, I think that the best machinery is the setting-up of a fairly independent tariff committee or tariff board.

There are various types of tariff commissions and tariff boards, some of which are good, others bad, others indifferent. You have the United States system of a Tariff Commission which is unfortunately biased by political considerations; as you know, half of the members must be Democrats and half of the members must be Republicans. This introduces a political element which is not what is needed in this type of business. There are fairly good tariff boards in Australia and in some other parts of the British Commonwealth. It seems to me that probably the best system I know is the Indian type of tariff commission, where you have a limited number of commissioners who are selected for their personal knowledge of the matters, who have an independent position and cannot receive orders either from the Government or from private business. Their independence is guaranteed even after they have served their term of office, and they have a staff of their own which is also independent of the Government and of the rest of the community. I think this type of tariff commission is probably the best one for a developing country, if they can find the people to man it, because there is no undue influence on the part of the Government and there is the minimum of interference by the interested parties. In some countries it has not been possible to achieve the same type of set-up. In Brazil, for instance, I strongly advised the Brazilian Government to establish a system which would be more or less similar to the Indian system; but because of political pressures this was not possible, and the tariff board is a body which is still very much influenced by political considerations. Part of the members are appointed by the Minister for Finance and part are representatives of the various private interests: federation of industries, trade unions, federation of traders, co-operatives, and so on. This, in my opinion, is not as good as the system by which the interests are not sitting on the board but where they are heard, where they appear as interested parties. I still believe that the Indian system is probably much better and more organized than any other composition that you find in other countries.
The basic idea, and this applies in the case of the Indian Commission too, is that protection is given for a certain period. There is still this idea that the tariff during the period of formation, of running-in of a new industry, should not be the pattern for the more permanent type of protection which will be necessary afterwards. And I think that, in principle, this is a good idea. But in practice it is very different to enforce it. In any case I think that the provision to the effect that the degree of protection granted is to be reviewed after a certain number of years, more or less automatically, is something which is worth considering and, I think, worth retaining. It is much better for a government not to be tied down more or less indefinitely and to have the right to look at the situation after a certain while. And I think it is also a safeguard for the government because after a few years the position of the industry has certainly improved and either the industry is becoming economic, or it is not economic. That is the problem which the government has to face, whether it is prepared to continue to protect an efficient industry indefinitely, in view of the consequences which I indicated to you before.

As you see, this question of the degree of protection to be granted is something which has to be considered very carefully. And in countries where you have a full investigation, there is an examination of the cost structure of the industry, of the various commercial and financial elements in the production and although, of course, you cannot arrive at any scientific certainty, this type of investigation is much better than any decision which is taken simply under the pressure of interested parties or on the basis of political discussions. But, in order to enforce such a decision you must have a pretty good trade administration in the country concerned, because these decisions have still to be confirmed by the government and there may be cases where the tariff commission has made mistakes, not because its background was wrong but because they did not take into account other, more general, problems of economic policy.

We have seen, in the case of the Tariff Commission in the United States, that very often the President has refused to follow the recommendations of the Tariff Commission. He has done it, not so much
because the Tariff Commission was biased, although in a certain number of cases the Tariff Commission was naturally biased in favour of the domestic producer, but because the Government had to take into account a number of general considerations which the Tariff Commission had not taken into account. Therefore, even when you have a good responsible objective tariff board you must have, nevertheless, a governmental policy, and it is not a foregone conclusion that all the decisions or recommendations of this Commission should be accepted by the government because, as I say, there is a number of general factors which have to come into play. These considerations can only be implemented by the government and not by any subsidiary body. But then there is also the question of translating these recommendations into practical operation. I don't want to discuss the technical details about the running of the customs administration or any other form of commercial policy, but quite clearly a policy can only be implemented if you have the tools to implement it, which means that if you are applying tariffs you must have a tariff which works. In many developing countries the tariff is obsolete, out of date, and no longer corresponds to the present requirements. It needs a complete overhauling. Staff has to be trained; a certain number of technical devices are needed to avoid tax evasion, and to avoid all sorts of abuses. It is also necessary to avoid the natural tendency for the customs administration to regard themselves as tax collectors and, therefore, to levy the highest duty which they can levy.

There was an occasion when we picked up a circular which was addressed by the Secretary of the Treasury, or the Commissioner of Customs of the United States to the officers of the customs administration to the effect that "Your duty as customs officers is to prevent the entry of any foreign goods which has overcome the tariffs barrier. Now boys go at it." This, afterwards, was considered as being obsolete and has been withdrawn. But that is the type of spirit which you will find in certain customs administrations, because they are revenue officers, and sometimes they believe that their duty is to bring in as much revenue as they can, by hook or by crook. This is but one illustration of the fact that you have a
particularly difficult task in this form of protection of the domestic industry. Another question, which we will consider later on, is what type of protective measure should we use. Shall we use the tariff; or shall we use other forms of protection? (Which means, in most cases, administrative restrictions - quantitative restrictions on imports.) We will see later on the case for either forms of protection and we will now discuss the merits and demerits of tariffs and quantitative restrictions. This is an important problem. We will see that there are certain features which are not common to industrialized and developing countries, and that there is a certain number of factors which have to be considered very closely.

3. The Protection of the Balance-of-Payments Situation

We come now to the last objective, which is the protection of the balance-of-payments situation. This is something which is fairly new because in the nineteenth century no country would have dreamed that the customs administration or the commercial policy officials would have anything to do with the problem which was a matter for the Central Bank and the Treasury to look after. In the nineteenth century, when you had the gold standard all these questions which were related to the balance of current accounts were met by the automatic working, or so-called automatic working of the gold standard. The disequilibrium would start a chain reaction mainly through the operation of the bank rate and discount rates, and the corrective capital movements would restore the balance. This is the theoretical aspect. In practice it never worked as simply as that, of course, but by and large these disequilibria were corrected, except in a few extreme cases, by the working of the monetary policies and the credit policies in the various countries. The commercial policy people had practically nothing to do with that. Since the nineteen-thirties the situation has changed. I do not want to enter into the reasons why the situation has changed, except to indicate that the economic structure has become more rigid in the twentieth century, and in particular there has been a stronger resistance on the part of the wage earners against taking
the brunt of any adjustment in the situation. Therefore it has been necessary to use other methods to restore the equilibrium. When the disequilibria are not too large the old system of internal corrective measures is still valid. Now that the countries have restored currency convertibility it is quite clear that they have to look after their problems by means of internal corrective measures to a very large extent. But when the currencies are not convertible, and even when they are convertible and there is a very substantial change in the balance-of-payments situation (in particular in the countries which are exporting and depending on the export of primary products whose market prices are still subject to fairly violent fluctuations), the situation may change abruptly and your internal corrective measures cannot work quickly enough to maintain the equilibrium. In those circumstances, there is practically only one solution, and that is to reduce for the time being the demand for imports, and not to wait on the indirect effects of new internal measures to reduce the demand for imports, but to interfere with the demand by some governmental action. This action, of course, should be rather an emergency action which should give time for the internal corrective measures to take effect, and these temporary measures should normally be eliminated after a while. How do you do that? Well, there are two methods. The first one is to increase the price of imports, that is what was called in England during the war "rationing by purse", and the other one is to issue ration books, in other words, to limit the amounts of goods which can be imported. The first system is more adapted to market economies in general and brings less distortion. The second is easier to play and to manage, if not to apply - governments, in general, prefer rationing by quantitative restrictions, but they have discovered very rapidly the disadvantages of the method. The disadvantage is that if it is easy to plan, it is difficult to administer, because if you give licences when the volume is reduced, it means that you offer an advantage for certain people to the detriment of others. You also introduce an element of monopoly, in the sense that the people that have got the licence have something which is synonymous with a monopoly, because they can increase the prices as the supply is less and the demand is the same.
So naturally these people are making a profit; they make an abnormal profit. And even if they don't make an abnormal profit because their turnover is reduced, the profit margin is much greater than it was before, prices increase, and the consumer has to pay far more for the goods than he should. It introduces an element of corruption because, quite clearly, by giving a piece of paper to somebody you give him a possibility of making a fantastic profit and there is a temptation to say: "Look here, this paper is worth so much that I want to get my share ...". And even if he doesn't ask for his share the other party will give it in order to be sure that he gets the licence. The licensing system has all sorts of effects in the long run; so that a number of countries have considered whether they could not find some other alternative method of protecting their balance of payments without entering into this particular field.

Some countries have abandoned the system of quantitative restrictions to use a method which is based on what I might call differential taxes in the form of multiple exchange rates. This so-called multiple exchange rate system has very often affected the status of the national currency, not because it is a monetary measure, but because the country has no power to put on taxes without going to Congress, whereas it was free to do what it liked in the exchange field without going to Congress. So by calling this an exchange measure the country was free to manipulate it as it liked, without having to go to Congress for approval. If you look at this from a purely economic point of view, it is nothing but an exchange tax which is levied on the import of certain types of goods. In order to make it work there is no limitation on the volume of goods you can import, but you put taxes on certain goods so as to restrict demand and you don't put taxes on certain necessary or essential goods; thus you direct your imports in such a way as to have the same selective effect as you do with quantitative restrictions. This was a particular invention of the South American countries, and some of them were very proud of it until the system collapsed. It led to the most extraordinary situations. The importers had become sort of government officials who received their licences and just brought in their imports. They had practically no commercial attributions any longer, because they just collected their licences and the rest was done very easily. I think the best example
of this arrangement was to be found in Uruguay. I was in Uruguay some years ago, and the officials explained to me the wonderful system they had put together which was absolutely foolproof. All the importers were listed; each was given a certain index based on the total number of importers, their capital, their turnover, and on other relevant factors. This index entitled them to a certain share of any sort of licence. When I was there the Government had decided to import four Simca cars. The Government officials spent about ten days in order to allocate the four Simca cars to the various importers who were entitled to a share in this licence, with the result that the various importers were entitled to one two-hundredth or to one-fiftieth of a car. After they had received their licences they had to call a meeting at which they could put the pieces together so that one, at least, could import one entire car. When you reach this degree of scientific accuracy the system is bound to be thrown in the waste-paper basket.

Another system which was also invented in South America is the auction system of Brazil. This is a very ingenious system. Before its introduction all the importers had to give bribes all along to all the various people concerned and to spend a lot of time going through the red tape. But at one stroke they got rid of all these problems of licensing because there was no need for any licences for anything; you just had an auction. The Government was prepared to put so much foreign exchange for sale each week, or each fortnight, and the various importers had to compete for it — the same as at an auction — and the people who were prepared to pay the highest price got a little chit of paper and with this chit of paper they could get the right to import a certain number of commodities. This was perfect, because there was no possibility of having any deficit. The Government put the money on the table and the people competed for it and the market decided which things you had to import because these were the things which were most needed. This was pure market economy. The trouble was that the Government had nevertheless to make a distinction between necessary or essential goods and the others. So, instead of having one market for the exchange, you had five markets; you had markets for the essential, the very essential, the fairly essential essentials, the less-essentials and the luxury goods. Of course the Government just doled out the money to these various markets so that the price on the first market was always lower than it
was on the second, the price on the second was lower than the price on
the third and so on. That system is very ingenious. But we found that it
was not extremely good as a long-term proposition. For, when the Brazilian
Government wished to introduce a new tariff, we said: "All right, we will help
you in renegotiating your tariff bindings; but at least you should simplify
your system and have two separate auctions, one for the general category and one
for the luxury goods." That has been done, and it has been, of course, a very
important simplification. The trouble about this, although it is perhaps the
most ingenious system which has been devised, is that you cannot keep your
cross rates. You cannot keep the cross rates between the dollar and the other
currencies if you have separate auctions for the various currencies, because
obviously somebody who wants to buy American dollars is prepared to pay a
higher price than when he has to buy Greek dollars, because the Greek dollar
is something which is not very attractive and what can you buy with it?—
cigarettes, tobacco, raisins, currents or some olive oil. So that there is
a temptation to distort the price situation because of the lack of cross rates.
Some years ago, I remember, I was told that the Greeks were able to sell their
olive oil about 25 per cent higher than the Italians, simply because the
Greek dollar was much lower than the Italian dollar. And there were all sorts
of combinations; for instance, the Japanese always managed their Japanese
dollar much lower than the others simply by telling the importers not to bid
on the auctions so as to get the Japanese dollar rather low. It meant that
they could charge higher prices and the importer would pay less than if the
competition had been really fair and without any rigging. So, the system is
not yet perfect and, of course, the danger of it is that as there is always
a great demand for imports, there is of course a competition among the various
importers. Therefore, the tendency is to bring down the level of your currency
because people bid higher and higher for the foreign currencies. That is one
bad feature of the system.

Some countries which had reached the level of, I won't say stable conditions,
but more stable conditions, have considered that the simplest way of dealing
with temporary balance-of-payments difficulties would be to introduce the
system of temporary import taxes on top of their customs tariff. The first
case which came to our notice was that of Peru. The Peruvian situation
deteriorated some two or three years ago and the Peruvian Government was absolutely determined not to put on quotas or import restrictions, because they had had import restrictions after the war and had very bad experience with them, so that they were determined not to put them again in force. Therefore, they decided to introduce special additional import taxes for a period of three years and to eliminate them as soon as their balance-of-payments situation would improve. We had some difficulties in arranging this because it meant raising the tariff incidence on a certain number of bound items but, nevertheless, we gave to Peru the possibility to do it and it proved a fairly good solution in this particular case. The position in Peru improved and we have now been informed that the Government has just decided (July 1960) to eliminate a certain number of these additional import taxes.

The next country on the list was Chile, which was also in the throes of a balance-of-payments situation that had deteriorated because the price of copper went down. They also resorted to the same system and, so far as we know, this has also been fairly successful, although the temporary import taxes have not yet been removed. I understand that the same technique has been used in Israel where part of the tariff is considered as a protection of the balance of payments rather than a protection of specific industries.

Such are the various problems you have to face when you determine those measures of commercial policy which are necessary to meet your requirements. I have said that one particular feature is that you cannot just employ one measure in order to achieve one particular result, because if this measure is adequate to obtain what you want, the same measure could produce other effects. If you put on a duty for protective purposes, this duty will bring in revenue. and sometimes you will find that although this measure was not meant to produce revenue, when you want to get rid of it, and the Treasury loses revenue, then there is a big kick on the part of the Treasury.

In the same way, restrictions which are imposed for balance-of-payments reasons, as we have seen, have nevertheless a protective effect, because when you limit the imports of foreign goods, domestic producers have an easy time; and when you want to remove these balance-of-payments restrictions, when your situation is better, then these producers who have been protected by these measures say: "Now, you are just ruining us; we have to keep these restrictions
because it may be true that you have introduced them for other reasons but, nevertheless, we are protected and we want to keep that protection." That is why sometimes the government is forced, as the Australian Government has been, to take a very drastic measure and to say: "None of this nonsense; we just eliminate all these restrictions whether you like it or not." But there are very few governments who have the courage to do that. That is the point.

Commercial policy has very different aims even in the trade field. When you advise or recommend a measure you have not only to take into effect the objective you want to achieve, but also the incidental effects which this measure will have on the other side of the picture. And the question of protection is not an easy one because you have to take into account and keep the balance between the interests of the producer and the interests of the consumer. This is a most difficult part of governmental machinery because the decision is not easy to achieve. You cannot rely on electronic computers, you cannot rely on statistics, you cannot rely on scientific or objective data. There is a large amount of commonsense, there is a large amount of subjective judgments of value; but you have to get at least an adequate machinery which gives the necessary guarantees that these decisions are going to be taken, not on the basis of political influences but on the basis of facts and on a correct assessment of the interests of the country and of the population at large.
IV. METHODS OF IMPLEMENTING COMMERCIAL POLICY

During my last lecture we considered the various objectives of commercial policy and we started looking at the practical methods of implementing that policy. The normal method has been for a long time the tariff, the customs tariff. Then, during the nineteen thirties, for various reasons which we will examine later on, countries started using other methods, in particular administrative, quantitative regulation of imports. Instead of being free to import whatever quantities they wish to import subject to the payment of a duty, the governments decided that there should not be any imports beyond a certain level. That is the system which has led to the need for bilateral agreements, in order to obtain certain guarantees about the share of the various countries in this limited market; and sometimes, even very often, this quantitative regulation was buttressed by similar restrictions on delivery of foreign exchange to importers. This idea has become, in certain countries, especially before the war, and even in 1945 and 1947, the new method for commercial policy.

When we met in Havana in 1947/48 we had a very difficult time in reconciling the views of those who wanted to restore the tariff as the only method of protection and those who wanted to replace the tariff altogether by a system of administrative controls. As a matter of fact, the experience during the last twelve years has led the governments to abandon the idea that a quantitative restriction is the normal method of protection for the future and to come back to the customs tariff as the normal means of protection.

Today I would like to discuss certain particular aspects of the problem as they arise in developing countries. I told you that any method, any measure, of commercial policy has a triple effect, or in certain cases, a double effect. In the case of an import tax or import duty you have a revenue effect, you have a protective effect, and you have a balance-of-payment effect. And you cannot disassociate these various aspects, even if your intention is to follow only one particular objective. The tariff was a convenient method of collecting revenue in practically all countries and as I explained to you in my last lecture, it was for most of the primary producing countries the main source of revenue. Now that these countries are developing they are led to use the tariff not for revenue purposes but for the protection of specific industries.
There is a serious difficulty in changing over from the revenue concept to the protective concept. One of the problems which practically all developing countries have to face is to adjust their tariffs to take into account the new objectives of commercial policy. It is quite clear that, if you want to bring in revenue, your objective is not to reduce the volume of imports. It is the same problem as for an internal tax in an industrialized country; you try to get the maximum revenue, and as the maximum revenue is made up of two elements, i.e., the level of the tax and the volume to which the tax is applied, it is quite clear that the general direction of a revenue concept is to keep the flow of trade as high as possible. In order to do that, you are generally led to the conclusion that the level of the tax must be moderate, so as not to restrict imports. If you want to protect a particular industry, the object is to limit the imports to the point where competition is not too severe for your domestic industry. Thus you see immediately that the two objectives, revenue and protection, are contradictory because, on the one hand, if you have a revenue duty, the Treasury wants to increase the revenue and therefore the volume of imports, and, on the other hand, the Trade department wishes to reduce slightly, or more drastically in certain cases, the volume of imports. You can't achieve both. You have to make up your mind on what you want to do in order to achieve the commercial policy objective which is now becoming more important than the revenue one. That is why in those countries where the revenue is considered as the prerogative of the fiscal authorities, it is naturally an urgent problem to combine the two and to hammer out a reasonable compromise. This is the basic idea: if you want to protect your industry, you have to abandon, to a certain extent, the revenue function of your customs tariff.

There is another aspect of the problem, which is also very important: as soon as you have domestic production you can no longer consider a duty as being a revenue duty. If you have a revenue duty, and the existence of domestic production gives to that duty a protective character, even if it still serves certain fiscal considerations. What has happened in a number of countries was that the revenue duty was a protective duty in disguise; and the governments have sometimes tried to protect the industry, either by having other forms of taxes or by other methods, but without realizing that, in their revenue duty, they had already a very substantial protection.
The second consequence is that, as the protective element or the protective measure had the effect of reducing the imports, the revenue derived from the collection of that duty has not been maintained, and has decreased. The government was faced, after a number of years, by the necessity of finding alternative sources of revenue and, quite naturally since there was import substitution, they put a tax on domestic production.

In countries where they have developed textiles, for instance, and where textile revenue represented an important part of the revenue derived from customs, the governments lost their revenue from the duty on textiles and, after a little while, were obliged to impose on the consumer a corresponding tax on the domestic product. This method, of course, created difficulties because the domestic industry was accustomed to a certain state of affairs; and when the situation changed suddenly either the industry was not capable of meeting that competition or, if you had to deal with necessities, there was a difficult social problem involved. This was due to the fact that people took a long time to realize that this duty was no longer a revenue duty.

There is a very simple way of dealing with that problem, and that is to recognize that as soon as there is a significant production of a particular product there is no longer any need for a revenue duty.

You should then replace the revenue duty by an internal tax which would be applied equally on domestic production and on imports. If you do that there is no danger of your revenue decreasing because taking into account the composition of the supply, the volume of goods subjected to the tax will remain the same. If you start with 100 per cent of a product being imported, you will have this 100 per cent of the supply taxed; if your domestic industry starts producing say 30 per cent of your supply, then the 30 per cent will be subjected to the internal tax and the 70 per cent will be subjected to the same tax in the form of a compensating tax, or whatever formula you can accept. So, whatever be the composition of your supplies, you still have your revenue, and the more you produce the more is levied on the domestic production.

These are the terms laid down for the domestic industry, and if you want to protect that industry then you have to substitute for the revenue duty a pure protective duty. But from the revenue point of view you will
have kept the source of your revenue and, whatever changes in the composition of the supply may appear, it will not affect the revenue which you collect on this particular product. This appears to be a very simple trick; in theory it is simple, but in order to get the administration to understand it, it takes more time. It is crucial if you want to maintain a constant flow of revenue to the government; clearly it creates a certain number of administrative problems because it is much easier to collect duties on imported goods than on domestic production, but it is necessary to start this change-over very early because if you wait for some time you will be faced with extraordinary difficulties, both with your producers and your consumers, because the domestic producer (as any producer will) takes advantage of the protection in the revenue duty and his prices will be aligned to the prices of the imported goods plus the revenue duty whereas in fact, he will be exempted from that duty himself.

Another problem which arises in connexion with this change-over is the problem of the structure of your tariff. When you have a customs tariff, the object of which is purely fiscal, you can be satisfied with a very simple tariff. A system which has been in force in a number of countries, and in particular in the Commonwealth, was to have one rate, that is to say a general rate of 10 per cent on all the imports, or even, in the case of India, of 66 per cent; and then simply to take out from that general list any particular item which deserves special treatment. Then you select some items to which you give free entry if they are bare necessities, or you increase your general rate for items which are considered as being luxuries or which you would not like to continue to import. The simplest method is what I call the "basket item" and if you look at any tariff of the Commonwealth countries, (apart from Canada and Australia, of course) but of the countries which are primary producers, such as Malaya, India, and Pakistan, you will find that even when the tariff contains a sizable number of separate items, there will be, towards the end, a general "basket item" for the goods which are not in the preceding ones (10 per cent, 20, 60 or 65 per cent even). That is the system. Why? Simply because you do not need any more details than that. What you want is to have a simple definition to distinguish between the various items on which you have decided, for revenue purposes, to apply different rates. Therefore what
your customs officer needs is a simple definition; and that gives to your customs tariff a rather heterogenous outlook.

I looked at the tariff from Ghana, for instance. It is a rather extraordinary one, because you have a long list of items and then practically nothing else. So, on one particular sector you have a very long list, and for the rest of the trade you have practically nothing. This is not of course, a scientific system of nomenclature, but it was good enough as long as you were dealing with revenue tariffs.

But when you want to protect a particular industry, or a particular branch of industry, then you have to change your approach. The objective for the government is to strike a balance between the interests of the producers and the interests of the consumers, with a certain bias in favour of the consumer. Thus there is a particular requirement in that the government should try to define as clearly as possible the product for which it has to have protection. If you have, let us say in textiles, a production which is limited to the coarser types of cotton piece-goods, you have to define that very narrowly so as to let in, without any particular hindrance, the other types of cotton piece-goods which are not produced at home and for which you would like to keep your prices as low as possible for the consumers, unless you want to have some particular revenue derived from that trade. From the protective point of view, you should try to define very narrowly the items for which protection is required. And for that reason you are no longer content with this particular system. Many of the developing countries have, during the last five or six years, discarded their previous tariffs, which in certain cases dated back to the twenties; they have decided to adopt a system which will be more appropriate for their needs.

Already before the war the League of Nations had set up a Committee of Customs Experts to make proposals for a uniform Customs Nomenclature; and even before the war a number of countries had adopted that nomenclature. After the war the governments reconsidered this problem and, in Brussels, they set up a Study Group which, originally, had to deal with the project of a general customs union in Europe. Later on, when this idea was abandoned, this Study Group became the Customs Co-operation Council, whose first task was to refine and bring up to date the project of the League of Nations.
This took a certain number of years and finally, in 1950, the Council adopted a uniform nomenclature which had been examined thoroughly by experts, and which has been now introduced in practically all the Western European countries.

At the same time the Statistical Office of the United Nations had taken up the work done by the League of Nations in the statistical field. Before the war we had established what we called the "minimum list", which was based on the customs nomenclature, but where the items were arranged in a slightly different fashion to meet the requirements of the statisticians, and which should have served as a basis for uniform statistical reports from all the countries, so that the trade statistics could be compared. But, as was the case just after the war, since the United States took the lead, and as the United States was not a member of the League of Nations, a conclusion was reached that everything done by the League of Nations was bad; and they had to start all over again. They did not entirely start all over again, but they made a number of changes. So what happened was that in the United Nations the discussions were entirely on the statistical level, and the nomenclature was no longer in keeping with the customs nomenclature elaborated in Brussels. Furthermore, the customs people were not prepared to do anything to meet the statisticians and the statisticians were not prepared to do anything to meet the customs people. So the Statistical Office of the United Nations devised a nomenclature for the Central American countries called the NAUCA, which is derived from this statistical nomenclature. The Central American countries adopted this nomenclature, although they were not quite happy with it, and there was competition between the United Nations and the Brussels Council in order to sell their particular set of nomenclature. We had long discussions with the officials of the United Nations and finally we got an agreement; the present arrangement is to have a key between the two nomenclatures to keep, broadly speaking, the groups and divisions of the SITC, which is the Statistical Nomenclature, but to define the items in terms of the Brussels Nomenclature. Thus we have at present a system which is fairly reasonable. Even before it was achieved there was a tendency for the countries having to change their nomenclature to adopt the Brussels Nomenclature rather than the Statistical Nomenclature called the NAUCA.
That was a very important step forward because it was not only extremely useful for traders to have more or less the same nomenclatures in the various countries, but it was also very important for the governments concerned because the Brussels Nomenclature is not only a list of definitions, but it is accompanied by explanatory notes which go into detail and which represent a very useful guide for classifying the various products. The second advantage of course is the question of classifying new products. One of the reasons why you have such a chaotic situation in a number of countries is due to the fact that when you have an item which does not come very easily under one definition, each country takes a decision of its own. The system of Brussels has this advantage: that you have a permanent committee sitting in Brussels which considers these problems of classification. This committee arrives at uniform decisions which are accepted by the various administrations, so that you avoid the danger of starting with a uniform nomenclature which, in fact will no longer be uniform in five or ten years time, especially when you add new products from time to time. And it has also the great advantage of giving to the smaller countries the opportunity to use the expertise of the stronger financial powers who can bring in experts, and who can discuss these questions in a more or less scientific manner.

There has been a very important trend in the last five or six years towards a unification of the nomenclatures. The great advantage of the Brussels type of nomenclature, or even the NAUCA for that matter (but the NAUCA, being a statistical nomenclature, is not well adapted to the work of customs because, after all, customs duties are not there to produce statistics, but to produce certain definite results) is that you have a systematic nomenclature which covers all the goods traded, and these goods are classified in accordance with certain reasonable and simple methods, so that, instead of having a basket from which you take items from time to time, you have something which covers all the processes and which, of course, gives you an answer any time you have a product which is important. Furthermore, with the explanatory notes put out by the Council it is quite clear that you have a system which is bound to work much better than any preceding arrangements. The only difficulty we have had with the Brussels Nomenclature in connexion with primary producing countries is that it is fairly rigid, in the sense that the Nomenclature does not allow the merging of items.
We have tried to induce them to be somewhat more lenient, and I think that they are going to be more lenient provided you merge two or three items without overlapping. The present idea is that you should have all the items which appear in the Nomenclature for certain countries even if it appears to be somewhat excessive for countries which have a fairly simple trading pattern. The great advantage is that, even if they condense the Brussels Nomenclature as soon as their trade diversifies, they have the possibility of expanding it by restoring the items which were merged together.

The difficulty starts with the sub-items. For the industrialized countries, the items are not enough. They have to sub-divide the items themselves, wherever there is a reason for distinguishing in the rates; so it is necessary to try to have some sort of discipline as regards the sub-items. Unfortunately, this has not been possible in Brussels mainly because of the opposition of the United Kingdom to going beyond the items for the unification. One extraordinary example of this is the Common Tariff of the Six. All the Six have adopted the Brussels Nomenclature but their sub-items are not comparable. We had in Paris (in the Committee of Twenty-One) an exercise which aimed at getting the duties and the rates, for the countries of the Six on a specific list of items. And when the Six tried to compile that they found out that it was not possible to put the rates against sub-items which had been defined in the same way. So, you have to look up at present in the individual tariffs and to list the sub-items which may be quite different from the sub-items in another country. We have simplified the presentation of these data by using a range of rates, otherwise it would not be readable. I have just received the data for the Six, it covers 200 items; but 200 items, which mean 800 sub-items, themselves different according to the different countries.

It is a problem which is not so important for developing countries as in most cases they can go along with the items, and they do not need as yet numerous sub-items. In any case, the main advantage is to have a framework which enables you to refine, to elaborate, to spell out, as soon as your trade is diversified. This is one problem, but the degree of detail which you will require in your nomenclature depends very much on the type of rates which you adopt. If you have ad valorem rates, you can be content with a simpler nomenclature; but if you adopt specific rates, then you are bound to expand your nomenclature far more than with ad valorem rates.
This leads me to the problem of specific versus ad valorem rates.

Specific rates have a great advantage. They are simple to operate and when you have identified your product, you put the bales or the crates on scales and then you just apply the rate. You multiply the rate by the weight, or, if you have units, you count the units, and again you apply the rate. It is all very simple. You don’t need trained personnel and you avoid disputes with the importers. The only problem is that on the tare; that is to say whether you have the net weight or the gross weight, and how much tare you allow. That is a technicality which is not insuperable, as you generally have rules saying that the difference between gross and net is computed in a certain manner. And practically everybody started with specific duties. Now there has been a complete reversion, a complete change in the thinking of (not the customs administration, because the customs administration like specific duties and dislike ad valorem rates) the commercial policy people. In France, in 1945 when we adopted a new tariff nomenclature, we had to fight very hard with the customs administration because they didn’t want to apply ad valorem rates. We had to take a decision at a very high level to force the customs administration to accept the ad valorem system. In Europe you may say that the specific duties are abandoned, with the exception of Switzerland, which is a very conservative country, and where the customs administration insisted on keeping specific duties and nothing else. What are the reasons that induced the governments to abandon these specific rates of duty? The main reason why the large majority of countries have abandoned them is the lack of flexibility of these rates when you have either devaluation measures or other substantial price increases.

Looking at the problem from the angle of a developing country, I still believe that a country which had a fairly stable monetary situation should prefer the specific duties because of the simplification in the implementation of these rates. You have seen the case of Switzerland where, although it is an industrialized country, they have still kept the specific duties, due, to a certain extent, to the fact that the Swiss have a very stable monetary position, as compared with other countries, and also that their general attitude towards imports is very liberal, in other words it doesn’t matter too much if part of their tariff protection is eroded. In many developing countries, the situation is not as happy as that of Switzerland.
There is a general tendency towards inflationary pressures because of economic development; it is far more difficult to expect that the level prices would remain constant for a long period of time; and the need for protection is considered to be much greater. Therefore any significant erosion of the tariff incidence is fairly dangerous for these countries. Furthermore, a number of countries, especially in South America, have had experience of their tariffs being completely destroyed by the price fluctuations, and as they had entered into tariff negotiations with the United States, in particular, and most of their rates were bound, their tariff was no longer a valuable or efficient method of protection. Thus a number of countries, in spite of the administrative difficulty, have chosen the ad valorem system. I think it is a problem which is really worth considering because the operation of an ad valorem tariff is not easy, not even in industrialized countries with a long tradition in running public administration.

One of the advantages of specific duties, which I have not mentioned so far, is the protection it gives against low-priced imports. It is clear that if you have for one group of products a single rate, the ad valorem incidence of this rate is going to be much greater on the lower-priced goods than on the higher-priced goods. It is quite evident because the weight will be the same, or the number of yards will be the same, but the duty will of course represent a higher percentage of the value. Even countries which had the ad valorem system as a general method, have used, in certain cases where they were meeting severe competition from low-cost imports, specific minimum rates, that is to say, applying the ad valorem duty after checking that this ad valorem duty represents at least the specific minimum which is provided for. You have had a case in Sweden recently. Sweden had to face very severe competition from Italy in the field of nylon stockings and tried to meet that competition by imposing anti-dumping duties at one time. And the case was not good, as the case of dumping was not proved. Then, using some facilities under the OECD code of liberalization, they imposed a quota and that again was not acceptable. Finally the solution which was adopted after consideration by the Swedish Government was the institution of a specific minimum which attenuated the impact of the competition from Italy. There are a few other
cases, especially in textiles, where some countries adopted this system; but as you see, the specific minimum is used now in Europe only in very few cases and in order to meet this particular type of competition from low-cost imports. In some developing countries, where the original customs tariff was elaborated by the American Marines (and I mean a certain number of countries which were occupied towards the end of the first world war by the United States Marines, where they took over the administration and devised a most extraordinary customs tariff) in these countries, there is still a system which combines the disadvantages of both systems. That is to say that, for each item, they have both the ad valorem duty and the specific duty, and the customs officer has to apply the one which is the higher. You can imagine how easy it is to clear goods from the customs, especially when the customs officers are no great experts at calculations. That is something that I would certainly discourage, but it is a source of difficulties. If you apply the ad valorem duties, you have immediately the problem of valuation which is something you do not have in the case of specific duties. But in the case of ad valorem duties, you have to determine what is the value on which the duty will be assessed. This is a formidable problem for any government, and particularly for governments not having a very elaborate administration.

We have in the GATT an Article on Valuation which tries not to define the valuation method, but at least to exclude those which are clearly abusive; and needless to say, the drafters of this Article had particularly in mind the system of valuation which was in force in those days in the United States. But quite apart from the United States there are very serious problems for all the countries. It is true that in the United States, you have again this idea that if the goods still overcome the barrier of the tariff you have to discourage imports and the customs administration has at its disposal three or four methods of valuation and are obliged to use the one which results in the highest possible duty on the imported goods. The problem is what to accept: the invoice value or not? We, in the GATT, have tried to convince governments to use preferably the invoice value and to adjust the valuation only in the cases of fraud or in cases where the commercial relations between the seller and the buyer are not absolutely normal. That was the case of "exclusive agents." In Brussels, at the same time as they elaborated
a customs nomenclature, they also adopted a Convention on Valuation. To simplify matters, the British who had the most atrocious customs nomenclature, were prepared to adopt a more scientific one only if the other European countries were prepared to accept the United Kingdom methods of valuation. So, the system of valuation which is incorporated in the Brussels Convention represents more or less the British system. The definition is one which is extremely theoretical: you assess the value, which is the value that the goods would fetch on the market if conditions were normal. But in practice the administrations have accepted the invoice values in most of the cases, that is to say, the cases where there is no suspicion of fraud or where the relations between the importers and the exporters are normal. However, when you have an exclusive agent, you can very well produce an invoice which, although perfectly legitimate, does not reflect the actual cost of the product when landed. The exclusive agent may take on himself a certain number of functions which should normally be borne by the exporter, and in that way, the invoice price is lower than the actual cost. For example, if you have an exclusive agent for motor cars, all the cost of advertisement made may be paid by the agent, whereas normally this should be paid by the exporting firm. Or the cost of holding an important inventory of spare parts may be also borne by the agent, whereas it should normally be borne by the exporter, in view of the fact that if another firm is exporting without having exclusive agents, that exporter would have to pay the price of advertisement and also the cost of keeping spare parts in the vicinity.

The problem is not so much a problem of definition but rather a problem of administrative arrangements. In order to be able to assess the goods correctly, you should have a system of checks in order to see that the invoice values are really correct. The system which has been elaborated by the United Kingdom customs administration, and which has been extended now to European countries, and also to a number of countries outside, is to centralize all the operations at headquarters, and to do away with the system of special officers at the port of entry who would decide on the value of the goods. This system of individual assessments has led to a number of abuses in a number of countries and this has been made possible in certain countries by the fact that any disagreement between the importer and the customs administration about the value of the goods is considered as fraud and subject to a fine.
When you have this set-up, it is very easy for the assessor to go to the importer and say: "now look here, I don't agree with you on the value of the goods and I am going to report you and you are going to have a fine, but if you give me 50 per cent of the fine, then I close my eyes and let the consignment go through." And that is not just an exceptional situation; you may practically say that it is the rule in a number of countries.

This is not a very useful way of dealing with a problem, because you may have a situation in which the importer, by paying a sort of bribe, will get his goods subject to a much lower duty than he should pay. When I went to one specific country and talked of the accuracy of the trade statistics to certain people who were in the trade, they said, that I could double them to get a figure which would be reasonably good because the value was based, of course, on the money which had been collected and not on the actual value of the goods. That is something which is very dangerous, and sometimes there is not even a clear indication of the bribe. The point is that the goods remain in the customs shed three or four months, and in order to get them clear, the importers have to make a deal with the customs officer in charge of valuation.

It seems that the system of bringing all these cases of valuation to headquarters is probably the only answer. This system is as follows: all the invoices accompanying the declaration by the importer go to the central office; there they are first classified in accordance with the importer; then, all invoices relating to one importer are checked; then, they are also classified in accordance with the goods; so that for each category of goods you get all the invoices which have come in regularly. The service then looks at these various invoices and sees whether for the same product there are not significant price differences; and, if they find that there are some price quotations which are doubtful, they make an inquiry and go to the importer, and if there has been a fraud, of course there is a pretty heavy fine. So that by having a constant check on the price quotations, they are in a position to determine the cases of possible fraud.

The second classification is one which is necessary in order to detect any abnormal relationship between importers and exporters. Because if one importer consistently quotes prices for goods coming more or less from the
same source, which are significantly lower than those quoted by competitors, then there is a *prime facie* case of abnormal relationship, and that again is enquired into.

The problem of exclusive agents is one which is particularly difficult. The practical method is to make a thorough enquiry into the contracts between the importers and the exporters and to agree with the importer on a corrective figure. That is to say, it is decided that for Mr. X or Y the invoice price is going to be increased by 3 per cent or 4 per cent. There has been in Brussels an agreement to the effect that there would be a uniform percentage for, let us say, the importers of motor cars; the European administrations have agreed that, for all the exclusive agents importing motor cars, their invoice values would be increased a certain percentage, 3 or 4 per cent. That is the system. The instructions given to the customs officers at the port of entry would be as follows: "You accept the invoice value unless there is a suspicion of fraud. If there is a suspicion of fraud you clear the goods, but you ask for a deposit which is defined, and you send the whole thing to us at headquarters." Secondly, if there are importers under suspicion, a circular is sent to the port of entry saying, "do not clear the goods except with the deposit of that amount and the matter will be taken up at headquarters." Or, if they have agreed on a certain percentage with particular importers, there is an instruction given to the port of entry saying: For Mr. So-and-so the invoice value will be accepted plus a certain percentage which has been agreed upon. This system has the advantage of keeping the whole discussion in the hands of a small service at headquarters, which can be checked, and whose personnel is carefully selected for their devotion to work and their honesty. And you avoid any delays in the clearance of the goods because all the goods are cleared; in cases where there is some investigation to be made there is only a deposit, but the goods are cleared. Needless to say, when, in certain countries, this new regulation entered into force there was a very strong feeling of disappointment among the customs officers who found the preceding system particularly rewarding.

These are the main problems which arise in a developing country when it tries to adjust its customs policy and tariff to the requirements of a developing economy. First it must have a decent customs nomenclature;
secondly, it must have a reasonably efficient method of valuation (and I would say that it is not so much the definition which is important as the actual organisation of the valuation service). Thirdly, it must discuss what is the more appropriate system, either ad valorem or specific, or ad valorem within a certain number of cases of specific minimum rates. There are of course, other possibilities which exist in theory. Then the last problem is that it must take the revenue problem out of the customs duty system, replace the revenue duties by internal taxes which would apply equally to domestic production and imported goods, and then define a protection policy and establish the rates. For that purpose it must have a form of machinery which is as efficient and objective as can be devised.
V. PROCEDURES FOR TARIFF NEGOTIATIONS

In my last lecture we considered the various problems relating to the structure of the customs tariff. On the assumption that the obstacles to your export trade are mainly of a tariff nature, (and this assumption becomes more and more realistic since in most industrialized countries, and even in other countries, the other forms of protection i.e. import controls, have practically disappeared, except in one sector — the agricultural sector) then the object of your commercial policy is to try and reduce these obstacles in the course of tariff negotiations.

The tariff negotiations are directed, first, towards obtaining stability for your exporters, and a protection against changes in the level of tariffs; and secondly, towards a reduction of these tariffs to facilitate your exports. The traditional basis for tariff negotiations is that of so-called reciprocity and mutual advantage; in other words, there are at present no obligations concerning the level of the tariffs and no commitments to maintain the level of your general tariff structure at a certain particular point. In the multilateral system of trading the countries are free to maintain tariffs and to determine the level of their tariffs as they like. Their only obligation is to be ready to enter into negotiations in order to obtain a balanced exchange of concessions.

The only exception to that rule is the Common Market in Europe, where there are definite commitments as regards the level of the tariffs inside the Community; but there is no obligation whatever towards the rest of the world, except as a result of tariff negotiations. Indirectly, there is a certain stability in the tariff of the European Community because any change in the common tariff will require a decision by a number of governments and will require in practice a unanimous decision. It is not very easy to obtain a unanimous decision when you have a number of governments involved. It means that there will be a tendency for that common tariff to remain more stable than the tariffs of individual countries. But there is no obligation under the GATT or any other particular international agreement to keep your tariffs at a certain level. As a result of the tariff negotiations, the countries have two kinds of tariff rates, what we call "bound" items and
"unbound" items; or what in certain countries are called the "conventional" rates and the "autonomous" rates. The conventional rates are the rates which have been agreed upon as a result of tariff negotiations, and the autonomous rates are those which, either have not been bound as a result of a tariff negotiation, or which are applied to countries with which there is no general commitment concerning the most-favoured-nation treatment.

How do you proceed with tariff negotiations? I explained to you that in accordance with the bilateral system of trading, the tariff negotiations resulted into two sorts of commitments. One was the granting of the most-favoured-nation treatment which guaranteed the trading country against any discrimination resulting from better terms being offered to a third country; and the second was a schedule of specific tariff rates for which the government guaranteed stability. In other words, the government was committed not to exceed these levels which had been agreed upon during the life of the agreement.

With the multilateral system of trading the technique is practically the same, except that the granting of the most-favoured-nation treatment is not the result of tariff negotiations but is the result of membership of the international organization which is the GATT. Secondly, the schedules are not negotiated or granted to one partner but are negotiated with and granted to all the partners in the GATT. Moreover, as I indicated, these tariff concessions are protected against nullification or impairment by the acceptance of quite a long list of commitments regarding the operation of commercial policy in general.

I told you also that one of the defects of the bilateral system of tariff negotiations was the fact that you were not in a position to estimate what would be the benefits which you would grant to third countries through the most-favoured-nation clause; and you were not either in a position to estimate what you will give to your partners in terms of the extension of the concessions given to third countries. That element of uncertainty has led the governments to be particularly cautious in their tariff negotiations and, before the second world war, that a tendency towards paralyzing, more or less, the working of tariff and trade agreements. Although the GATT started from the bilateral technique, it introduced a certain number of elements which have
made the conclusion of tariff and trade agreements far more useful than the bilateral agreements. One of the main advantages has been the fact that, instead of striking a balance between the direct concessions, that is to say the concessions relating to the rates applicable to the items listed in the bilateral schedules, the presence of practically all the important trading nations at the tariff conference enables each country to strike a balance between the direct and indirect concessions. I will give you an example. Canada negotiated in 1949 with Italy. Canada was prepared to give a certain number of direct concessions to Italy, but Italy could not give any direct concessions to Canada because Canada was exporting practically the same products as the United States. So that if you had followed the bilateral system of negotiations it would have been impossible to reach agreement because Italy would not have granted to Canada the concessions which were of particular importance to the United States without obtaining from the United States some counterpart. Here, on the basis of direct concessions, you had a situation where Canada was prepared to give direct concessions to Italy, but Italy was not in a position to reciprocate. If you had had a purely bilateral system, no agreement would have been concluded. What happened during the tariff conference was that Canada made known its offers and the negotiation was postponed until Italy had made a deal with the United States. Once the Italians had reached an agreement with the United States, they came to the Canadian delegation and said "these indirect concessions which you will obtain, and which you will obtain as a right because, in the GATT, it is not a bilateral commitment, it is a multilateral commitment." So, on the basis of the value of the concessions granted to the United States for the Canadian export trade, it was possible to strike a balance and Canada was in a position to offer direct concessions to Italy. You see how it works. The main change is the introduction of the indirect concessions which, from the GATT point of view, do have exactly the same legal value as direct concessions. It is quite clear that under these circumstances it is possible to reach wider, broader agreements than when you have to strike a bilateral balance between direct concessions; that is, of course, an essential principle in the GATT tariff negotiations. It involves a particular technique for the negotiating countries. It means that the negotiating country must not only supervise or check what goes on between its
delegation and each individual partner, but has to follow, at the same time, the negotiations going on with other countries having the same exporting interests. It involves the necessity of checking very closely the negotiations going on between other partners when their concessions affect some of your export trade. It is easier if you have only a few export products, but when you have to negotiate practically the whole tariff, it is easy to understand why mistakes may occur. This, then, is the position: the first thing is that you have to take into account both as regards your offers, and as regards the concessions obtained by you, the indirect effect of these concessions; in other words, if you give a concession to one country on a product which is of interest to other countries, you should not fail to claim payment for that indirect concession. That is one point on which, very often, the delegations of developing countries do not play their cards properly, because when they negotiate, let us say, with the United States, and when they ask the United States for some concessions for which they are prepared to pay, they may forget to ask the other countries to pay for the value of that concession for their export trade. When you have to deal with industrial goods, there are a number of countries which are interested in this particular trade and therefore you should always keep in mind that the indirect concessions are of the same value as direct concessions and have to be paid for. It means also that you will be asked to pay for the concessions granted to another supplier; if the United States for example, or France, or Germany, makes a concession on tea, this concession may be negotiated with Ceylon, but it is also of advantage to India, Pakistan and Indonesia, and the United States will come to Indonesia which is also exporting tea, and will ask them to pay for the concession they have given to Ceylon. It goes both ways of course, but the point is that you have a better balance between the concessions in a multilateral game of this kind than you had in a purely bilateral technique. That is the basic principle.

As it is impossible to conduct these negotiations with all the countries sitting around the table, the practical method is that of the so-called "principal supplier". This is purely a practical arrangement.
Some countries have tried to make it a sort of rule of law but it does not really stick, because the point is that, in any case, the other suppliers are called upon to take part in the negotiation and to pay for their share of the concession. The "principal supplier" rule may be invoked in the case where the main supplier would not be among the participating countries. In the same way as a country would not be prepared to negotiate with, and grant a concession to somebody who does not represent the major interest, if, by any chance, it was a country or countries outside the GATT which would represent a major part of the exports, then, the country would be free to say that it does not want to negotiate on this item, because it does not want to give some concessions for which it will not obtain payment. But if the group represents the majority of the exports then you cannot use this sort of arrangement. The only thing you can do is to tell the secondary suppliers to wait until negotiations are conducted with the principal supplier. That explains why, in order to keep this sort of thing running, you must have a constant communication with all the participants of the offers made and of the changes made in the offers in the course of the tariff conference.

Another point, which is also very important, is that from a technical point of view it has been necessary to adopt a system which is different from the one which is usually employed in bilateral negotiations. In bilateral negotiations the usual practice is to put very little on the table to start with and then to add and add until you reach the maximum sort of agreement. Such a system would not fit in very well with the multi-lateral technique simply because it would be extremely difficult to follow what goes on. We had such an experience with a certain country which was negotiating to accede to GATT. When they negotiated, they were so accustomed to the bilateral system that it was impossible to make them understand that the rules of the game were different. And, although this was a comparatively small negotiation, when there was only one country negotiating with the others, we reached a state of utter confusion before the end. When the agreement was signed, the officials concerned had all sorts of shocks and surprises when they read the texts of the schedules. Indeed, as we have been surprised every time there were newcomers, it
was necessary, first, to make them understand this technique. The assumption is that you send in lists of requests before the conference starts, and you say that you want to have a reduction of so much on such and such an item. Then when the conference starts, you submit your list of offers, which means that if your requests are met you are prepared to give the following concessions. And as usually your requests are not fully met, then you withdraw concessions to restore the balance. So, instead of having a system when you start with a few concessions and add up to them as the negotiation goes on, you start from your maximum and then you strike a balance by withdrawing when one country has offered more than the other.

The actual process of negotiation under GATT is exactly the contrary of the above bilateral technique. You must have that clearly in your mind when you start negotiation, because otherwise you would be absolutely confused. You build up a list of offers on the assumption that your requests are all met. If your requests are not fully met then you are entitled to withdraw some items in order to reach a balance. That is very important.

The other question is how do you negotiate for accession to GATT? When a new country or a newcomer accedes to GATT, it obtains as of right all the concessions which have been negotiated since 1947. That is again something which is very difficult for newcomers to understand because they think that they are not getting anything at all as they have a bilateral agreement and a most-favoured-nation clause, and therefore already enjoy all these concessions. But there is a basic difference. If you had a bilateral agreement giving you the most-favoured-nation treatment, it meant that you had this benefit on a precarious basis, and that a country which had granted you this most-favoured-nation treatment was in a position to modify the rates of duty without even consulting you or discussing with you. What you had was a guarantee that you would not be less favourably treated than third countries. But when you join the GATT, it is a completely different situation: you are entitled as of right to all these concessions, and these concessions cannot be modified or withdrawn without consultation with you, without a compensation being given to you, and in case you do not receive the proper adequate compensation, you are entitled to withdraw some of your concessions for the
equivalent amount. So, by becoming a member of GATT you benefit as of right from all the concessions which have been negotiated so far. And, if you are an industrialized country with diversified exports, this means a lot. On the other hand, if you are a country whose exports are not particularly diversified, it means that, out of these tens of thousands of concessions, there may be fifty or perhaps a hundred of interest to you. Therefore, what you call the "entrance fee" would be limited to the actual value for your export trade of the concessions which affect your trade, and the value of the concessions would be commensurate with the share you have in that export trade. But, as I said, the first part of a negotiation for accession is the determination of this entrance fee.

The second part of a negotiation for accession, or another type of negotiation, is to add to this entrance fee and to try and obtain fresh concessions which are of interest to your trade. And the question is - what should be the line taken, especially by a primary producing country? Should it try to negotiate lightly, that is to say to give a minimum of concessions in order to obtain a minimum of concessions or, on the contrary, to enter into a fairly broad negotiation to try to obtain the maximum advantages for its export trade, being prepared, of course, to go very far in the way of concessions granted to other countries. This is a very important decision to take, and one of the mistakes made by a number of countries in 1947, (and more particularly before 1947, in the course of bilateral negotiations, especially with the United States) was to go too far in the way of concessions.

The countries which are exporting a few primary products have naturally to concentrate on these products, and there is not much point in trying to get concessions for marginal products. On the other hand, some countries have gone to the other extreme and thought that they should try and keep their freedom of action as wide and complete as possible; and they have not entered into significant tariff negotiations on the assumption that, after all, they were exporting primary raw materials, that there were no tariffs or particular obstacles for these raw materials, and that it did not make much difference whether they had concessions or not. For them, what was
important was to keep their freedom of manipulating their tariff rates as they liked.

I think that both attitudes were unjustified. It is fairly dangerous for primary producing countries to avoid obtaining some guarantees for their major export products. We have had the case of countries which had neglected to obtain a binding of the free entry of certain raw materials, a binding which would have been bought at a very cheap price in 1947, but which has obtained a greater value as time passed on, simply because of the competition from synthetic materials. For instance, cotton or wool was not of great importance in the tariff negotiations in 1947, with the exception of the United States tariff on wool, because many governments felt that there was no real danger of having duties put on cotton and wool. But even the countries which held this view and which bargained very fiercely to pay extremely little for the binding on wool (speaking of the Australians in particular) are very glad today that they have a binding for the free entry of wool in a number of countries. It may be that, in certain European countries, there would not have been any tendency to put a duty on wool, but in other countries which are developing synthetic materials at present there is a certain desire to protect synthetic materials and to introduce some duty on raw textile materials. This is even more important in the case of rubber, for instance, where there is a tendency in a number of developing countries to install synthetic rubber factories, which they want to protect against natural rubber. So I think that it is worth paying a small price to be protected against increases or introduction of duties on raw materials.

Secondly, you have a series of products on which you have some duties; in the case of non-ferrous metals and particularly in the case of aluminium, the tendency is to protect the industry which is also producing what we consider to be a rather synthetic material than a natural one because the value of the raw material in aluminium is very much smaller than the value of the ore in other non-ferrous metals.

Then you have a certain number of products which have to overcome a pretty high tariff barrier, especially some of the tropical products. To take one instance, which may be of interest to some of you, the United Kingdom in 1947 decided not to enter into negotiations on behalf of its Colonies, with the sole exception of Malaya where there is a binding of the export duty
of tin. So that the former British Colonies are in a nice position today in the sense that they have not given any concession in 1947. That appears as a wonderful situation, but it means that the country which is exporting cocoa for instance, and has not negotiated the level of the tariff on cocoa in Europe, is just enjoying a concession which is of very little value, which was negotiated with another country. As the tariff on cocoa has been bound at something like 20 per cent, the result is different now that the Common Market is proposing to have a duty of 9 per cent on cocoa; the African cocoa exporters think it is most unfair because it means a preference of about 9 per cent for the cocoa exports from the French Overseas Territories. If they had reduced the duty to a reasonable level in 1947, they would have been in a very strong position. But now, what can they do? The level proposed is, in most cases, below the level which had been negotiated in the absence of the main suppliers; and if the duty bound were lower than 9 per cent, and if the Common Market countries were to raise the tariff, this level of 9 per cent, as Ghana and Nigeria have not negotiated any concession, it is quite clear that they could not withdraw concessions to restore the balance. So there is a certain disadvantage in having no concessions granted or no schedule at all because if the duties on some of the products which are of interest to you are withdrawn or are modified, according to the rules of the GATT, the other country has nothing to bargain with. That is why, although it appears to be a very nice situation to be in, because there was no commitment at a time when you wanted to protect your export trade against a change in the duties, you can’t do anything at all because you have no concessions to withdraw.

At the other extreme, especially in South American countries, was an extensive binding of most of the important import goods. This was not the result of GATT negotiations as such; it was the result of the bilateral agreements which these countries had negotiated with the United States and also, with the United Kingdom, in the thirties or the forties. It was a time when these countries had practically no ambition to diversify their economy very rapidly and where they were prepared, in order to obtain guarantees for their export goods on the American markets and European markets, to give very widespread concessions on industrial products. This meant that, when these countries wanted to diversify their industry and to build up new industry
they were faced with a tariff which had not much value as a protection; they had not much value when they were negotiated but, as in a number of cases, this duty was specific and the specific duty was bound, not the tariff incidence. In 1947, and later on in 1955, the tariff had become something which had no practical importance at all for protecting the industries. These countries faced a very difficult situation; they, of course, used the other forms of protection since the tariff was not of any practical significance; they introduced multiple exchange rates, and so on, until the domestic industry realized the danger of relying on these administrative controls. The danger is to go too far into tariff negotiations when you are a country whose industry is developing because you don't know what kind of protection you may need for new industries. Therefore I think that when developing countries enter into tariff negotiations they have to follow what I consider to be a middle course, not to say that they are not going to negotiate anything, to keep their hands free and not to say that they are going to negotiate on every odd little marginal product they are exporting, but to concentrate on the major issues, and assess very critically the value of the concessions to grant against the value of the concessions which they are going to obtain. They have to refrain from excessive bindings which would hamper their future development. There are people who have the idea that they must come back with a long list of concessions for their exports but forget that they have to be paid for and that you have to weigh the advantages and disadvantages of the operation. This is one of the important preoccupations which you have to take into account when you start negotiating.

I will sum up the various points which I have made so far. First of all, get accustomed to this multilateral technique and see that you adopt the system of putting all the cards on the table and then withdraw when you feel that there is no balance between the two. Secondly, try to ask for valuable concessions and always consider that you have to pay a price and that the price to be paid is not to be measured only in accordance with the present situation, but also in accordance with the situation which may prevail in a few years time. The third point is that you should let the principal suppliers do the running when you are not a principal supplier; but follow very closely these negotiations so that your interests are not
adversely affected by some change in the offers because, as I said, the concessions offered at the beginning of the tariff conference may disappear (I mean this system of withdrawing concessions to strike a balance); therefore, be very careful to follow what goes on in the other negotiations. And my last point, which is the most difficult, is: how do you assess the value of concessions? As you know, the principle is that the concessions on both sides should be equivalent. But who decides, who assesses the value of the concessions? Both parties. And this is not easy because we have tried to find out some sort of scientific objective method for measuring the value of concessions and we have not been able to find any instrument capable of giving you the answer. It means that each partner assesses the value of the concession and there must be a meeting of mind between the two that the balance is about equal. Of course, the tradition among negotiators is to say at the last minute that they have been cheated, that they have given twice as much as they have received; and the same people who were disappointed with the result, when they come home, of course, publish all sorts of communiqués and press releases saying that they have gained twice as much as the other fellow, that they have been very smart.

But it is in any case extremely difficult to know what is the value of a concession obtained and of the concession given, because the effects of tariff reductions on trade are sometimes rather unpredictable. The usual tendency on the part of negotiators is to say that any increase by 1 per cent on the tariff kills the trade, and any decrease, even of 50 per cent does not help. It's not true of course, because otherwise there would not be any tariff negotiations. But you have to be equipped; and one of the difficult points is to get a fair estimate of the value of your trade, because it is only by a very detailed analysis of the markets that you can know what is going to be the effect of the tariff concessions granted to your export trade. You have to know what is your export trade, how much it amounts to. You have to know whether you are competitive.
compared with the others; and you have to see what the chances are of developing your trade in the importing market if the prices are reduced.

I do not want you to go into an elaborate analysis of the income of price elasticity of your export products, because that is very difficult and not very convincing; but still you must have the feel. Your traders have the feel of the market, and they know more or less the position of the consumers on the market, whether any tariff reduction would really involve substantial increases, and what would be the order of magnitude of the increases to be expected. But that is a very difficult task because, as you have to strike a balance with your partners, and sometimes, if you have to deal with big powers, they know the position much better than you do and they are in a better position to see what they are obtaining and what they are giving. That is the thing which is the most difficult part of a tariff negotiation: to assess the value of the concession obtained and of the concession given.

There is a tendency, especially in the United States, to measure the concessions by means of a so-called coverage. In other words to try and match the values of the trade on both sides. To say: "I'll give you a concession for one million dollars, you should give me a concession on one million dollars of trade". That seems reasonable enough, but it leads to a very unrealistic situation. Take the case of Brazil. The coffee exports to the United States are enormous; it is the main import product of the United States and there is a free entry in the United States curiously enough, and no intention on the part of the American Government to put any duty on coffee, so that the value of the binding on the coffee free entry into the United States is something which has not a very great value. But when the Americans negotiated with Brazil, they said that Brazilian exports to them represented so many million dollars and they have to give to the United States concessions on that same amount of trade. It means that the Brazilians were practically obliged to give concessions on 75 per cent of their import trade. You see how dangerous it is to accept this theory of measuring the absolute value of concessions. I will not say that the American negotiators considered it as a hard and fast rule, because they
are reasonable enough to take into account the value of a concession. Clearly the binding of a duty has not the same value as the reduction of a duty; the reduction of a high duty has probably more value than the reduction of a low duty, because if you pay 5 per cent and if you reduce the rate to 4 per cent, the effect of 1 point difference is not going to be very large. On the other hand, if you have a duty of 40 per cent which is prohibitive and if you get 30 per cent, it is quite clear that it may make some difference. It depends on the products; but on the face of it the value of a concession is not measured by the trade.

There is also another aspect which has to be taken into account; that is when you have a country with a very big import trade negotiating with a country having a fairly small import trade. If you were to take as a basis the absolute volume or value of trade, then it would mean that a country could be obliged to bind 100 per cent of its tariff, whereas a big country may bind, let us say, 5 or 10 per cent of its tariff or even less. It means that the country with a small import trade would lose completely its freedom of action over its tariff while the other one would keep its freedom of action for 90 per cent or 95 per cent of its trade. This is something which is not extremely fair if you take extreme cases; but it is not fair either when you take intermediate situations. That is why it has been felt at one time that the ideal absolute values should be, if not replaced, at least clarified by some idea of a percentage of the import trade, so as to try to have a balance between, let us say, 10 per cent of the trade on each side. This is not something which is recognized officially but it was more or less involved in the technique which we had suggested in the so-called negotiating plan of the GATT. There the idea was that instead of negotiating on a certain number of items you would negotiate on the general weighted incidence of your tariff, and the reciprocity would be in an agreement on both sides to reduce the weighted tariff incidence by a certain number of percentage points per year during three years. The suggested 10 per cent each year would mean a 30 per cent cut in three years.
If you introduce this idea of a weighted incidence it is quite clear that
the reciprocity is no longer on the basis of absolute figures of trade, but
on the basis of a percentage of the trade because you compare weighted
averages and not absolute figures. I mention this because this idea may come
up in the course of the next tariff conference.

As you know, the present system is on the so-called selective basis.
It means that you agree on an exchange of specific concessions on certain
products. But you cannot force your partner to give you a concession on any
given product. The partner is free to choose. This is a system which is
traditional and has its value, but which has a certain number of drawbacks.
In particular, it makes the negotiations less attractive for countries having
a limited number of export products. Only if you have a wide range of export
goods can you always find room for a negotiation of this kind. That is one
of the reasons why this idea of a selective system of negotiation has been
attacked. Another feature is that when you start with significant disparities
in the level of your tariffs, and if you have countries with low tariffs and
countries with high tariffs, you very easily reach the point where the low tariff
countries have come to the end of the road, because they have not many
concessions to give. But the people starting from a very high level can at the
end of the conference remain with a very high tariff, and the other countries
cannot do anything at all because they have nothing to buy the concessions with.

Thus there were a certain number of projects which you probably heard
about, to remedy this situation and to substitute for the present rules of
tariff negotiations a new-fangled idea. The first one was the so-called
"low tariff club" which was put forward by the Council of Europe upon a
suggestion by Professor Olafin of Sweden. From a practical point of view it did
not work very well and we were asked by the secretariat of the Council of Europe
to put it into shape. We came up with a proposal which is contained in a
decision of the Council of Europe and it was embodied later on in our
particular GATT plan. The idea is that you have ceilings for the various
categories of goods, raw materials, semi-processed goods, manufactured
goods, agricultural products - ceilings that should not exceed a given
percentage. The rule of the game would be that all the participants would
agree to reduce to that ceiling all the items which are above the line.
The idea would be that you would reduce or bring down to the level for
70 per cent of your import trade, or 80 per cent, or 90 per cent. We didn't go beyond that because we thought that if we had achieved this first result, then we could work out other formulae. The idea was to bring down all the tariffs which were beyond a certain level and not to ask for any specific counterpart in terms of product concessions.

The second idea, which was a similar plan, and was a basis for our examination, was to agree to reduce the total weighted incidence of the tariff by a certain percentage each year, and to group the various goods into a number of categories. It varied from three categories in one proposal to ten in another proposal. For each of these groups all the participants would have to agree to reduce their tariff by a certain percentage each year. That was, if you like, the objective measurement of reciprocity, of the balance. You could achieve that target either by unilateral measures or by bilateral agreements. This is to say you could negotiate on certain items, provided the result would be to reach these reductions each year. And we had introduced the idea of the tariff disparities by saying that, by priority, the reductions should be made on the tariffs exceeding the ceilings; in other words, you were obliged to do with a 10 per cent reduction and you had first to bring down the high tariffs, and after that, to reduce the tariffs which were at that particular level or below. There were a certain number of other ideas, in particular the rate at which the low tariff countries were to reduce their incidence was much less than that of the high tariff countries. This proposal was not accepted in 1956 when we started the Tariff Conference and is not yet accepted for the present Tariff Conference. We are still going on with the old system. But in the meantime, this technique has been introduced in the Common Market and in the EFTA for their internal reductions. Each year, they reduce their tariff incidence by a certain percentage. In other words, they don't start negotiating on individual items. As for what South Americans are going to do with their new free trade area, each year, they are going to negotiate the lists of products, in order to reach this level. In the case of the Common Market, the idea was a reduction based on the weighted incidence; now, it has been decided to have an operation across the board amounting to 10 per cent of all the individual tariffs. So, this idea is in the air, and we should be prepared for suggestions to
be made in the course of the Tariff Conference to inject some of these ideas in the procedure.

It is too early to speak about these prospects but because of the work which goes on at present in Paris in the Committee on Trade Problems, it is not entirely excluded that some proposal of this kind might be put forward in the course of the Tariff Conference. When our original multilateral negotiating plan was discussed, it was agreed that the developing countries would have a special status in these negotiations. It was provided that they could take out the duties which are clear revenue duties, that they might make certain reservations in their calculations about the duties which are necessary to protect developing industries, and also, that their commitments would relate to the tariff incidents of the entire tariff and would not relate to specific sectors. This question was never studied very thoroughly because most of the primary producing countries, particularly India, were not very keen on this sort of proposal; but if this question is revived, it is certain that the problem of how the primary producing countries fit in with this operation will have to be discussed very extensively.

The last point I want to make is that in the course of our 1956 Tariff Conference we found out that the bilateral system of negotiations with the main supplier was not always very satisfactory. We found that there were cases where it was easier to reach an agreement if you had a sort of round-table discussion between the main suppliers of a product and the main importers of that product; and, in the rules for the next Tariff Conference, we have said that this sort of technique should be encouraged. The Tariff Negotiations Committee will have the necessary power to make these arrangements for grouping the countries together. We had some success, for instance, in the case of paper exports, and pulp exports, because we grouped the exporting countries, the Scandinavian countries and Austria, and some of the important importing countries, and we found that it was easier to arrive at some result when you have all the main suppliers taking part in the negotiations, so that they can share among themselves the costs of the concessions offered by the importing countries. But if you had, let us say, the importing country discussing with Sweden, the type of concession which Sweden could offer might not be sufficient for the importing countries to accept.
There is also another factor which is rather extraordinary, and striking; it is that it seems easier to get a reduction in the tariff level on one product if the main importing countries are prepared to accept the same level, and that is particularly true in cases where there is an active import-export trade amongst the industrial countries. I give you one example, that of motor cars. At present, the European countries are all exporting and importing motor cars from other European countries and the producers in country A, for instance, were prepared to accept a lower tariff if the other important producing and importing countries were doing the same, and the reasoning was as follows: "If I reduce my tariff below the level of the others I give an advantage to the others who can penetrate my market; but when I try to recoup my losses by developing my exports to countries B and C, then I have to overcome a much higher tariff. This is not fair. If these other countries are prepared to accept the same tariff as I accept on my market, then it is a fair proposition, because if I lose some trade here I can recoup my losses by exporting to the other countries where they have the same barrier to trade." This idea was suggested in Torquay in 1950/51; we tried to work it out, but it was too early. The governments were still accustomed to the old idea of collective bilateral negotiations and not receptive to the new procedure. But things have moved, in the meantime, and it is quite possible that you will have such groupings and group negotiations next year.

I mention this because one of the proposals which were made by the primary producing countries in the course of the discussions of GATT Committee I was precisely the possibility of negotiation, not as individual countries, but as a group of countries, on a particular product where they were substantial suppliers of the product. In other words, this is a similar idea to the one we have tried to develop with regard to motor cars and it may bring about some results. But the technique is one which has to be carefully considered, because this means that the suppliers should agree among themselves to make an offer to the importing country. And that has no point if you just discuss with the importing country, without having agreed among yourselves on the type of concessions you are prepared to offer. That is the key point: To try to make a composite multilateral offer which is of
such value to the importing countries that they will be prepared to give it valuable thought. It is in the interest of the supplying countries to negotiate, not with the importing countries, one by one, but to have a group of importing countries to deal with, because there you can offer these concessions not only to one country, but to the group of countries interested, so that they can match your composite proposal with a general proposal on the part of all these countries with respect to your particular problem. That is one point which is very important, and which has not been clearly expressed by the countries which made that proposal in Committee I. I am not sure that these countries have visualized the way in which these operations can take place because they were not parties to these multilateral negotiations in 1956. Our experience is that you can reach valuable results if the principal suppliers are prepared to meet the principal importing countries, and when the suppliers agree in advance on a multilateral global offer to be made to these countries. But if you want to negotiate with one country after the other, I think that this is not going to get very useful results. On the other hand, if you want to negotiate without having co-ordinated your offer lists in advance, I think that it would be also very difficult for you to obtain results. These are the various practical points for the conduct of tariff negotiations, and, although they are fairly detailed and technical, I hope that this has been clear enough for you to understand what are the major problems which you will face if you take part in a tariff negotiation, either a bilateral tariff negotiation, or a multilateral tariff negotiation, like the one which is going to start in a few months in Geneva.
VI. THE ROLE OF QUANTITATIVE RESTRICTIONS IN COMMERCIAL POLICY

We have seen the problems which may arise in a developing country in connexion with the use of the tariff as a means of protection. I indicated also that the tariff had two other effects on the economy of a country: first of all, the revenue effect; and secondly, the balance-of-payments effect. To illustrate these points, I mentioned a few cases in which governments have used the tariff or import taxes as a means of reducing the amount of imports, and thus to redress the balance-of-payments situation.

Until the nineteen-thirties, the tariff was practically the only method of commercial policy, but as a result of the depression in the thirties, governments introduced measures which had not the same effects; these measures were not aimed at making important goods more expensive as compared with the domestic products, but at limiting by means of quantitative restrictions, the imports of certain types of goods. In 1947, when we discussed the ITO Charter, there was a great majority of countries which had practically replaced the tariff by import controls, and which, furthermore, were of the opinion that this method of control would remain in existence and should replace, to all intents and purposes, the tariff as a means of protection. In spite of that, the Havana Charter and GATT were based on the principle of a complete ban of such import control and provided only a few exceptions to the rule. The influence of the United States was such that the other countries accepted this principle (but, I may say, with great reluctance) and some of them, in the hope that they would retain indefinitely their import controls, under the provisions of GATT Article XII, which provides, as you know, the possibility of maintaining such controls in the case of balance-of-payments difficulties.

After twelve years, we have now reached a point where the industrialized countries have abandoned this theory, except, in certain cases, for agricultural imports. But the main thing is that import controls which were thought of as a good system, and an efficient method of commercial policy, have now
been abandoned in practically all the industrialized countries. However, the problem is still one of topical importance in the developing countries — and that is why I am going to discuss this measure with you from the angle of developing countries.

The general philosophy is about the same in the developing countries as in the industrialized countries. It was stated in 1947 and later on that the tariff was an imperfect method of protection, that quantitative restrictions were a more efficient system, that when you wanted to plan your production, the tariff was not sufficiently precise, but that quantitative restrictions were a perfect instrument for planning purposes. A last argument, which was a fallacy, was that the tariff had the effect of raising the price of important products, contributing to inflationary pressures within the countries, whereas quantitative restrictions, which were not based upon any price effect, were neutral and would not affect the level of prices internally. I say this argument is a fallacy because from the theoretical point of view it is quite clear that once you limit the supply of the particular imported goods, and reduce the demand, there is a shortage, and there is a scrambling for the goods with the necessary consequence of price increase. Governments have found very quickly that the traders were very smart and used this opportunity for raising prices. Some governments thought they could cope with that by imposing import controls; and the effect was to drive the transactions into the black market. Experience now in all countries is that quantitative restrictions have price effects because of the limitation of the supply and that in most cases the price effect is greater than that of the tariff, the only difference being that governments do not cash in the import duties, which go to the importers and other traders who profit by the situation. Even when they do not profit, simply the fact that the turnover is reduced induces them to increase their margins in order to maintain the same income at the end of the year.

I told you that quantitative restriction of imports can be used either as protection of specific industries or as a means of rationing imports, thus safeguarding the balance-of-payments situation. These two aspects are closely
connected and any import control has this dual effect. We shall review first
the question of protection of the balance-of-payments situation, as in most
countries, this is the justification for the maintenance of these controls,
although very often the motive behind it may be purely protective. The reason
why the countries introduced this system of import controls when the
balance-of-payments situation was jeopardized, was because of the need to take
prompt and drastic action. When you are broke you cut down your purchases,
but in the case of a country, you have not only to cut your own purchases by
the government, but you have also to force the public to reduce their buying.
When you have very serious balance-of-payments difficulties, you cannot rely
on other normal methods, such as internal budgetary credit policy measures,
and if there is a severe disequilibrium, you have to take drastic measures of
a monetary character, and in the last resort, to undertake a currency devalu­
tion. The method is efficient, there is no doubt about it; but by means of
import controls, you can adjust the volume of your imports to your exchange
possibilities. But, in a number of countries which had balance-of-payments
difficulties after the war, these import controls were gradually relaxed, and
the governments tried to institute a payments system which enabled the
countries to move gradually towards elimination of these restrictions. In the
case of a number of these developing countries the situation appeared very
rapidly as one of a more durable nature. The general trend of economic develop­
ment, at the rate which was devised in most countries, had a durable effect on
the import demand. Most of these countries had current requirements for food­
stuffs, necessary consumer goods, and on top of that normal demand, their
economic programmes developed an extraordinary demand for foreign capital goods.
As an indication you may say that any economic development project requires about
one third of its amount in foreign exchange. The position may improve gradually;
for instance, in the latest five-year plan in India the ratio is somewhat less
than one third, India having already started to develop some basic industries,
especially steel industries. But by and large, any economic development pro­
gramme requires about one third of imports of capital goods, which means that,
if you add the demand to the normal import goods requirements, it is very diffi­
cult for countries to import freely, as their export earnings and other capital
earnings are quite insufficient to meet this extraordinary increase in their import requirements. So it is natural to take the same measures as governments took during the war when there were shortages: they imposed a rationing system. It may be considered that as the economic development progresses, this situation will not be as serious as it is today. The countries, having developed sources of production internally, would not rely to the same extent on the import of foreign capital goods. To a certain extent, this is true. On the other hand, there is a permanent addition to the import requirements in these countries in the form of energy, fuel, coal, oil, etc.; there is a constant demand for spare parts to ensure the maintenance of the capital goods which have been purchased abroad; and in a number of cases, there is the need for imports of raw materials, where the industries are not processing only domestic raw materials. And, finally, imports of intermediate products are also essential. For example, if you set up a cotton mill, you may have the cotton in the country, but very often you have to import it. If you have a cotton mill, you also have to import dyestuffs and other intermediate products, and you have to import, from time to time, spare parts. So you have in your balance-of-payments situation a new factor, which is the need for the necessary imports for your industry. If you take the situation of a number of countries, such as Brazil and Argentina, you find that one of the biggest items in their import bill is fuel oil. They need the oil to run their industry and the communications necessary for the development of their economy. So you have of necessity in a developing country for a number of years a tendency to import more than you earn in foreign exchange, which means that you have to establish some sort of priority for essential goods and to depress the demand for the traditional imports by way of import substitution and by drastic cuts in your imports. That is how some governments proceeded, and that is why, in order to impose and enforce this priority scheme, they have been obliged to ration their importers and to allot their foreign exchange mainly to the imports of necessary goods (capital goods, necessary foodstuffs and fuel). In certain countries this was not too difficult to achieve because the imbalance was not too serious; but there are now a large number of countries where,
whenever there is any significant fluctuation in the prices of their export goods, it is not possible to cut further the price of other consumer goods, and where the governments have to cut also the imports for economic development purposes. This leads me to the conclusion that there are countries which have been applying import controls for balance-of-payments reasons for a long period of years, and which do not see at present when they will be in a position to abandon this system.

Another difficulty in developing countries has been the method of allotting the licences among the people who wanted to import. In many developing countries, you had a fairly elaborate trading community which was dealing with imports, and also exports. The method which was introduced in most countries, and which was copied from the method introduced during the war in the industrialized countries, was to allot the licences to the traditional importers, and to take into consideration the volume of their imports during a representative period. It was a simple method; everybody had a reduced share of the cake. And this is a system which is valuable when you have to deal with a temporary balance-of-payments situation. But when this sort of system is applied for a long time it develops a certain number of anomalies. Suppose that your importers are importing one hundred units and that you are cutting down your imports from one hundred to fifty units. If you give licences for fifty units to all your importers, it means that you are going to have an excessive apparatus for imports because this is not just going to be a temporary situation, but a permanent one, if you develop import substitution to a certain degree. The system of allotting licences on that basis has the effect of maintaining in existence the entire apparatus, whereas the interest of the government is that the trading community should become smaller and smaller. The natural effects of this system of allotting import licences is to maintain high prices for the service rendered. If in one country an importer was importing one hundred motor cars a year, that importer could be content with - let us say - a profit margin of 10 per cent. But if the same importer is allowed to import only half that quantity, it is quite natural that he will raise his profit margin to 20 per cent. And what
has happened is that this method of allocating licences has maintained in existence, sometimes symbolically, importers who should have disappeared from the market if the market forces had been in action. For example, you have had a number of importers who were quite content to have an office, a sign on their door and to wait until the licences came on their lap. Then they would sell the licence to other fellows who would do the trading. This is an important factor because, quite clearly, this is an unnecessary complication and a factor which will develop into a permanent increase in prices of imported goods. I talked to you about the other difficulties which resulted from this arbitrary distribution of licences, the fixing of the amounts of various kinds and grades of goods, which of course has demoralized the administration of those countries, creating a lot of corruption and graft.

But the point is that the system of import controls, although it appears to be fairly efficient, (and it is efficient when you have to take prompt and drastic action) develops all sorts of unpleasant features when it remains in force for a number of years. The defects are first that it is extremely difficult for governments to establish a perfect or even a reasonably good system of priorities, and secondly, it is a system which requires from governments decisions which should not be their responsibility, that is, the legitimate requirements of various sectors of the economy. Another defect, which is of a commercial nature, is that the system of issuing licences may not dovetail with the possibilities of world markets. When you have the possibility of using your foreign exchange at any time, the importer has the possibility of making forward transactions, of buying when the price is particularly good on the market; but if the importers receive their licences at a certain time, and if the licences are valid for only a few months, the importers are obliged to buy when they get the licences, at whatever price prevails on the market. In a number of cases, this has had the effect of making imports far more costly than they would be normally.

The last problem is that there has been a complete change in the requirements since you had to import lots of capital goods. In the case of consumer goods, it was quite normal to use the importer as an intermediary. But when
you are buying capital goods for instance, there is no particular reason to force the producer to buy through a trading import agency. And it has been necessary in a number of cases to depart from the idea of allotting the licences among the traditional importers and to reserve part of these licences to the actual producer, so that he could buy direct from the foreign sources. To a certain extent, it has been done successfully although it is far more difficult for a government to decide how to allot the licences among producers because there is no representative period and the method presents a certain element of uncertainty and flexibility.

But all these particular aspects of import control have had an effect on prices. We had a discussion in the GATT about the export prices of the steel exporters (producers) of the Community of the Six in Europe. The Indian representative said they were obliged to pay higher prices than other customers. We discussed the matter with the High Authority in Luxemburg and we came to the conclusion that one of the reasons the prices were higher was because the import controls introduced in most cases the need to use the services of the importer, and whereas the steel producers in Europe were quite prepared to lower prices when they dealt directly with responsible producers having a particularly good reputation, having experience of paying cash or of paying quickly, they had to charge higher prices to Indian importers because they thought there was a risk involved, because they were not dealing with the same type of customers as they were in other countries. Moreover, the orders were not as large, not as uniform or as durable; and also the credit worthiness of these importers was not as good as in other cases. So you see that there are a certain number of effects in the running of an import control system which makes it far less attractive than it looks in theory.

In the same way, the exporters are not in a position to quote good prices when they know that there are rigid import controls. Quite naturally, the temptation exists because the market is more or less rigid, to quote higher prices than if there were free market competition. You will find in many developing countries which are running these import controls that the cost of imports is certainly higher than it would be otherwise.
These are some of the features of import controls in developing countries, and the governments and administrations have tried to see whether their systems could not be modified or adjusted in order to avoid these very important defects. The governments have tried to improve their systems of import controls by allotting some of the licences to the producers without having to go through the importers; they have also tried to introduce an element of flexibility in avoiding the use of licences for specific products. There has been a tendency to give to the importers a wider choice than was the case previously. For example, before you had a licence to import nails of such and such dimensions, but now there are broader categories, and either you have a licence for that category, or you have a possibility of changing your licence for a licence to import goods in the same category. There has also been an effort to give more time for the importer to make his arrangements, so instead of having a licence for three months, you may have licences for six months, or a year. In certain cases, there is a possibility of exchanging a licence which has not been used for a licence which is valid for a subsequent period. There has been an attempt also to avoid the rigidities of allocation on the basis of past performance by giving some priority to importers who were prepared to accept a number of conditions. In the case of India, for example, it was contemplated to give a large part of the licences for powdered milk to importers who were prepared to sell the powdered milk at a certain price in certain circumstances. In other countries, and that is especially true of Burma, the government set up what they called joint ventures, that is to say, semi-public companies where the government had part of the capital, where the traders also had part of the capital, and certain facilities — and certain advantages in the obtaining of licences; but as a counterpart, the traders had to accept the control of the State on their price policy. The government indirectly exercised some control on the prices at which goods were sold at the retail level. You can see that there are all sorts of ideas by which one can overcome these difficulties.
But, there were a number of countries where they found that the system itself was not a good one and where the government tried to use more and more market forces for determining the priorities. These governments then tried to establish priorities by charging a higher price for luxuries and a lower price for necessary products. That could be done by having a system of separate issues of licences for various categories, and the surtax paid either in the form of a special tax which would be different according to the special categories, (a system which has been employed in Tunisia) or by having a system of auction for various categories as is in force in Brazil. Another system which has been used in certain cases, was to allow the importer to buy a certain certain part of his exchange outside the official market and to allow the exporters to sell part of their exchange on the free market, while the importer had to buy part of his exchange on this free market. The part of the free exchange to be bought varied in accordance with the essentiality of the products, so that you had in effect to pay more to import your luxury goods than you had to pay for essential goods.

All sorts of systems have been imposed, and in particular, the system of multiple exchange rates where you pay a higher price for the foreign exchange in certain categories. This system has had the advantage of enabling the government to step aside and to be relieved of this invidious task of deciding exactly on the priority. The government was just content to establish a general list of priorities, saying that these goods were in Category 1, Category 2, Category 3, etc. but importers had to compete for the various goods in each category and there were no licences, or, if there were licences, they were not restrictive licences and, within the category of luxuries, for instance, they could either buy perfume or Cadillacs; in the more essential goods they would compete for, let us say, textiles, shoes and so forth. But the government did not decide that you were going to import so many thousand pairs of shoes, or so many thousand yards of material. It was relieved of this sort of tedious obligation. This system also led very quickly to all sorts of abuses, because there were pressures on the part of various producer or consumer forces in order to get a better deal and to get their products moved from one category to another. In the last resort, some countries have found it simpler and more effective to replace all these schemes by import taxes. That is to say, instead of having
your surcharge by going through the multiple exchange system, or going through
the dollar or foreign exchange allocation schemes, they went to parliament and
declared that they were going to impose, so long as they had balance-of-payments
difficulties, additional import taxes which would vary from zero to 100 per cent
according to the essentiality of the goods. That is the system which has been
applied in particular in Peru and Chile, and to a certain extent in Argentina,
in the last two or three years.

Finally, a number of countries thought that the best method would be to
adopt a stabilization plan to put their house in order in all its aspects, to
devalue the currency, and then try to liberalize a certain number of
products, to go on liberalizing and probably maintaining a certain element of
control by the manipulation of the customs tariff, having a basis for their
tariff that would be such as to reduce the demand for unnecessary or less
essential products. This is the general picture at present.

One of the difficulties which the developing countries have yet to solve
in limiting their import controls is that, quite naturally, so long as you have
these import controls the domestic industries have a very favourable situation
because foreign competition is practically shut out. The industries have
developed on a basis which was not competitive in many cases, and naturally,
they resisted any attempt by the government to relax import controls and to
introduce to a greater extent the play of market forces. Take Australia, a
country which was in that situation. When I visited Australia last year and
talked to the industrialists, it was quite clear that they would oppose very
violently any attempt by the government to do away with the import controls
which had been maintained for balance-of-payments reasons but which had very
powerful influence on the competitive position of the domestic industry.
Curiously enough, the Australian Government decided that the only method by
which they could control their normal inflationary pressures inside was to do
away with the import control system altogether. And they have taken that
decision.

It will take of course a number of months to put it fully into force, but there
have been already drastic measures taken to get rid of the import controls.
Now, Australia is a developing country; it is not a country which is poor or
which is in the early stages of development because they have already developed
their industries to a very large extent. But in many ways Australia is a primary producing country in the sense that most of its exports are primary products and therefore the fluctuations in export earnings are just as great as for a number of other developing countries. What is rather interesting is the fact that a government which was using very extensively import controls has been in a position to eliminate them very rapidly, although its balance-of-payments situation is not very strong and still quite vulnerable on account of the fluctuations in the earnings of its main export products: wheat, meat and wood. But it shows that we have reached a point where developing countries are turning their backs on the idea that import controls are absolutely necessary to protect their balance-of-payments situation.

So far, in a number of countries, what we can achieve is a greater flexibility in administering the controls and a greater concentration on the possibility of removing the controls as soon as the balance-of-payments situation improves.

I come now to the other side of the picture, and that is the question of using these controls for protective reasons. I said that so long as you had balance-of-payments difficulties and so long as your measures are taken in order to cope with that situation, you give to your domestic industries a very privileged position because you shut out foreign competition and your industries can develop their production on a non-competitive basis. Quite naturally they want to keep this protection, even when the balance-of-payments considerations are no longer there.

There is also another factor which has had an important bearing on this situation. It is when you have to save your money, and to ration your importers. If you have a shortage of foreign exchange, it is natural that the government should refuse to give foreign exchange for the import of goods which are already produced in the country itself. In a large number of countries you have prohibitions of imports of such goods where the domestic industry is capable of supplying the full amount, and the imports are usually the complement of the domestic production when the domestic producers cannot fully supply the full amount. In other words, this has the effect of giving a complete monopolistic position to the domestic producers. And when you have a monopolistic position of this kind, it means that the consumer has practically no choice, because he
has to accept whatever terms are dictated by the monopolistic producer. Because of this situation it has been the habit of people who have wanted to invest money in a factory, either for foreign or domestic investors, to claim from the government the maintenance of the particular monopolistic situation. In other words, there are many contracts under which the investor is prepared to put his money in the venture if he is assured that it will dispose of its production on the market without any fear of competition from abroad. In certain countries it goes a little further; the investor wants also to have a monopoly in order to be certain that no other competing group will be allowed to set up a factory in the country concerned. This is something that is not conducive to the best economic use of resources. But there is a tremendous pressure on the government to do so, especially when you have balance-of-payments import control. And even the countries that have come to the conclusion that this is not the solution are in a weak position to negotiate with the investors. That is why it is rather interesting to analyse the advantages and defects of this system of protection in developing countries.

Quite apart from the pressure from the investors, one of the arguments which has been advanced very often to justify the introduction of import controls, or of equivalent measures to protect new industries, has been that there is a consumer resistance towards the domestically produced product, and that the consumer is prepared to pay a very high price to get the imported product, which is considered to be of a better quality than the domestic product. That is why certain of these governments have stated that they could not rely on tariffs because of this particular psychological factor of consumer resistance. This is a real fact; I have seen it myself in a number of countries where, without any sort of reason, the consumer and even the producer is prepared to pay a much higher price for the imported product. And this psychological factor is due, of course, to the circumstances in which the original production has been set up. It is quite true that when the country started their production the quality of their product may have been very poor. In some cases the customer has been used to the imported product, and he thinks that the imported product is of good quality and that the quality of the domestic product is doubtful. This is a fact, but I think that this consumer resistance is not going to remain for a very long time. As soon as the public realizes that the quality of the domestic product is good, then I think that
they will act as the consumers do in other countries. After a while the consumers will become more discriminating, and this consumer resistance will surely die away. So that while certain measures of protection may be necessary during the infancy of some industries, I think it would be a mistake to consider that the argument of consumer resistance would justify a long period of import controls.

The other argument which has been advanced is that when the infant industries are starting their production, they cannot produce very efficiently because of bottlenecks at the beginning and lots of wastage. And, as they do not run at full capacity, therefore the result cannot be economic during the first year or two of production. But there again, it is a problem which may justify the use of specific protective measures during short periods, but would not justify the maintenance of such controls beyond the running-in period.

So the general conclusion would be that, in so far as it is practicable, without any danger to the balance-of-payments position, the government should consider that its aim is to revert as early as possible to the normal system of tariff protection and not to enter into contracts or commitments which would oblige it to maintain a system of import controls solely for the benefit of the producers.

The dangers of that practice are quite evident. As soon as you depart from the normal play of economic forces, you introduce an element of rigidity, you introduce the defects of any monopolistic situation ... and you arrive at prices which are much higher than would be the case otherwise. If import control is limited to some small branch of industry it may not be very serious; but, as the countries are developing and trying to develop the various branches of their industry, it is quite clear that you will be landed with a persistent inflationary process which will defeat your objective of economic development, which is to raise not the money income of your population, but the real income of your population. By introducing the rigidities which are the result of the import controls, you are defeating your own objective and you are creating a situation of constant, increasing inflation, as we have witnessed in a certain number of countries.

I give you only one example, that of Chile, which has been in the throes of galloping inflation for a number of years until the situation was completely
out of control. The Government had to take very drastic measures, which of

course raised all sorts of social and political problems; because once you

want to stop inflation, you have to start somewhere and usually the most

vulnerable parts of the community are suffering and naturally don't like that.

The general line which I want to indicate to you is that import controls in
developing countries are no more useful than they are in other countries.
They may be necessary as a temporary stopgap, but they cannot become the basis
for a normal commercial policy. The use of these restrictions should be
limited to the protection of the balance of payments, and the methods of
administration should be made as flexible as possible, or they should be
limited to a few cases where you have an infant industry and you have to meet
special factors such as consumer resistance or inability to compete in the
first few years of production.
VII. DISCRIMINATION IN THE USE OF QUANTITATIVE RESTRICTIONS

As I indicated when we discussed the problem of equality of treatment in a multilateral commercial policy system, the formula of the most-favoured-nation clause can be applied very easily in the case of tariffs and other price regulating measures; but it is most difficult to apply in the case of administrative controls such as quantitative restrictions. The idea of equality of treatment has been translated in this context as the principle of non-discrimination. In the case of quantitative restrictions you cannot guarantee the equality of treatment as you can if you have no obstacles to trade but tariffs and similar charges.

There are two kinds of discrimination. You may have deliberate discrimination, or you may have incidental discrimination. We are going to examine both cases. You have deliberate discrimination if you want either to give some preferences to some of your partners or if you want to reduce your purchases in certain currency areas. The first type of discrimination is what you may call the commercial or trade discrimination; the second type is rather a currency discrimination. It was agreed in 1947 that the only type of discrimination which is legitimate during a period of inconvertible currencies is the second one. So long as you had hard currencies and soft currencies, so long as there was a need to reduce your purchases which are paid for in convertible currencies, there was some justification for maintaining a certain degree of currency discrimination. If you could have trade agreements by which you could pay part of your imports in goods without using rare convertible currencies, there was some merit in maintaining a high level of trade even if you had to be stricter with respect to imports of certain countries. This was of course challenged by countries like the United States and Canada, which suffered by this type of discrimination. But the fact is that, so long as they were not prepared to take part in a clearing system such as the European Payments Union, which enabled the debtors to continue to purchase goods in the creditor countries without having to pay in cash in convertible currencies the entire deficit of their trade, there was some merit in maintaining trade at a high level, even at the expense of a certain amount of discrimination. This is something which exists only during
periods of inconvertible currencies. But now that most of world trade is conducted in convertible currencies, whether fully convertible currencies such as the United States or the Canadian dollar, or currencies convertible for non-residents (which amounts to the same thing for the foreign countries), there is no longer any justification for such discrimination against hard currencies, and that is why, during the last year or so, we have been pressing the governments to do away with their discrimination against dollar goods.

There is still a certain amount of discrimination existing which is based on currency reasons; and that is due to the fact that you still have a number of bilateral payments agreements; and trade with certain countries is still conducted not in convertible currencies but in blocked accounts. That is the case for trade with a number of State-trading countries, although this is no longer the rule in all cases. It still exists in a few countries in Latin America, and there are a few bilateral agreements of this kind with Near East countries, and some others. But this trade is now limited to a small percentage of world trade.

There is, of course, a danger in maintaining bilateral payments agreements when they are no longer necessary because this gives an undue advantage to the country with a soft currency. If you are more generous in the regulation of your trade with countries which refuse to pay for your goods in convertible currencies, it means that the countries which are paying in convertible currencies for their imports are at a disadvantage; and we have even seen cases where the governments have deliberately restricted imports from convertible currency areas simply in order to be able to dispose of the goods which they had been forced to buy from their bilateral partners. I give you one example: for a number of years Norway prohibited the imports of motor cars above a certain horse-power; but they had a bilateral agreement with the USSR under which they had committed themselves to buy a certain number of Russian cars. This was the counterpart of commitments by the USSR to buy some of their fish, which they could not easily dispose of on world markets. Now, if the Norwegian customer had been free to buy similar motor cars from other countries, he would not have bought the Russian cars which did not appeal to him in the same way. However, the
Norwegian Government tried to use these cars for official purposes. But they had to sell the balance and, in order to do so, they had to restrict the imports to force the consumer to buy the Russian cars. This had the effect of creating an unnecessary restriction on the cars coming from the convertible currency countries in order to implement a bilateral payments arrangement.

Another example: Ceylon had a bilateral agreement with mainland China. They sold rubber to China and they obtained rice from China. This was rather easy to implement because Ceylon needed the rice. But there was a time when there was an imbalance in the barter trade, and China had to sell something more; they offered some textile goods. There again the Ceylonese Government was rather embarrassed because it felt that the Chinese textile goods would not be easily absorbed by the consumer, so, at one time, they thought of restricting imports of similar goods from other countries just in order to force the consumer to buy these Chinese goods. Fortunately, they realized that this was not a good policy. Thus you see how the pressure exists if you enter into bilateral agreements for one reason or another. There is a tendency to give a sort of advantage to the countries which are not prepared to pay their imports in convertible currencies, because you have blocked accounts which you have to use one way or the other. As you can only use them for purchases in that particular country the natural result is that you have to buy what you can find, and if that is not up to a certain standard, you have to dispose of your purchases one way or the other; either you lose on it by making prices more attractive, or you try to force the consumers to buy it, whether they like it or not.

At that point, the distinction between currency discrimination and trade discrimination is getting somewhat blurred because the discrimination is not based on any intention on the part of the importing government to give a favour to the other partner. It is only because of the inconvertibility of the currency of the bilateral partner that the importing country is more or less induced to give him an undue commercial advantage or preference; but it is not intentional.

Then, there are other cases in which there is absolutely no currency justification at all and where the type of discrimination which exists is based purely on commercial discrimination. Let us take the example of Greece which has
told its partners that it would not give them import licences for a series of products unless its partners were prepared to buy some tobacco, or currants, or something else. This has no currency basis because the offer was made to all countries, whether they had a convertible currency, a transferable currency, or a non-convertible currency. The discrimination was purely commercial with no currency consideration whatever. Greece had to use this sort of bargaining weapon in order to dispose of stocks which could not be sold normally on world markets. You have other cases of the same kind. Take the Norwegian-USSR deal, for example; although it is linked up with the bilateral payments agreement, it is also linked up with their trade considerations. The Norwegian Government is producing salted and other kinds of fish which is difficult to sell on world markets because of protection. They are prepared to make special deals with countries which are in a position to give them commitments that they would buy this type of fish. It so happens that the only countries which are interested are those with inconvertible currencies. The situation is still basically the same as that of Greece. It is that of a country which has unsold stocks of goods which meet with particular resistance on free markets. You may have other cases of trade discrimination, like those which occurred between Europe and the dollar area. Even after the currencies of Europe were convertible, there still were some "hard core" problems in various European countries. To give you one instance, in Germany, the phosphates industry refused to accept or tried to oppose for a long time the elimination of discrimination against the dollar area. Why? Because they contended that, though they could compete with the phosphates coming from the European countries, they could not compete with the phosphates coming from the dollar area, as the United States were in a particularly competitive position. So the idea was to maintain some restrictions against dollar imports, not because of the currency consideration, but simply because the industry was not prepared to accept competition from that sector, as they said that there was a sort of unfair competition on the part of the United States due to the natural circumstances. Today you have the same type of discrimination. It is more or less localized in the so-called low-cost, low-wage producing countries. As you know, we have been able to bring pressure on certain countries during the last two years to remove their discrimination against the dollar area; but we have not been able to achieve the same success in the case of discrimination against
imports from a number of under-developed countries - mainly imports from Asian countries. There have been a few cases in other parts of the world which I can give you as an example. For instance, in Germany there is a restriction against the import of wool tops from Uruguay. The justifications given by the German Government and industry, are that the Uruguayan wool top industry is not working in normal circumstances, and that there is unfair competition due to various causes; so, there is a discrimination against this source of supply. We have discussed this matter with the German authorities and the industry; we have told them that if there is any sort of unfair competition in the form of a subsidy given to the exporting industry by the Uruguayan Government, even in the form of multiple exchange rates, they had a remedy: this was the imposition of a countervailing duty. But the industry and the Government said that they are not accustomed to countervailing duty, that they just put on restrictions - which means they discriminate against Uruguayan wool tops. But these cases are comparatively rare, whereas in the case of Asian countries, and more particularly Japan, Hong Kong, India and Pakistan, the range of discriminative measures is much greater. It is in fact so great that it becomes an issue of major importance for the GATT, and we have set up a special Working Party to examine this problem. The question is of importance to other organizations as well; and recently I have discussed this problem with the representatives of the World Federation of Trade Unions. It is not a simple problem. It is a very difficult one. But the general idea behind it is that the most-favoured-nation treatment is only permissible and justified if the conditions of production are more or less similar. This is a sort of new theory which has been developing during the last few years or so, which is not yet firm doctrine; but the basic principle is that where there is equality of treatment there should be equality of conditions of competition, and of production as well; there is at present a distinct tendency to limit the scope of the most-favoured-nation treatment to countries having more or less the same economic and industrial structure. Needless to say, we consider this a very dangerous policy because, if taken literally, it would mean that wherever there is a justification for international division of labour, you are going to neutralize that and make it worthless by refusing the application of terms of equality; for if you have no difference in the cost of production, the quality being equal, there is no need for any international trade.
International trade is a result of more efficient production in one country. If you were to say that because somebody is selling at a lower price than the price you can obtain from other suppliers, you are entitled to stop these imports or restrict them, this would lead to a complete negation of the principle of international division of labour. On the other hand, it is all very well for the Europeans to say that they cannot accept the competition of Japanese or Indian goods because they are priced 20 or 30 or 40 per cent lower than European goods; but as the same situation exists between Europe and the United States, the United States could also be authorized to say "We are not going to accept competition from Europe because the wages in Europe are about one-third of the wages in the United States". Indeed, there is no reason why there should be a sort of limitation of the most-favoured-nation treatment in the relations between some countries and others unless you accept that as a general principle. This, then, is the other type of discrimination, which is not at all based on currency considerations, but simply on what the countries consider as being unfair competition. They recognize that there is no unfair competition when there is subsidization of exports, in most cases at any rate; but it is an unfair competition when the conditions of production are very different from those prevailing in the importing countries.

I am not going to discuss with you the solutions which we are contemplating for this problem. But I will simply indicate that all the countries, with the exception of India, have recognized that there is a problem; they have realized this, although they cannot enforce the pure doctrine of non-discrimination. The Japanese Government, for instance, has been prepared, in a number of cases, to take action in order to soften the impact of severe competition from some of its exporting industries, by limiting the volume or value of certain types of exports, or by imposing in certain cases minimum prices for the export of certain goods. We have tried to make the governments understand that, although there is a problem, first, it is not as broad as they make it out to be and, second, it is not a permanent problem, but rather a transitional one. In the case of Japan for instance, it is quite clear that there may be, in certain sectors or even in the greater part of its industry, conditions of labour which are not as normal as they are even in the modernized sectors of Japan's industry;
then you have in Japan a pressure of population which is such that only part of
the labour force may be employed in the big modern industry, where the trade
unions are active and where social legislation is enforced. The balance of the
labour force which cannot be employed in these big industries is forced to accept
conditions of work which in the smaller artisan industries are sub-standard;
naturally, the government cannot enforce the same standards as it is prepared
to enforce in the big industry, for if the government had to enforce these
standards the smaller industries would be unable to produce and the result
would be widespread unemployment. These sub-standard industries are not only
providing for the home market but are also producing for export and, as their
competitive position is greater in certain respects by the fact that their
labour conditions are not normal, they are in a position to sell at what you
might call "cut prices", without any dumping, without any subsidy. In these
circumstances, you can find a solution to the problem if you can transfer this
surplus labour force to the industries which are regulated by the labour legisla-
tion, and it is hoped that in Japan this process can be completed in about ten
years. You will have a period of transition during which you may have a certain
number of cases of so-called "market disruption"; these are cases of exports
which really upset the normal conditions on the market, and which might drive
the government affected to take measures of protection which would hit not only
Japanese exports, but also exports of other countries if they were applied in a
non-discriminative manner. The same thing might also happen in other developing
countries where the standards of labour are similar to those in Japan, that is
to say, a surplus of labour, as in the case of Hong Kong where with the influx
of Chinese refugees you have a fantastic amount of people who are prepared to
work at any price. I have seen in Hong Kong artisan work-shops where the workers
are quite content to sleep in the work-shop and have a bowl of rice at lunch and
get just pin-money -- two Hong Kong dollars a day -- simply because it is better
for them to do that than die of starvation. Or you may have circumstances in
which the wages in industry have not yet reached a normal level simply because
it is the case of a country where the level of wages in agriculture is extremely
low, and where it takes some time before you have trade unions and before the
workers can obtain a decent wage in the industry. But there again, these are
transitional problems because the trend would be for the trade unions to become stronger, for the wage levels to become more normal, and to approximate to the levels which are in force in Europe. Then, of course, you have to take into account another very important factor, which is that, very often when the wages are low, the productivity is also very low; thus the labour cost, even then, may be about the same as in industrialized countries because the productivity loss is about the same as the wage gain. This explains, for instance, why in India, although the wage level is certainly lower than in Japan, the cost of production in the textile industry is definitely much higher than in Japan, simply because the productivity is very low. The trade unions in India enforce a number of restrictive practices and restrict the number of spinning machines which each worker has to watch and supervise. That is why you have to take into account not only the wage factor but also all the elements in the labour cost, even when these problems are of a transitional character. In order to meet these transitional problems, it is necessary to arrive at some sort of reasonable arrangement or compromise. Indeed, we believe that some progress will be made if the governments are prepared to recognize, first, that there is a problem, secondly, that the problem is not as wide as some of them think, and therefore that the solution is not to be found in the maintenance of permanent discriminatory restrictions, but rather in the adoption of a system of procedure to prevent the particular cases of market disruption which may occur. These governments should face the long-term problem which is involved by accepting the fact that the structure of industry in the industrialized countries can no longer be the same as it was thirty or forty years ago when the industrialized countries were providing the rest of the world with the necessary consumer goods. It is now necessary to make room for imports of manufactured goods from the developing countries. Also, they will have to shift part of their capital resources and man-power to the type of industries which can provide exports to the developing countries, especially equipment, heavy machinery, capital goods, etc., but that is of course a formidable task both politically and economically. We are trying to find a solution to this situation in order to eliminate this type of discrimination against so-called low-cost or low-wage countries; for this is one of the few remaining sectors of discrimination in world trade.
There is another source of difficulty in the case of State-trading countries. The State-trading countries are exporting at prices which sometimes are completely out of relation with the prices quoted by the other suppliers. The reason for this discrepancy, which makes it also rather difficult for the importing countries to grant to State-trading countries the privilege of equality of treatment and non-discrimination, is completely different from that existing in Asian countries. It is not because you have different conditions of labour and remuneration of workers, though the prices are sometimes completely out of relation with prices of other countries. This is due to the particular system of pricing in State-trading countries, where the internal prices are not based upon cost, but rather on general economic considerations. You will find that certain products may be sold at considerable loss and other products at fantastic prices as compared with costs. It is because the government considers that the prices should be determined not by market forces, but by regulations issued by the official internal planning bureau. That is very fine so long as you live in a sort of closed area, but as soon as you are trading with the rest of the world, which has a system of pricing based more or less on cost, it is a pure coincidence if the prices are the same. Furthermore, there is a monopoly of foreign trade in State-trading countries, and the trade is conducted entirely by one company or one corporation for a given sector, i.e., one export corporation for agricultural products, another for light industries, another one for machinery, another one for chemical products, etc. These corporations are run on the same principles as in an ordinary firm; in other words, they have to make a profit, and when they have made their profit, there is a bonus for officials and managers of the corporation. So their intention is to make profits. But initially they are based on the internal price structure, and yet they have to relate their foreign trade to world prices. If, because of some general considerations, the price of one product which they buy is much higher than the cost, they cannot sell on world markets except at a loss, even though it would be a profitable operation to do so. Either they can't sell or they must offer their product at a price which is completely uneconomic. On the other hand, if the internal price is below cost, of course they can sell the product at prices which might be 20, 30 or 40 per cent lower than the world prices and still make a "paper" profit. So you see that the market disruption which may result from these pricing
differences is not due to labour conditions as in the case of the Asian products, but simply to the fact that these countries have organized their prices in a way which has absolutely nothing to do with the pricing system in the rest of the world. That is why many countries are not prepared to give to the exports from State-trading nations the same conditions, the same equality of treatment as they are prepared to give to the other free-enterprise countries.

This is not, of course, a transitional period problem. It can only be considered if these State-trading countries were prepared to change their price structure, at least insofar as they are affected in their export prices; but although they have made some progress and some of them have accepted certain of our suggestions, they are still very far from adjusting their pricing system to the cost; even when they are prepared to take costs into consideration, there is still a serious difficulty, because they are usually not prepared to take as part of the cost the value of the capital equipment and the value of the necessary replacement to the existing capital equipment, which means that their concept of cost is very different from ours. This explains why, in the case of the State-trading countries, there is also a difficulty in giving them the equality of treatment which is involved in the application of the most-favoured-nation treatment, and more particularly the concept of non-discrimination in the operation of quantitative controls.

The last point which I want to discuss is the question of bilateral arrangements. We have already studied that question. Sometimes we consider that a bilateral trading arrangement which is based on the opening of quotas or other commitments is of a discriminative nature. People will say that you could very well have a bilateral agreement which is not discriminative. In theory it is true; but in practice, bilateral trading arrangements are discriminative. If you trade a quota against another with one of your partners, you will be tempted to give to that partner more than its share. It is true up to a point that, if all your trade is conducted on the basis of bilateral agreements, as you cannot give advantages to everybody, you will have to adopt something which would be more or less equal and fair; but it is very rare to have bilateral agreements with all your partners. Some countries, such as the United States, Canada, or South Africa, are against bilateral agreements and, therefore,
they are apt to be ignored in the distribution of the "cake" among the suppliers. Other countries may not have the same bargaining power as others, and therefore the distribution is not made in accordance with a fair apportionment of the quotas, but mainly on the basis of the particular bargaining weapons in the hands of the various partners. The result of these agreements is certainly discriminative because it benefits the countries who can give advantages to their partners or who can use powerful bargaining weapons. And there is a very marked tendency in bilateral agreements to be discriminatory. It sometimes looks very attractive to have a bilateral agreement; I gave you the instance of Greece. But you have also the reverse if you are the weaker partner. You have to pay through the nose to get the advantage of a quota or to get a somewhat better price, and very often you have to pay for it by giving an advantage to your partner in the form of privileged quotas or of higher prices so that either the price advantage disappears or, if you are the weaker partner, you have to pay more because you cannot then pick and choose between the various suppliers. The other disadvantage of the bilateral trading arrangement is that it tends to level down the interchange of goods. There is always a need to balance the accounts bilaterally, and therefore you can only balance by bringing down the level of exports to the level of imports, so even when you are able to sell more, if your partner is not in the same position, this means that you have to reduce your exports to the level of your partner; whereas, in a free market, the possibilities of triangular balancing and multilateral compensation is much greater as experience has shown, in particular in Europe with the European Payments Union. There is always the tendency for the level of trade to be higher when you are conducting it along multilateral channels and not along bilateral channels. The only cases in which bilateral trading arrangements may be favourable are the cases in which your natural exports are facing such severe restrictions on the markets, that even if you are efficient, even if you are competitive, you cannot dispose of these stocks. At that point, you need some bargaining weapon in order to dispose of these goods and the bilateral arrangement may be advantageous. But as I have already pointed out, you have to be very careful and to see that this does not react on your sales on the world markets because if you are selling bilaterally to a partner who is not consuming that product but is re-exporting on the world market, then the net
result is that you are not expending your exports, but you are getting part of your exports paid for in doubtful currencies or in exchange for more expensive goods. In the case of Brazil, for instance, there was a tendency to make deals with the USSR and to sell them coffee; and Brazil thought that it could expend its total exports. I advised the Brazilian officials to look into the matter closely and to see whether they were not simply selling direct to Russia the coffee which they had been selling to Germany and which Germany was re-exporting to Russia; if that were the case, it meant that the earnings from the exports of coffee to Russia would have to be paid in roubles instead of being paid in convertible German marks as was the case before and that was clearly not to the advantage of Brazil. So it was necessary for the Brazilians to be absolutely sure that there would be a net increase in their total exports and not just a diversion of the trade channels. Then, of course, you have the other exception which is when your partner is not prepared to accept any other form of trading but bilateral agreements. All countries have some trade with the State-trading countries, although this does not represent a very substantial percentage in their trade at present, and there is no question of forcing the Russians to accept any other form of trading than bilateral trading for the time being. Some European countries have been able to force on the Eastern European countries a system of multilateral payments; in other words, most of the trade between Western Europe and Eastern Europe at present is no longer conducted on the basis of blocked accounts or clearings. It is conducted on the basis of convertible currencies in sterling or in any other currency. This is a step forward because at least the exporter can dispose of the earnings for purchases on other markets; but usually there is a kind of obligation on the part of the two partners to balance the trade, and there are, in most cases, rather firm commitments to purchase or, if one party is not following up its commitments, the other country can reduce its sales, though there is always a very marked difference between the contemplated trade and the actual results of these bilateral agreements. There have been a certain number of modifications introduced: the balancing, instead of being on an annual basis, is usually based on a longer period - four to five years - and there are possibilities of swing credits for intervening periods. Some of these advantages are of value to some underdeveloped countries and there has been a certain development of bilateral
agreements with the Eastern European countries and also with China. But then again, you have to be rather careful and watch the conditions, prices, deliveries and qualities in order to be certain that the net result of the agreement is an advantageous one. Some countries such as India have been obliged, in order to ensure that the bargain was a good one, to set up a State-trading organization of their own to trade with the State-trading countries, as they felt that leaving the trade in the hands of private importers might lead to very undesirable results. The purpose of that State-trading organization was only to trade on equal terms with the State-trading corporations of the USSR and other Eastern-bloc countries.

This is the present position. The bilateral agreements which were considered at one time as a very valuable instrument of commercial policy have not disappeared; but at any rate, they have lost much of their substance. If you examine the list of commercial agreements which we used to publish each month (in the former Trade News Bulletin), you will see that there are still a number of bilateral agreements in force between the European countries and other countries, but the contents are extremely small. Either you have quotas which are negotiated in case the liberalization measures would be withdrawn, or you have quotas which are limited to a very small fraction of trade still under control. You have practically a complete net of such agreements in countries like the Communist countries in Europe and Asia; you have also a fairly complete net of such agreements with Egypt and some other Arab countries. There are still a few bilateral agreements with South America, but there again, they are disappearing rather rapidly. I think that the tendency is to limit the bilateral trading channels either to special cases of emergency, or to trading with the State-trading countries which, so far, are not prepared to accept anything else because of the structure of their foreign trade, or to trading with countries whose currency is not yet convertible. Regarding discrimination, there is a general elimination of discrimination for currency purposes, there are still few bilateral agreements; and there is still a hard-core discrimination against the Asian countries with a tendency to look for an appropriate procedure to get rid of this type of discrimination. Naturally, you still have bilateral agreements in the agricultural sector, because you have restrictions
in that sector in many countries, and because the exporters still feel that
the only way to force the importing countries to open their doors to agri-
cultural products is by the use of bilateral bargaining. But there again
there is also a tendency at present to try and obtain the guarantee of a global
quota and to administer these global quotas either through the system of "first
come first served", or through the system of apportioning the quotas among the
suppliers on the basis of a representative period. In other words, there is
a tendency to replace the system of bilateral negotiation of quotas by the
application of the non-discriminative methods of apportioning quotas among
the importing countries.
We have already discussed the problem of quantitative restrictions and other import controls. I would like now to discuss the problem of agricultural protection and the special difficulties in the agricultural sector.

Even before the war when the League of Nations tried to introduce a certain element of order into trade relations, and to reduce the protection which was hampering the normal flow of goods, one of the most intractable sectors was that of agriculture. In those days the farmers were content with the ordinary measures of protection — that is to say with tariffs. They wanted to have, generally, higher tariffs than in the case of industrial production, and they tried to introduce various measures so the government could introduce higher tariffs on a temporary basis, when there was a glut on the domestic market, or when prices were depressed. The agricultural producers in industrial countries had not yet realized their tremendous political power and they had not claimed, as has been the case later on, that agriculture should be divorced from the rest of the economic life and should no longer be subject to economic laws.

During the nineteen thirties as a result of the depression, governments had adopted a system of administrative controls, and these controls remained during the war and the post-war period. The farmers discovered that these new methods of protection were particularly helpful to them. There was a growing body of opinion among agricultural circles in favour of the complete scrapping of the tariff measures and their replacement by administrative agricultural controls. The result was that, when the balance-of-payments difficulties in the industrial countries disappeared, the pressure for liberalization in the industrial sector was effective but progress in the agricultural sector was far smaller.

We are faced at present with a situation which results in an imbalance between the interests of the countries which are mainly exporters of agricultural products and of those countries which are more particularly interested in industrial goods.
We, in the GATT, have been led to enquire into this situation, and we have discovered that in practically all of the industrialized countries and even in those countries which remain important exporters of agricultural products, i.e., the United States and Canada, or even in countries, such as Australia, which are dependent upon exports of agricultural products to a large extent, the commercial policy was determined by internal agricultural policies directed towards the isolation of agricultural production and trade from the normal play of market forces. The methods used differed from country to country, but the main objective was to guarantee to the farmers either prices or income which the farmers would not obtain if the market forces would determine the price of their products. It is quite clear that if you have this kind of internal policy it is not possible to accept competition from abroad, which would naturally upset the delicate arrangement as soon as there is any significant difference between the prices which prevail on the world market and the prices which are guaranteed to the farmers in the various foreign markets.

Most of the countries have been led to protect their agricultural domestic market by import restrictions, which have the great advantage, or disadvantage, of shutting out foreign competition and of isolating the market from the normal economic forces. This is the present situation and nothing has yet been done to change the national policies, even though there is a growing feeling in some countries that these policies are neither sound, nor profitable. In the United States, for instance, the President has indicated very clearly in a number of statements that this policy was leading to an impossible situation, that in one week alone the American taxpayer was paying one million dollars a day in order to maintain this kind of policy, and the financial burden was such that one could not expect the consumer and the taxpayer to pay that price for a policy which does not even give satisfaction to the farming community. But for various political and social reasons the situation is still as I described it and, so long as the national agricultural policies remain as they are, there is very little hope of having an orderly flow of trade in agricultural products.
As I told you earlier, there is no obligation in GATT or any other multilateral system of trading to deprive any sector of industry of protection, and there is no obligation for the government to reduce the level of protection it considers necessary, except when it finds it advantageous to enter into commitments against concessions offered by other trading partners. However, there is one thing which has been basic in any multilateral system of trading, namely that the protection should be granted through tariff measures or through other types of measures which are based on market economy principles, in other words, on the price effect. There is a complete ban in the GATT commitments on quantitative restrictions, whether in the agricultural or the industrial sectors. So we are facing a very difficult situation, and the same situation exists in any other organization which tries to deal with trade matters.

What are the reasons which have led governments to resort to quantitative restrictions in the field of agriculture when they were ready to abandon this method in the industrial sector? The main argument is that, by its very nature, production of agricultural commodities does not react to price movements in the same way as production of industrial goods. When you produce cotton textiles, nails or shoes you can determine the volume of your production rather accurately. If you want to produce a million yards, you produce a million yards; if you want to produce five hundred yards, you produce five hundred yards. There are certain indirect effects in terms of unemployment, etc., which limit the flexibility of production, but there is nothing to prevent you from cutting your production to the requirements of the consumers. In the case of agriculture this is not what happens; production, to a large extent, is determined by natural factors and you may have a bumper crop instead of an average crop or you may have a bad crop instead of an average crop. So your production is determined to a large extent by factors over which you have no control. And what happens in one country may happen in a number of countries, and if you look at figures of production during the past ten years, you will find that there is an enormous difference between the total production one year and the total production in the next year. Sometimes you have a sort of compensation in the next year. Or you may have
a sort of compensation by bad crops in one part of the world and good crops in another, but you may also have a series of bumper crops in a number of countries which would change the picture altogether. That is a first factor: the impossibility of determining the level of your production.

The second point is the low price elasticity of many agricultural products. If in the case of industrial goods prices move, there is a natural reaction in the demand for these products; in other words, the price mechanism plays an important part in the adjustment of supply and demand and is relatively effective in the industrial sector. In the case of agricultural products, because of the relatively low price elasticity of these products, the price mechanism does not play the same part. Experience has shown that you can reduce significantly the price of certain staple commodities and the demand will not increase very much. Or you can increase the prices significantly without affecting the demand to any large extent. So that, when there is a drop in prices in an industrial sector, the result is that the producers cut down their production so as to adjust the supply to the demand. But in the case of agricultural products, exactly the reverse happens. As the farmers have a sort of minimum income which is necessary, when the prices tumble down the natural tendency is to increase the volume of production and make the situation worse.

These are the two main arguments which have been advanced to show that agricultural production does not respond to the economic forces as any other type of production including some other primary production, such as mineral ores, etc., where you can reduce or increase the output to a certain extent. Therefore, the farmers claim that the application of the market economy and the economic forces to agricultural products leads to serious hardships and anomalies. Then, during the last ten years, you have to take into account that the world markets themselves have been to some extent artificial. With the excess production in the United States and in some other countries, the exporting countries are not prepared to subsidize heavily the exports of a number of staple products.
Of course you know the system applied in the United States, by which they are in a position either to give away some of their surplus stocks within the framework of economic aid, or to sell these products under special terms; that is to say, not against foreign exchange, but against domestic currencies in the importing countries, and even where these payments are "re-lent" to the importing countries for economic development. The contracts on these loans are very vague about the terms of repayment. But even on the normal markets the domestic prices in the United States do not prevail, as they are fairly high, although not as high as the guaranteed prices in some of the European countries. Nevertheless the sales on the world market are made at prices which are below the normal domestic prices of exporting countries. This, of course, makes the situation worse in countries in which the conditions of production are not the same: for instance, where you have small farms where the production is not mechanized, where you have small plots of land and cannot use the technique which is used in countries having very large planned estates. So, this has made it even worse for the farmers in a number of industrialized countries and the pressure has been greater for separating the domestic level of prices from the world market prices which are, to a certain extent, artificial.

This is the situation. As I said, it is not isolated; it is a situation that you find practically everywhere. And there is a tendency nowadays to extend these agricultural policies to the non-industrialized countries. In the developing countries, this policy cannot go very far at present because of lack of financial resources, but as soon as there is pressure for labour in industry farmers have to pay higher wages to keep labour on the land and their conditions become similar to those of the farmers in industrialized countries. So you have a problem which is rapidly becoming world-wide and which will of course affect enormously the exporting possibilities of a number of developing countries which are still relying on the exports of primary products to meet their demand for imported goods.

In most countries these agricultural policies are buttressed by administrative restrictions on imports. The only outstanding exception is the United Kingdom, which does not rely to any significant extent on quantitative restrictions, but which gives to the farmer what is called "deficiency" payments. The price
which is guaranteed to the farmer is divorced from the prices prevailing on the British market because the United Kingdom Government is willing to pay the difference between the actual price received and the guaranteed price in the form of a subsidy. This system is different in its effects from the system of controls, and one of the good features of it is that it maintains the price paid by the consumer at a reasonable level. Therefore, it does not affect the demand insofar as the demand has a certain price elasticity. Whereas you have controls it means that practically all the supply is paid by the consumer at a price which is certainly higher, in certain cases much higher, than the prices which would prevail if there were free competition. But as regards the protection granted to the farmer, there is not much advantage in the British system, because as it is a sort of underwriting of the price to the farmer, it enables him to sell his output in the face of severe competition. In all the other countries you have a system by which, instead of asking the taxpayer to pay the difference between the world price and the guaranteed price, you force the consumer to pay that price. It is quite clear that in order to force the consumer to pay that price, you must deprive the consumer of his choice between the domestic product and the imported product. That is to say, you get your imported product sold at the same price as the domestic product. If you have a large part of your supply still covered by imports, you can strike an average, as is the case here in Switzerland. Here you have a system by which you get a price that is halfway between the world price and the domestic price guaranteed to the domestic farmer. There are various techniques and the one they use here is the so-called "prise en charge", which obliges the importer to buy a certain quantity of the domestic product; the price for the consumer is the one resulting from the average between the world price and the guaranteed price. But in most cases, the system has the effect of applying to the imported product the same price as is guaranteed the domestic farmers.

Then, taking the example of Germany, for the main agricultural products you have a State monopoly for the imports of cereals, dairy products, oils, fats, and sugar, which works in the following way. The State Agency indicates in the press that it is prepared to buy, for instance, sugar. Then the Agency asks the sugar importers to make tenders and quote a price. In theory this price is a free quotation, but in practice the main sugar importers get together, agree on a
quotation, and usually they get the tenders, because the price has been pre-
aranged. But that does not affect the market at all because once they have
got the contract from the importing Agency, they are obliged to deliver the
amount of sugar allotted to them at the price which had been quoted and which is
very near to the world market price.

Then these importers buy back the sugar from the importing Agency but at the
German domestic price. So that all the imports come on the market at the
German guaranteed price and the Government gets the benefit of competition to
a certain extent. In any case, the Government is buying the sugar at world
market prices and the importers are obliged to repurchase it at the German
guaranteed price. And, thanks to this system, you have a complete isolation of
the German sugar market from the world market. What is true of sugar is true
of the other commodities which are purchased through this system of a State
Agency.

In other countries the system may be different. You may have a system
which is regulated by import restrictions, and the importers are free to purchase
abroad but only to the limit of the quotas granted, which are determined in such
a way so as to enable the domestic production to be sold on the home market at
the guaranteed price without being affected by the foreign imports.

Or you can have the system according to which if the farmer, or the producer,
is not able to sell the product at the guaranteed price on the market he just
dumps it on the State Agency which gives him a loan. At the end of the season
if he is not able to find outlets at the guaranteed price, the Government has
to get rid of these stocks by the various methods. In the meantime, in order
to protect the Government from giving subsidies to all the agricultural products
which may be imported from abroad, import controls are enforced. It is quite
clear that if, for example, the United States is guaranteeing a price for butter,
and that price is higher than the world market price plus the import duty,
all the producers of butter are going to ship their butter to the United States
and get the subsidy.

The point is that, as soon as you have a market which is completely out of
line with the conditions prevailing outside it is impossible to play the game
according to the rules of market economy. That is why you have had this
situation in all industrialized countries where, because of the guaranteed
levels which were, in practically all cases, substantially above the world
market prices, there was a stimulation of domestic production at an inflated
level, and the possibility for the efficient producers abroad to penetrate the
market, or at least to expand the market, or to compete with domestic producers.

As I explained to you earlier, production in the agricultural sector is
not predictable. There are very wide variations because of climatic conditions,
and also because of the very close connexion there is between the various types
of production inside the agricultural sector. So there has been a tendency
to develop the production of products, the price of which are guaranteed, to
the detriment of the other agricultural products, which have to face a normal
market. In all countries where the guaranteed prices are not given for the
entire sector, you have had this diversion, with the result that there has been
an artificial stimulation of production in these guaranteed sectors, an inflated
production which has led in a number of cases to surpluses. In certain cases,
the surpluses were occasional, as the famous egg problem in the United Kingdom
some years ago, where the United Kingdom, which is a net importer of eggs,
had suddenly become a net exporter and had swung the markets to the detriment
of the natural exporters, such as Denmark. In a number of cases, these
export surpluses become durable. In other cases you have to deal with agricul-
tural products which cannot be stored indefinitely, and governments have to
do what the United States Government is doing, namely, to get rid of these
surplus stocks at any price, which means that the result of their agricultural
policies is not only to restrict imports, but also to disorganize completely
world markets. For such perishable surpluses they are prepared to quote
prices which are lower than the prices quoted by the most efficient producers
in world markets. So with these agricultural policies, we have come to a
point where the situation of world markets has become completely chaotic.

It is clear that in a trading system where you still have market forces
operating in some places, and where there are policies which are inconsistent
with the market economy in other places, the result can only be chaotic.
On top of that we have the regional groupings. Let us look first at the European Economic Community. In the Rome Treaty it is stated that the elimination of obstacles to trade will apply both to industrial and to agricultural products, so that formally the conditions laid down by GATT Article XXTIV are met. But the intention is to replace this system by a common agricultural policy, that is to say, to have a single market, but a market which is not going to be a free market. Agricultural products will move freely between Germany and France, France and Belgium, or Holland, or Italy. There will be no tariffs, no restrictions, but it will be a managed market. In other words, these types of national policies will apply not to the national territory, but to the Common Market territory. This is very nice for the countries within the Common Market, but it is less advantageous for the other countries remaining outside.

Let us take the case of Germany. Now Germany is still importing some sugar, though less and less. And when Germany wants to import sugar, it can import sugar from Cuba, France or Belgium, and the conditions would be the same because of the system of tenders which I have just explained to you, under which the Government Agency is going to buy the sugar at the lowest price. And if the Cuban price is lower than the prices quoted by the French exporters or the Belgian exporters, the State Agency is going to buy from Cuba. But with Germany in the Common Market, the situation is going to be different because there will be a common market for sugar and the sugar which is produced in Belgium or France is going to come on the German market without any limitation. The German Government will have very little choice; it will have to buy this sugar and not to buy it from outside the Common Market. And there is very little you can do about it because you will have not at the German frontier, but at the Common Market frontier, a policy which will see to it that this common market in sugar is going to be protected against imports, in the same way as the German market was protected from imports before. The full brunt of the protection will fall on the outsiders. We have not yet a clear indication of what these measures of protection for agriculture in the Common Market will be, but they are going to be either very severe import restrictions or they are going to be another form of protection which may be just as severe. You see that this idea of extrapolating your national policies and applying these national policies to a wider circle affects enormously the interests of the outsiders who were, before,
at least able to compete with the other suppliers when they had only to meet the protection given to the producers in a given country. But from now on the position will be completely changed; all the agricultural producers in the Common Market will have the same type of protection as the German producers had before. And that explains why this agricultural common policy is of such importance to all countries who were exporting to continental Europe before, as there is a real danger that these outlets could disappear because of the extension of such agricultural policies to the Common Market.

The main problem of course is to see that the method of protection adopted is one which will not be too severe. There is a desire on the part of the other countries, and also on the part of some countries inside the Common Market to abandon the rigid system of import controls in the form of quotas. This tendency, as indicated in the final proposals of the Commission, is rather to use variable levies. We do not know what the final proposal will be after it has been discussed by the Council of Ministers of the EEC, but the idea is that there will not be any quantitative limitation to the imports, and the volume of imports will be determined only by these levies.

The system of variable levies has been introduced recently in Sweden where they have replaced the quantitative restrictions which were applied before. It is not as flexible a system as the one which the EEC Commission is planning to introduce, in the sense that the changes in the rates are determined by certain criteria and cannot be changed so quickly or so easily. In the proposals of the Commission of the EEC it seems that the idea is to keep these levies very flexible and to adapt them immediately to changes in the prices, both on the domestic market and on the world market. In other words, the idea is to compensate and nullify at any time this difference between the two sets of prices, so that the system may very well lead to a complete prohibition of imports. So, if you have the same prices plus the tariff there will not be any incentive to import as the prices of the imported product will always be higher; the same is true if the tariff is abandoned (and that is the intention of the Commission) and replaced by these variable import levies. The level of the levy is very important because if the levy is such as to make, automatically, the price of the imported product significantly higher than the domestic price there won't be
any incentive to buy from abroad. This is in a certain way a step forward as compared to rigid quantitative restrictions, but on the other hand, it depends much on the way in which this system is operated, and in particular, on the extent to which the EEC countries would be prepared to accept certain commitments (international commitments) regarding the level of these levies, or at least the criteria which would be used for determining the level of these import taxes.

There is at least one advantage in this system; which is that you will no longer perpetuate the system of import controls, and also that the price to be paid by the consumer to maintain this agricultural policy would be much clearer. Nowadays, the consumer does not realize what he has to pay for this privilege, except in countries such as the United Kingdom where deficiency payments have to be paid by the taxpayers and therefore appear clearly in the Budget. That is why the representatives of the farmers, the National Farmers' Union, do not like the system. They don't like the system of deficiency payments because it shows clearly what the consumer has to pay. But this system of levies is going to be an indication of the amount to be paid by the consumer to have the privilege of consuming domestic agricultural products, and it may, of course, be rather useful in influencing the level of guaranteed prices within the Community.

This is the picture at present. As I said, the tendency in all countries is to segregate agricultural production from the market economy, with the result that the market for agricultural products can no longer be linked to world markets, especially when world markets are somewhat artificial. It is a fact that governments have adopted the simplest but probably the most dangerous form of protection by regulating the volume of imports; and it is also a fact that this system, when it results in surplus production, obliges governments to dump their surpluses at world market prices and so creating a chaotic situation for the normal producers. Finally comes the realization, in many countries, that the present situation is a very costly one and has the great disadvantage, despite what governments say in general, of preventing the readjustment in the structure of agricultural production, which is an absolute necessity if the farmers are to become efficient in the countries where agriculture is still, by and large, very inefficient.
This situation, which was already pretty bad, has been complicated by the formation of regional groups, in particular the European Economic Community, which, as I have just told you, will have the effect of adopting the same methods as are applied on a national basis, but extending them to the single market of the EEC, which because of the effects of this extension would make life even more difficult for the agricultural producers and exporters outside Europe than was the case so far. Then there is a tendency to replace the quantitative controls or the State-trading operations by a slightly more flexible system of variable import levies which appear to be an advantage in principle, but which may become dangerous if the level of these levies is excessive. The only bright spot is that it may be easier to negotiate the level of these import taxes than it is to negotiate the quantitative restrictions; at least, it introduces an element of non-discrimination which has some advantage, although it should not be overestimated because non-discrimination, when you face prohibition, is not of very great value to the exporters.

This is the agricultural problem as it stands now. Naturally there are other aspects, and a number of side effects, but it shows that we have to face a very important problem because quite clearly it is difficult to organize a world-wide trading community when the countries which rely on the exports of agricultural products cannot obtain for their exports the same type of guarantees as those who rely on the exports of industrial products.

July 1960
Today I would like to conclude the discussions we have had on the various problems relating to commercial policy. We have seen that commercial policy is bound to play an important part in the general economic policies of all developing countries. We have examined and analysed in the GATT annual reports the divergent trends of trade among the industrialized countries and between the industrialized countries and the developing countries. Two or three years ago we found already that there was a tendency for trade among the industrialized countries to expand more rapidly than the trade between the industrialized countries and the developing countries. We tried to find out what were the causes for that state of things, and we came to the conclusion that the retarding factor in that particular sector of trade was the sluggishness of the exports of the developing countries, and that the level of trade between these two parts of the world was determined by the capacity to import of the developing countries. We found out too that this capacity to import was being determined each time mainly by the export earnings of the developing countries and, to a growing extent, by the financial assistance given to the developing countries by the industrialized countries.

Looking at the prospects for the future we have also come to the conclusion that the requirements in terms of imports of the developing countries will continue to grow because any project for economic development involves an expenditure in foreign exchange, or, in other words, involves imports of capital goods and then, imports of materials, spare parts and intermediate products, which are necessary to maintain the activity and production of the new industry. On the basis of some projections which we have calculated, it would seem that if the present trends in exports and imports were to continue, we might reach a stage in the latter part of the nineteen sixties where there would be a much greater gap between the import requirements and the export possibilities than is the case at present.
Before the war, and even a few years ago, the developing countries were in a position to maintain an active balance of trade; their exports were higher than their imports. Then, gradually ever since 1955, there has been a tendency for imports to exceed exports and, during the years of 1957-1958, the deficit was nearly 4 billion dollars for the entire under-developed world. This deficit of 4 billion dollars is large enough, but it was met practically by the economic assistance programmes of the industrialized countries, and mainly by the United States. On the assumptions we have made for our calculations, the probable trade deficit, in 1965 or 1975, might be substantially bigger than it is at present. On an assumption, which might not appear to be excessive, for the development of the national income of the developing countries, this gap may reach a figure of about 12 billion dollars. It seems rather improbable, in present circumstances, that the figure of 4 billion dollars a year of financial assistance could be exceeded in the near future, if we consider as financial assistance not only actual grants but loans. Indeed loans are extremely useful for the temporary period, but loans have to be serviced and repaid, and this means postponing the day of reckoning, because the under-developed countries can only repay these loans by additional exports of goods and services, and the structure and pattern of their balance of payments will be determined not only by their import requirements, but also by this financial requirement in terms of services and repayments of the loans. Already in the case of India, the balance of payments in the near future is going to be burdened by a substantial amount of repayments. In certain countries, it has been reckoned that in the very near future the servicing of the present loans might absorb nearly one-quarter of the export earnings of the country considered.

This leads to the inevitable conclusion that the developing programmes of the under-developed countries will rest, to an increasing extent, on the development of their export trade. It is essential for a balance to be maintained between the import requirements (which will continue to grow for a certain period, and at least until the diversification of the economies of these countries has been pushed further) so that these countries should be in a
position to develop very substantially their exports to all destinations, and mainly to the industrialized countries. That is why the question of commercial policy is becoming one of the main preoccupations of the developing countries.

This trend of thought, of course, has a number of consequences. The first one is that in their development programmes the developing countries will have to lay a particular stress on the development of export goods. Because in order to be able to get some returns from your exports you must have the goods to export. This does not mean that you have to develop all the sectors of production without discrimination. It is essential that programmes for the development of export goods should be based on a clear analysis of the market conditions. It is no use trying to develop the production of goods which have no markets or no chance of competing with the products of the other producers. And that has been a weakness in a number of development programmes of certain countries where the investments made were in lines which had no prospect on world markets. This is a first difficult point, and where it is necessary to have a close contact between the civil servants responsible for the framing of the development programmes and the experts on commercial policy.

The second point, which is also important, is to dispose of these products on world markets at the best price, and also in the form which will obtain the maximum amount of foreign exchange. This is the problem of export promotion. The difficulties about export promotion are due to the fact that in practically all developing countries the actual marketing arrangements are in the hands of the foreign buyers rather than in the hands of the national domestic producers. In a number of cases the goods which are exported from the developing countries are in a very raw stage. In other words, they are not already graded and prepared for easy trading on international markets. In order to get the best price for your goods you have to offer them in the form in which they are usually traded. To take one instance - the case of wool - it is quite clear that if you sell your wool without any kind of sorting or preparation you are going to get a much lower price than if you already have it sorted and classified; and, as was the case of a country which had recently
entered the wool trade, it was said that that country was selling not only the wool but also the skin of the sheep. This is, of course, an extreme case but it is very important when you sell wool to have it graded. I have seen, for instance, in Uruguay a few years ago the difference in returns which some producers managed to have simply by grading their wool before export. And they decided to export only the finer qualities, keeping the coarser ones for processing in their own industries, so that they were in a position to improve, very substantially, the price of their exports and, at the same time, to develop a domestic industry without having to repurchase the wool from the market abroad. This may seem to be a simple fact, but it is a very important part of commercial policy. That is why in a number of our courses we have sent our trainees to certain countries in order to examine the way in which these countries were improving their commercial methods in order to get the best prices for their exports.

There is a second type of products which can be tackled; that is, the semi-processed products. There are a number of cases where it is feasible to sell the commodities, not in their raw form, but already in a semi-processed form. The great advantage of such a transaction is that you get a better price as the value added will come back to you in the form of added foreign exchange. Also, you save a certain amount of freight, the payment for which goes instead to your producer. There are a number of processes which are fairly easy to organize, but it is a problem which is a true problem of commercial policy. Indeed, until now this processing had gone on in the importing countries and there is naturally a tendency for the processing industries in the industrialized countries to refuse to make room for the imports from the other countries. And of course these industries at present are protected by tariffs, and in a certain number of cases by other protective devices. So, in order to get markets and outlets for these semi-processed goods, the exporting countries will have to be active in the negotiations with the importing countries. In other words, you cannot just rely on the natural market forces; you will have to use the system of multilateral trading and, in particular, to get into active negotiations with the importing countries in
order to obtain concessions on their tariffs in these semi-processed sectors. That is, of course, something which is the role of the departments responsible for commercial policy.

Then, there is a tendency to go a bit further as your industries develop. You want to export not only the semi-processed goods, but also the manufactured goods when you have a competitive edge, and there again you have to face the opposition from the industries which are already in existence in the importing countries and which, perhaps twenty and thirty years ago, were not only producing for their own markets, but were also producing for export, and which were practically covering the supply in all parts of the world. This again is a very important and difficult problem of commercial policy. These industries have to restrain their activity as the industries in the developing countries have been set up, and you reach the point where the exporting countries in the developing countries are trying to invade not only the third markets, but also the domestic markets of the industrialized countries. Quite naturally this is something which will not happen overnight, and there are in certain countries some illusions about the possibility of resolving these problems easily. But it is a question of very active commercial policy, a question of very patient negotiations and discussions with the countries concerned. We have in the GATT tried to focus the attention of the industrialized countries on this particular problem and showed them that in order to develop their exports of capital goods to the developing countries it is necessary for them to make room for the exports of these countries because they can only buy capital goods, machines, etc. if they have the necessary foreign exchange to buy it. Of course, foreign exchange can be obtained through financial grants, but that is limited and they should earn more and more from the export earnings. That is, of course, a problem which has to be considered by the industrial countries, not only on the basis of the interests of the separate industries involved, but against the general background of how to export or develop the exports of the products in which they are particularly efficient. We have also tried to analyse the prospects in this particular field and found that
there are a number of limiting factors, some which are of natural origin and others which are the results of policies followed by the industrialized countries.

As regards the natural factors, we consider that there are mainly three. The first factor is that there has been a development in the production of primary products in the industrialized countries, in particular in the agricultural field, which limits the outlet for the exporting countries producing the same goods. The industrialized world is now meeting its requirements in some primary products increasingly from its own production or from the production of other industrialized countries which are competing with the exports from the developing countries.

The second natural factor is the growing substitution of man-made materials for natural materials. That is something which is natural in so far as there is no protection by particular import controls or tariff measures. We have seen this process going on in a number of fields. We have had it in the development of synthetic fibres. First we had rayon, now we have nylon and orlon and other synthetic fibres, and these fibres are certainly competing with the natural fibres. First of all, silk has been affected; but now cotton and wool are affected to a certain extent. Cotton has been affected by the development of rayon, and wool is affected to a lesser degree by the development of other synthetic fibres. Then you have the competition between synthetic and natural rubber. Fortunately for rubber the demand prospects are fairly good and there have been during the past few years pretty favourable conditions for natural rubber. At present it may be said that, if you take the total demand for rubber, for about 20 to 25 per cent of the uses natural rubber is preferred to synthetic rubber. Then there is another 20 to 25 per cent of the demand where synthetic rubber is definitely better than natural rubber; and finally, there is an intermediate zone where the two compete and where the question of price is particularly important. In view of that, a number of producers of natural rubber are trying to improve their competitiveness by adapting the rubber to the requirements. In other
words, synthetic rubber can be produced in order to meet the particular requirements of the consumers and it is possible, by chemical treatment and other processing, to adapt the quality of rubber to the particular requirements of the users. Another development has improved the conditions of trading for rubber: that is the sale of rubber in the form of liquid latex. There are a number of plantations, and in particular in Malaya, which are converting the latex into a liquid latex which is then transported by special tankers to the importing countries because this form of liquid latex is more appropriate for certain uses than the form of smoked rib sheets, which was practically the only way of exporting rubber before. So, as you see, there is a constant need for the exporting countries to improve the competitiveness of their product, and needless to say there has been a widespread campaign in a number of rubber-producing countries to replace their trees by other species and varieties which produce more and better latex. Nevertheless, in spite of all these improvements in the production and the qualities of natural rubber, there is a very severe competition from the synthetic product. We know that research in chemical production is so rapid that you can expect to have improvements in the quality of synthetic rubber. It is already reported that some varieties of synthetic rubber constitute an important improvement as compared with the present synthetic rubber which is sold on the markets.

Another development which has been important is the development of plastic materials. Plastic materials have been used to an increasing degree for all sorts of uses. They can replace timber, paper, cardboard, jute and even some metals. Then you can have plastic materials which are used in machinery instead of copper, iron or steel pieces. So there is an enormous field of competition between plastic materials which require a very small amount of raw materials in the present circumstances. Then, you have also to a certain extent the competition of aluminium which contains far less in terms of raw materials such as lead, zinc or copper.

The third natural factor is that technological advances in the past twenty years have enabled industry to economize instead of using raw material without too much economy. There have been new processes which have enabled the same
result to be obtained with a smaller volume of raw materials. The example which is always quoted is that of the tin for the production of cans; it has been possible through use of the electrolyte process to use a thinner layer of tin than before.

So you have a number of factors which explain why the export of some primary products is not keeping pace with the development of the industrial production in the industrialized countries. That is why we have come to the conclusion that in order to meet these growing requirements on the part of imports, it will be necessary not only to develop the current exports of primary products, but it will also be necessary to come to a change in the structure of trade in manufactured products. In other words, to have the developing countries in a position to export more of their manufactured goods to third markets and also to the industrialized countries, the industrialized countries would have to concentrate more on the production and exports of capital goods, special production and other machinery in which they are particularly efficient. There again it is not something which will happen naturally, because the opposition is going to be formidable in the industrialized countries; in order to improve the situation, it will be necessary for the developing countries to have a definite commercial policy.

I have explained to you what are the methods and the possibilities which exist for improving the conditions of penetration in the markets, whether of industrialized or non-industrialized countries. There is also another aspect of the problem which is very important: there should be some sort of co-ordination between the development programmes of the developing countries. This is not easy, but it is a very important aspect of the problem. We have seen, for instance, in South America during the war and just after the war, that various countries had developed quite naturally because their relations with Europe were broken during the war, and the United States and Canada were not in a position to develop export surpluses. These countries developed new industries which were, more or less, in the same field, i.e., the textile industry. The result was that as soon as conditions became normal, practically all of the South American countries had excess capacity in their textile
industry, and at present, in many of these countries, the industry is operating at 50 or 60 per cent of capacity. After that experience in South America we had more or less the same thing happening in Asia, where during the past ten years most of these countries developed a very elaborate textile industry; first cotton spinning and weaving, then dyeing and finishing plants, and then moving to rayon weaving and sometimes to production of the fibre itself. The result is that already in South-East Asia there is excess capacity in the textile industry and the various countries are trying to develop exports to each other with, of course, a remarkable lack of success. This is due to the fact that all of these countries have developed independently of each other, and have developed their industry in the most economic fashion, that is to say, in building up rather big firms which can produce more than the national market will absorb or, at any rate, more than the domestic market could absorb at the prevailing prices. This, of course, is one of the main difficulties in the present situation because all the new countries wish to push forward their development, but as everybody is trying to do the same the result is that instead of improving the situation as they had expected, there is a lot of wastage of resources and naturally the price paid for the development is too high. It is difficult to co-ordinate the planning activities of the various countries. Some of the regional UN Economic Commissions have tried to bring about some sort of co-ordination but with moderate success. I think that the governments, as a rule, are not prepared to communicate their development projects to the other governments or to discuss what they consider to be a matter of national importance; so it is difficult to arrive at a better co-ordination of the development plans. In Africa, of course, the same question will arise.

Nowadays, to buy a cotton textile factory is no more difficult than buying a motor car. This is the first thing that a developing country will do. And, as all of them will try to do it and will try to get the optimum size, they are apt to produce more than the market conditions enable the consumer to buy at present.
This is just one instance of the problems facing developing countries. But my conclusion is that, wherever you try to deal with the policy of economic development you are immediately faced by problems which are within the province of commercial policy and in the case of developing countries you cannot very well arrange your own economic policy without having the full support and collaboration of those who are responsible for commercial policy. You have also seen that commercial policy is an important weapon in the hands of the governments in order to combat the inflationary pressures which are always present when you are starting a programme of economic development. Further, the conditions within the developing countries are such that quite naturally there would be a tendency for these new industries to become monopolistic or oligopolistic so that these tendencies to raise prices cannot be very well computed by a government unless this government uses commercial policy to meet these pressures. We have seen, for instance, that in the industrialized countries after the war governments became quite expert in using commercial policy for that purpose. It is a new development which did not exist, at least not to the same extent, before the war. It is a result of the structure of the new communities within the developing countries today. It is something which is of paramount importance for the developing countries which have to face the same difficulties and where these pressures are sometimes much more difficult to combat than in the industrialized countries.

I hope that I have been able to show you what are the main problems of commercial policy and what are the main preoccupations which you should have in your country in trying to elaborate your commercial policy. I hope you have also derived from these talks a number of practical hints about the methods to be employed and about the results that this or that method has had in practice, as I have tried to give you not only the various legal provisions which have been used to create a world-wide commercial community, but also to give you, on the basis of our experience, some practical methods which we hope will be of use to you.
We have seen already that the main exceptions to the most-favoured-nation treatment which are accepted in the framework of a multilateral system of trading are the customs union, and the free-trade area arrangements. I have also explained that, traditionally, the customs union was a standard exception to the m.f.n clause and that, in the bilateral agreements which preceded the conclusion of the General Agreement, the customs union was not exactly the same type of arrangement as has been since accepted in the GATT. In fact, it differed in many respects; first, because the concept of a customs union was that of an arrangement which does enter into force immediately; whereas in the GATT, we have allowed for what we call "interim arrangements", that is to say, a type of customs union with a transitional period during which the duties are gradually eliminated. Thus, all the customs unions and other similar arrangements which have been concluded since the war are arrangements which provide for a certain period during which the duties are eliminated. This means that during that period the customs union is really a preferential arrangement, and differs from the notion of a customs union in the sense that you have tariff differentials but not the complete abolition of the tariff.

This post-war development represents a very important change in the arrangements as the conclusion of a customs union of the old style was something which was extremely difficult to arrange, politically and economically. And the facilities granted by the GATT have certainly stimulated the conclusion of such arrangements.

The second facility which was introduced was the possibility of maintaining a certain amount of trade which would not be covered by the customs union arrangement. In a customs union, all the duties were eliminated inside the group and were replaced by a single common tariff for the trade of the unions with the rest of the world. We have accepted a certain amount of leeway by introducing the words "substantially all the trade". In other words, we accept a few isolated cases in which the duties are not eliminated, or in which their effects vis-à-vis the rest of the world are not exactly the same. This is rather important because the wording in the GATT was deliberately vague,
and this vagueness has had the effect of allowing countries to try and give a rather excessive interpretation to what was meant by "substantially all". But this was an additional facility which was given to the countries trying to arrange some integration systems along the line of a customs union.

The third facility which has been introduced in the notion of a customs union makes it possible to limit the free trade to the goods originating in the customs union. There was no such distinction before; it was introduced in Havana, because of the particular position of the countries having a preferential system. It was quite clear that a country like the United Kingdom would not be in a position to join a customs union or rather, the partners to a customs union would not be prepared to accept the United Kingdom in such an arrangement if the goods coming from the British Commonwealth with no duty or preferential rates could then penetrate freely into the other territories of the customs union. In order to avoid that, it was agreed that these products would not be allowed to be imported into the other countries of the customs union, but that only the goods which originated inside the union could get that privilege. This is an important point which has been completely ignored in the discussions which have taken place on the creation of customs unions, and especially in connexion with the Six and the Seven. A certain number of people have stated that it would not be possible for the United Kingdom to join a customs union because of this particular preferential situation. However, the definition in the GATT takes care of that situation: it allows the goods coming from the Commonwealth to be limited to the United Kingdom territory without being allowed to circulate freely in the customs union. In other words, in this respect there is no distinction between the customs union and a free-trade area arrangement.

Another exception was also provided for in the GATT to cover the particular position of the United Kingdom and other countries having preferential regimes; it concerned the common tariff. The GATT provides that the adoption of a common tariff should not require the elimination of existing preferential arrangements. In other words, if the United Kingdom joined the customs union, it would be perfectly permissible under the provisions of the GATT for the United Kingdom to maintain its preferential tariff for goods coming from the Commonwealth.
That is provided for in the wording of Article XXIV, paragraph 8, when it says "subject to the provisions of paragraph 9". Paragraph 9 relates to the preferences. Here, again, it is not true to say that a customs union is something which is not consistent with the Commonwealth preferences, since the definition in the GATT would allow, in the case of the customs union as well as in the case of the free trade area, the maintenance of a separate preferential tariff vis-à-vis the goods coming from the Commonwealth, and would not apply to the partners in the union for the goods coming from the preferential area. These were indeed very important changes that were made in the course of the discussions in Havana, and as you may imagine, these particular facilities, which I have just described, were devised especially to enable the United Kingdom to join a customs union on the European continent. But the United Kingdom Government felt that there still would be some problems; in particular, there would be some difficulty in getting the British Parliament to accept exactly the same type of tariff as the other countries. We thought then, of another formula which would facilitate this integration in Europe.

Looking at the concept of a customs union, we came to the conclusion that there were two important conditions for its creation. The first one was the complete elimination of the tariffs and other obstacles to trade inside the area concerned, and the second was the establishment of a common tariff. We considered that the first condition was really the most important one. In other words, the complete elimination of barriers to trade inside an area created a single market where competition was unlimited; this made the arrangement completely different from a preferential arrangement which warrants protection both to the industry in the importing and in the exporting country. As regards the obligation to have a single tariff, this did not give any particular protection to the outside world. It would be quite sufficient to put as a condition a requirement to the effect that the individual tariffs of the Member States should not be increased as a result of the free trade area arrangement. That is why we came to the conclusion that a customs union in which the common tariff would not be a necessary condition, would be just as helpful for integration; it would have all the advantages of regional integration and would not create any particular problem for the rest of the world. Thus the idea of the new concept of the "free trade area" came into being - a concept which would contain the first requirement but not the second.
The second requirement would be limited to the obligation not to raise the tariffs when a free trade area arrangement is being concluded. This is a solution which was found very attractive by the United Kingdom delegation, at Havana. We have inserted it in Article XXIV of GATT. And curiously enough, this concept has had an extraordinary career. It is at the beginning of the post-war integration movement in Europe.

Surprisingly enough, you will find that practically no one in the United States Delegation in Havana had ever considered this concept as something new or important. Basically the United States authorities are opposed to the notion of a free trade area which, to them, does not correspond to anything of value. On the other hand, the free trade area concept has, as you know, played an important part in the discussions which have taken place in Europe during the last three or four years, as well as in South America. It was regarded as a more flexible arrangement which did not bring the same rigidity in the commitments involving the policies of the participating countries; it did enable the countries to maintain their existing tariffs and their independent trade policy with the rest of the world; and it was definitely much looser as regards the other commitments. It had also another advantage; the free trade area cannot continue to exist for very long unless there is some harmonization of the duties. You cannot imagine that you could have in the area a country with very high tariffs and a country with very low tariffs, as there would be a real danger of diversion of trade in favor of the low tariff countries. So the system can only work if there is a certain amount of harmonization of the tariffs. I think that it is basically true, although, in the case of Europe, you have countries with very low tariffs such as Denmark and Switzerland associated with the country which probably has the highest tariffs in Europe for a number of sectors, namely the United Kingdom, and two other countries with equally high tariffs, such as Austria and Portugal. But even if you can regulate the trade with rules regarding origin, this is going to be difficult to run, and there will be a more natural tendency inside the area to harmonize the tariffs than exists at present. In the free trade area you have not the same possibility as in the customs union of averaging the tariffs, i.e. of bringing upwards the tariffs of the low tariff countries and downwards the tariffs of the high tariff countries. For example, the free trade area
arrangement would allow you to harmonize the tariff downwards but not down to the exact level between the high and the low tariffs. In that respect, it has been claimed and, I think, with some justification, that the free trade area arrangement is more liberal than the customs union as it gives to the low tariff countries more power to bring down the level of the high tariffs, than in the case of a customs union where the low tariff countries have to raise their tariffs to the common level. That is a point which is not to be ignored, and I think that, to a certain extent, it is true. The free trade area arrangement therefore, although it was considered as a very artificial arrangement by a number of people in 1947, has become a very realistic concept during the last five or six years. It is true that, in a number of cases, the idea that the free trade area would be just a transitional system which would lead sooner or later to a full-fledged customs union, has been put forward. This may be true. But it is also quite possible that, instead of leading to a customs union there would be an arrangement similar to the Coal and Steel Community. In this arrangement you have a common market, with no barriers inside the area, where there is no single common tariff, but where the tariffs are not exactly the same. Naturally, the limits are narrow, and are determined by what has been called a geographical protection. In other words, the difference between the duties in Italy and Germany should not be more than the difference which you had originally when goods were transported from Germany to Italy. This is something of importance when you deal with products as heavy as coal and steel. This may not be as true for more valuable and lighter products; but, in any case, it is possible that instead of developing into a full-fledged customs union the free trade area might eventually lead to a type of arrangement where the duties are not exactly the same but are simply harmonized. And the free trade area arrangement has at least the advantage of making the procedure easier for countries which have serious difficulties in abandoning their sovereignty. That is why the system of a free trade area has been accepted by countries which had very strong objections to the idea of a customs union.
There is also a legal angle to the situation. We have seen that, even though the provisions of the GATT are fairly flexible, and contain a number of escape clauses which facilitate the task of arriving at such arrangements of closer integration, none of the regional integration programmes which have been put forward during the last ten years has been completely consistent with the provisions of the GATT. Without entering into a legal disquisition, we can say that when the various governments discussed the consistency of any regional arrangement with the GATT, there was a tendency to distort the meaning of the provisions of the GATT in order to suit their particular cases. That is why I think it is fair to say that most of the present agreements fall short of the provisions of GATT.

In the case of the European Economic Community, I shall leave aside the question of the level of the tariff because I think that, by and large, the Six may claim that their tariff fits in with the provisions of the GATT. There are however two important deviations: the first one clearly concerns the agricultural sector. The Rome Treaty does not make any distinction between the agricultural and the industrial products. But the obligation to eliminate the duties and to eliminate the restrictions in the latter case is the same. As a matter of fact, these restrictions have been replaced by a system of managed economy in the agricultural sector - a system quite different from the type of free competition and free market which the customs union arrangement predicates. It is well known that no country in the Six is prepared to let the agricultural products from the other partners entering its own territory without any particular regulation. There won't be any duty, there won't be any quantitative restriction, but there will be some sort of arrangement which would simply extend to the area the particular types of agricultural support price system which exists in each of the constituent countries. Therefore, there will be a lack of freedom of competition, because the prices will be pegged inside the Community and nobody will be able to compete pricewise. There might be other systems of regulation; but in any case, although there won't be any tariff or quantitative restriction, there will be a system where the competition will be very limited, if not completely excluded. And that, of course, is something which is very different from the spirit of Article XXIV.
The second main deviation is, of course, the association of overseas territories with the EEC. In this case, although it has been claimed that this association is a kind of area arrangement, it is at the best a one-way free trade arrangement. It is true that the goods coming from the associated territories will have free access to the territories of all the six members of the Community; but that will not necessarily be the case for the goods exported from the six European countries to these territories. The territories would have the right to maintain a certain number of duties if they are of a revenue character. That would not be too objectionable as you might transform these revenue duties into internal taxes, and thus you would conform to the concept of a free trade area. But what is more important is that these territories would be entitled to maintain duties against the exports from the Six in order to protect new industries. It is hardly possible to reconcile this with the concept of a free trade area. It is true that this exception may be limited because these associated territories are not going to develop a wide range of industries; it is also possible that the protection which they would grant may in fact be sufficiently narrow to be consistent with the concept of "substantially all the trade"; but there again, there is absolutely no guarantee that this would remain so, and it could be possible, under the Rome Treaty, to have very extensive development of industries in the African States, to have all these industries protected by duties, and at the end, to have no real free trade between these territories and Europe. I think that, in this respect, it is difficult to have the assurance that the exception to the rule of free trade would be as narrow as what was contemplated in the wording "substantially all the trade" of Article XXIV.

In the case of the European Free Trade Association (EFTA), of course, it is even more clear that there is no intention on the part of the governments to remove the duties and other obstacles to trade for "substantially all the trade", because the entire agricultural sector is left outside the area arrangements, in the Stockholm Convention, and it is very difficult to say that by limiting the free trade arrangement to the industrial sector, you are meeting with the principal requirements of Article XXIV. In the case of the South American free trade area, although I think that you could not find the
same type of fundamental defects as you have in the case of the two European arrangements, there are a number of points which are not yet clear. One of the main sources of uncertainty is the fact that at present the trade between the area and the rest of the world is very small and is limited as to the number of products. In South America, the range of commercial interchange of goods is extremely narrow. In other words, it is not as in the integration arrangements in Europe where, in the case of the Six the whole range of tariff items are covered and in the case of the EFTA all industrial items are covered. The South American arrangements on the other hand start from the present level of exchanges, which, as I have said, is very limited. There is no absolute guarantee that the integration arrangements would necessarily apply to all the possible items which may ultimately be traded among the South American countries. And it is not sure whether the intention of these governments is gradually to cover all the potential trade, or, in other words, all the tariff items. It may be an intention, but it does not stand out in so many words in the Montevideo Treaty; there is a tendency to restrict somewhat the interpretation of it. The other point which is considered by a number of countries as a defect is that all the various stages of liberalization or elimination of the duties, are not automatic as in the case of the EFTA or the EEC, where an automatic system is applied at the end of each year or each period of 18 months, and where the liberalization movement is preceded by a type of tariff negotiation similar to the one we have in the GATT, on a product by product basis. Knowing the difficulties in reaching an agreement in this type of negotiation, there is in the minds of a number of people a certain doubt as to whether it would be possible to arrive each year at the target which is fixed. Such uncertainties give to the various countries concerned the feeling that the system is not entirely satisfactory, in the sense that they haven't got the necessary assurance that it would be completely consistent with the provisions of GATT. That is why the CONTRACTING PARTIES have come to the conclusion that it would be difficult to give a sort of final verdict on the three arrangements (EEC, EFTA and LAFTA), because so much depends on the way in which they will be operated and applied. We have therefore come to a sort of arrangement which allows the three groups of
countries to proceed without giving a complete blessing, in each case, to the legal position. That explains why the CONTRACTING PARTIES have not made up their minds whether they consider these arrangements consistent or not consistent with Article XXIV of the GATT.

This is the legal position. But the legal position is not everything. As I told you earlier, contrary to the traditional doctrine according to which the customs union was an exception to the most-favoured-nation treatment, the drafters of the GATT felt that this exception was legitimate in the case of what we call the "outward looking" customs union or free trade arrangements, but would not be justified in the case of "inward looking" arrangements. This is rather easy to understand in theory, but far more difficult to translate into legal provisions. We tried in 1947 to define what are the conditions of an "outward looking" free trade area or customs union. We indicated that the main thing would be that the arrangements should not have the effect of raising the tariffs in the case of the free trade area or increasing the incidence of the tariff in the case of the customs union. We tried to define these principles in the simplest possible way. But it was not an easy task: it is always possible to lay down the rule, but the difficulty comes with the application of the rule. In the case of a free trade area, it is not too difficult if you have tariffs which have been in force for some time, and have been stable. But with countries which have changed their tariffs a few months before the free trade area arrangement has been concluded the difficulty soon arises.
XI. COMMODITY PROBLEMS

Apart from the problems of tariffs and other barriers to trade, the GATT has entered recently other fields which affect the trends of trade and have also a bearing on the export earnings of the various countries. Already in Havana when we discussed the draft Charter, a number of countries stressed the importance for them of the stabilization of prices of primary products – agricultural products and mineral products. Before the second world war and more particularly at the World Economic and Financial Conference which was held in London in 1933, the question of international action to maintain the level of prices of primary products was discussed, and it may be said that this was the only concrete result of that Conference. There was, of course, a very strong objection to the idea of governments intervening in the working of the world markets, and there were a number of very serious difficulties to be solved before arriving at some sort of agreement among producers, as well as between producers and consumers whose interests were, of course, completely different.

A first attempt was made in the case of sugar. An American lawyer, called Chatburn, set up what was called the "Chatburn Plan", which was accepted by a certain number of interests. But this private initiative was not sufficient, as an action of this kind can only be successful if you bring in the main producers and exporters. The League of Nations took up the matter, a certain number of meetings were held, and the result of these meetings was a Sugar Agreement which was in force for a certain number of years before the second world war. In the case of tin, it was also possible to arrange an agreement before the war. In the case of wheat there were discussions but it was never possible to arrive at what is known as "a commodity agreement". During the war, all these agreements remained in abeyance and, after the war, we had to arrive at some sort of agreement on the legitimacy of these agreements, the conditions under which these agreements could be negotiated, and so on. The object of these agreements is not to peg the prices in a rigid manner. Everybody now agrees on that. The object is to let the market forces work insofar as the fluctuations are not abnormal, and, when the fluctuations of prices become somewhat erratic, when they raise the prices above a certain level or bring them down to a certain floor, then a corrective machinery steps in and tries to bring the prices within the range which has been agreed upon.
That is the basic principle which has been adopted and followed in all the commodity agreements which have been concluded since the war.

This is rather important because the governments were not necessarily in agreement with this approach and there had been all sorts of proposals put forward with the object of tying the level of prices rigidly to a certain figure or in a certain ratio with the prices of industrial products. This idea of having some sort of fixed terms of exchange between primary products and industrial products which had been put forward appeared after a while as something which was more theoretical than practical.

The second point which had to be cleared was whether this type of arrangement could be accepted as a permanent machinery or something which would be resorted to only in cases of crisis or emergency. This is also a basic problem, because we still have at present very strong objections against the principle of a commodity agreement as such. It has been considered and is still considered in the United States, in Germany and other countries, that a commodity agreement has all the defects of a cartel and that this method should be used only in cases of an emergency, and then only for a very short period. Once the normal conditions are restored, the commodity agreement should be dispensed with. That explains why we have had such a difficult task in trying to bring about an agreement between the consumers and the producers when the situation was not dramatic. The dilemma is that if the situation is not dramatic, if prices are good, the producers are not prepared to accept any commitments regarding prices and then are not very keen on having a commodity agreement; but, when the conditions are dramatic, it is too late to act and then again, the consumers have no interest in accepting a commodity agreement.

However, although the existing commodity agreements have been concluded for a short period, usually not more than five years, and although they have been renewed with some changes, in the few markets where they have been introduced, they have now become a sort of permanent feature of these markets.

The third principle was that these agreements should not be producers' agreements, but a balance between the producers and the consumers, both during the preparation of the agreement and during its period of operation. In other words, the concept of producers' agreements only has not been accepted, they
are not authorized under GATT; for it would not be possible for a government to introduce controls on exports or imports as would result from a commodity agreement if that agreement were not of a type permitted or authorized under GATT. So, one of the main principles which was adopted in 1947 is that, for the preparation of a commodity agreement, there should be equal representation of the producers and the consumers and, during the period of application, all the decisions should be taken by the producers and the consumers, both having in toto the same number of votes. That is a very important principle which has been accepted, somewhat reluctantly in certain cases, by all the governments which have participated in the preparation of such agreements.

I will give you now the main principles which have been accepted at Havana, which are spelled out in Chapter VI of the Havana Charter, and which have been accepted ever since. You may say it is rather extraordinary, because this important part of international life seems to be governed by the provisions of an agreement which has no legal force. The Havana Charter, although it has not been ratified, has nevertheless an existence of its own; it is a kind of bible which gives moral guidance to the governments in tackling their commercial problems. But in the case of Chapter VI, there is even something more in it because, before the Havana Charter was finally accepted, we had to set up in the Preparatory Committee of the United Nations what is now called the ICCICA, the Interim Co-ordinating Committee for International Commodity Arrangements. This Committee, set up by the United Nations in 1948, is composed at present of four members: the Chairman, who is a nominee of the CONTRACTING PARTIES of the GATT; one member nominated by the FAO; one member who is an expert on non-agricultural primary products appointed by the Secretary-General of the United Nations, and a fourth member, appointed because of his knowledge of the problems of the under-developed countries or the developing countries producers of raw materials. This body was to be temporary, a sort of makeshift arrangement, until the ITO was set up. As the ITO was never established, this body has continued in existence and is more or less the guardian of the principles of Chapter VI, although its jurisdiction has been somewhat weakened by the creation of a new United Nations body, the Commission on International Commodity Trade.
The difficulty with international activity regarding commodities is that the governments, instead of concentrating their action on one particular organization, have tried to raise these questions in all possible institutions, and there is at present a certain amount of confusion. When we saw the state of chaos in which these discussions had landed, we suggested to the (United Nations) Administrative Committee Co-ordination (ACC), which is composed of the Secretary-General of the United Nations and the various Heads of the Specialized Agencies, to set up a special sub-committee on commodities which would be composed of the United Nations, the FAO and GATT, and would be open to other bodies, such as the Fund, the ILO and the Bank, in order to avoid at least duplication of work among the secretariats, and to adopt a common line so as to avoid developing activities which would simply compete with activities of the other bodies. This proposal was accepted and the result is rather successful; at any rate we have tried to reduce the confusion to a minimum, so far as the secretariats were concerned.

Why is it that we have this confusion? First of all, the Havana Charter was not approved and therefore the natural body where these questions should be discussed has not been brought into existence. It is true that the GATT is in many respects the successor of the ITO, that it has taken over the commercial functions of the ITO. But we have had serious difficulties, with the United States and with the FAO. I told you that the United States was not able to get the ITO Charter approved by Congress, and that the United States Government was afraid of giving to GATT any kind of attribution which would go beyond the letter of the Reciprocal Trade Agreements legislation. Therefore, until very recently the United States was extremely nervous when the question of commodities was raised in GATT. Apart from that, the United States is not particularly keen on international action relating to commodity problems, and therefore it was the more difficult to get the United States to agree to this question being discussed in GATT. Then, even before the ITO Charter was discussed, we met with considerable difficulty on the part of FAO which claimed its right to deal with all agricultural problems, production, consumption, techniques and trade; there was also the same determination on the part of certain governments not to let FAO deal with the problem of trade in agricultural products. So, from the start, we had this conflict with FAO, as FAO was fully organized and had
a Charter which had been ratified. We were in a somewhat difficult position to claim our jurisdiction vis-à-vis the FAO. So FAO started discussing commodity agreements. Its debates were very much influenced by the interest of the producers because, in spite of the fact that FAO said that it is not a representative of the producers, it is nonetheless the international forum for the departments of agriculture of its members and in view of that fact, the interests of the producers were in fact far better represented than those of the consumers. The net result was that the big consumer countries did not take much notice of what FAO did in that field. In that situation, the producing countries decided that it was a political, and no longer an economic problem and that they would raise it in the United Nations as such. So there followed long discussions in the Assembly and the Economic and Social Council, and the result of it was the setting up of this new Commission on International Commodity Trade. When this was started, the United States said that they were not interested in the affair, and were not going to sit on it. Then, after a year or so, the United Kingdom took the same stand. As you see, this Commission started on rather a difficult career. The discussions were very much political in tone, with the eastern European countries using the occasion also for propaganda purposes; the big consumer countries showed that they were not prepared to act with a body which they considered to be somewhat irresponsible. This conflict was patched up after a while, and the United States agreed to go back to the Commission; the United Kingdom was prepared also to follow, but with very little enthusiasm. So, it can be said that the main defect of this body is that it is not a technical committee, but a committee where you have the type of speeches which you can expect from a body meeting in public and where the representatives are not necessarily experts in the field of commodities. The progress made by the Commission has been extremely slow, the terms of reference were somewhat curtailed when the United States came back, and nothing really concrete has ever been launched at its meetings.

At the review session of the GATT in 1955, there was a very strong pressure on the part of a number of producing countries in Asia as well as in Latin America and Oceania, to bring back Chapter VI of the Havana Charter into GATT. There had already been an attempt in 1949, fostered by the United Kingdom, to get this Chapter VI of the Havana Charter to enter into force, even before the
Charter was ratified. There was strong support for it, but the attempt failed because of the opposition of the United States for the reasons which I have explained—they were afraid of getting into trouble with their Congress. While the discussion did not lead to the actual incorporation of Chapter VI in GATT, it was agreed that GATT should study a special agreement, called SACA (Special Agreement for Commodity Arrangements), which would replace Chapter VI of the Havana Charter, and would be accepted as a separate instrument by the governments. Unfortunately this attempt was not successful either, mostly because the discussion did not concentrate on the main issues, which were obscured by a number of very secondary issues, such as whether traffic inside the Six should be covered by the agreement or not, whether the dependent territories should be counted as producers or not, etc. The other difficulties were that the producers, especially the sterling area producers, had the impression that this agreement would not facilitate the conclusion of commodity agreements but would rather make it more difficult. Indeed, in this agreement, which was along the lines of Chapter VI, the governments recognized that it is legitimate to have commodity agreements in certain circumstances, but that those commodity agreements should fulfil certain requirements. Producing countries thought that all these requirements would make it more difficult to conclude commodity agreements and that the consumers might stall and stop any attempt to do so. There was one thing that they completely missed, which was that unless they got the support of the main consumers they could not have any commodity agreements at all. I think this idea that they could have commodity agreements without the participation of the United States or the United Kingdom or the Continental European countries was a fallacy from the very start; the attempt failed.

One of the other main reasons for the failure was the attitude of Australia. Australia was very interested in commodity agreements but looked at them as producers' agreements rather than commodity agreements, and there again, they did not support this idea sufficiently to overcome the difficulties which we had encountered. I think that the consumer countries were not particularly keen on having this special agreement and when they saw that the other camp was divided they did not push the discussion further and thus we went back to the status quo. So instead of adopting the principles of the Havana Charter, we had to be content with the principles as they were. And, what was really bad
in this failure was the fact that there was no commitment at all on the part of the consumer countries to participate in the commodity agreements, even when the conditions were fulfilled. This meant that, instead of having a sort of moral commitment on the part of the consumers to lend a hand to build up commodity agreements, you had to start from scratch whenever you wanted to have a commodity agreement. If the SACCA had been approved, the consumer countries would have been committed to participate in the elaboration of a commodity agreement when adequate conditions were fulfilled. Of course, the consumers could have refused to participate and, not wanting to participate, they could even have blocked the operation of an agreement. The producers, it is true, had a certain divergence of interests and they had not sufficient solidarity. By that, I mean that the country which was exporting tin or sugar was not interested in agreements on anything else but tin or sugar.

The GATT has maintained its interest in commodity problems; but instead of having a legal basis to go by, we have yearly examinations of the effects of commodity developments on the export earnings of the producers and on the pattern of trade in general. We have codified our procedures for consultations, and we have various possibilities for bringing this matter to the notice of the CONTRACTING PARTIES and for acting as a sort of clearing-house. For example, when we consider that there is a case for a commodity agreement, we can try to influence or stimulate the organizations which have to deal with such an agreement in order to reach a solution. But, as is very often the case, the discussions are very heated, which is usual when principles are discussed. But when it comes to making a concrete use of the procedures, then there is not the same enthusiasm on the part of the countries concerned. For example, there was a test case, namely that of lead and zinc, where the action by the GATT would have been extremely useful if the matter had been brought to GATT early. But there was competition between certain forces and, in particular, the United States tried to avoid having this question raised in GATT. As a result, the matter was discussed in the committee set up by the United Nations, and some delays were incurred, which would have probably been avoided if GATT had dealt with it instead.
Apart from these international bodies which have a sort of wide jurisdiction, such as the United Nations, ICCICA, FAO and GATT, there is a series of specialized bodies which have been set up in accordance with the principles of the Havana Charter. There are, of course, study groups. You have a study group for sugar, another one for tin, for rubber, for cotton, and so on. They have inter-governmental meetings where all the countries having an interest in the product as producers or consumers are invited to participate. Their main task is to follow the trends of the market: they try to estimate for the following year what will be the trends in production and consumption, in order to see whether there will be any danger of surplus or shortage. But then they do not make any particular recommendations to governments, giving them only the facts, and the governments try to act accordingly. It is not as efficient as if you had a council with legal commitments but still it helps. And, instead of having a completely disorganized state of production in the world, there is at least a body giving facts which the governments can use in order to encourage or to refrain from stimulating the production, by means of stabilization funds or limitation of production. In these matters, of course, statistical action is not sufficient. Unless you get all the producers accepting a discipline you may not get what you want. Suppose that some countries are reasonable; they see that there is a tendency for a surplus to be felt in the following period, and they reduce their production and exports accordingly. But, at the same time, some other countries will do exactly the reverse; they will increase their production or will sell their stocks. It is quite clear that the action of the former countries may be completely defeated by the action of the latter. So it is only natural for the producers to consider that this is not enough, that you must get an agreement. The Study Groups have prepared in certain cases draft commodity agreements. When there is a feeling that some agreement may be ratified, the matter is referred to the ICCICA, or the United Nations. The United Nations then convenes a conference where the draft agreement is accepted and put into force. So, the Study Group itself is rather useful; it gets the producers and the consumers together, it produces better statistics, and it tries, by moral influence, to get the producers to take the necessary action in the light of the situation. This is what has happened in the case of lead and zinc, for instance, where the committee which had been convened by the
United Nations has been transformed, after long discussions, into a regular Study Group, where they have agreed to recommend to the producers to limit their exports in order to avoid a glut on the market. Of course, this is not enough if you have a long-term problem as is the case of the lead market. But it was not possible to achieve anything further because of the conflicting interests among the producers, some of them, like the United States, being at the same time an important producer and an important consumer. According to the other producers, the United States has tried to shift the burden to the other producers, an easy thing to do as they could restrict imports, which in fact they have done. The other producing countries were not prepared to accept any limitation of production so long as the United States was able to maintain more or less its own production by means of import controls. As this case shows, there are very difficult agreements to reach and I think it is wrong to say, as certain people are inclined to do, that the absence of a commodity agreement is due to the lack of will on the part of the governments concerned. I think there are very difficult technical problems; and the commodities do not always lend themselves to the constitution of a commodity agreement. On this point, I want to make a certain number of comments. The first is that the product should be well defined and well graded. Otherwise, if you have a product which is not easily defined or graded, then it is very difficult to agree on the price range. As the price range must be in relation to a specific product, it should be possible to decide the prices of the other varieties or grades without too much difficulty.

My second comment is that the producers should be subject to a fairly strict discipline. If you have to deal, for instance, with a mineral product which is in the hands of big firms, you can easily control the production and exports. But if you have to deal with very small producers, where it is not easy to control either the production or the traffic, then you may have an element of disturbance which could wreck the operation of the agreement. Take the case of rubber, for instance. The smuggling of rubber from Indonesia to Singapore is something which is a very important factor. If you base your agreement on export quotas, and if you get the quota of Indonesia doubled by these exports which cannot be supervised because Singapore is a free port, then you can upset the entire agreement. So, you must have a position in the producing countries which enables the government to exercise control over the
production or, at least, over the exports of the commodity. And that is not easy to achieve.

On the other hand, you must have also a situation in which the action by the importing countries should not degenerate into an evasion of the agreement. Let us take the example of the Sugar Agreement before the war. It was an agreement which was fairly reasonable as between the producers; but in the course of two or three years, some of the importing countries had developed sugar production of their own so that the free world market for sugar was reduced by nearly one half in a few years' time. That is why I think there must be some sort of commitments also on the part of the importing countries in order that they do not falsify the market, and do not make use of the Agreement to develop their own production.

The question of outsiders among the exporting countries is also rather important. For instance, it would be very difficult to run a Wheat Agreement when Argentina remained outside the Agreement, because Argentina's exports may completely upset the market. For the same reason you must, at least, get from the members of the Agreement some commitments regarding their purchases from outside countries, as in the case of the Sugar Agreement, where the members are committed not to buy more than a certain quantity from the countries remaining outside the Agreement. If you had not this sort of protection, the outsiders could just undercut the exporting members. This happened in the case of sugar with Brazil, which just moved into the market and sold their sugar on the market at prices which were below the prices quoted by the others. Automatically, this had the effect of preventing the Agreement from operating as it should. This is to illustrate that there are a certain number of basic conditions which have to be fulfilled if you want to have an effective agreement. The governments may agree, in principle, to co-operate, but that is not enough. There is nothing more dangerous than a commodity agreement which fails because, once it has failed, the opposition to any other new commodity agreements is strengthened. We had the case, after the first world war, when some agreements - which, of course, were not commodity agreements in the present sense of the term, but mainly producers' agreements - failed. It happened in the case of rubber, and in the case of copper; and, for a number of years, it was impossible to speak even of negotiating a commodity agreement on these products.
These are the types of problems which are covered by these international measures. You may have long-term problems, which can be covered by such agreements; you may have the case of emergency crises which will not necessarily be solved by them.

It is not at all certain that in the case of lead and zinc there is a need for a commodity agreement - at least in the case of lead; at any rate, there should be rather a quick machinery for consultation and for short-term agreements between the producers and the consumers; but we still believe that the GATT provides the best machinery to deal with these short-term problems. However, we have not been able to get the governments to use that machinery for the reasons I have explained, which have nothing to do with the efficiency of the GATT, and were due to certain technical manoeuvres on the part of the countries concerned.

What is the particular machinery used in commodity agreements? I told you that the objective was to try and maintain the prices within a certain range. How do you achieve that? It is all very well to say that the prices of wheat, for instance, should fluctuate between 1.65 dollars and 2.05 dollars, but how do you achieve that in practice? There are three kinds of fluctuations in prices. First you have the very short-term daily fluctuation which is due to the fact that on any given day the production does not meet exactly the requirement of the consumption. In the case of agricultural products, you have a crop which comes on the market at a certain time, but the demand continues more or less equally from the 1st of January to the end of the year. In the case of minerals, you could have more regularity in the output, but there again, as all the producing countries are acting independently, you would have a glut one day and a shortage on the other day. These very short-term fluctuations are smoothed out by the operation of the futures markets. And the futures markets, which exist in London, and in some other capitals, have the effect of spreading the demand and the supply over a certain period, so that the consumers get a cover for their future demand, and the producers get the orders for their future supply. Through the machinery of buying forward or selling forward you can avoid these day-to-day fluctuations.
Secondly, you have the long-term trends which represent the long-term fluctuations and variations in demand and supply as well as the effect of competition from other materials. This is something which you have to counterbalance by structural changes, either in your supply or in your demand. For instance, let us take the case of synthetic rubber, which is competing with natural rubber. There you have a long-term influence. If you let competition from synthetic rubber grow without any action on the part of the natural rubber producers there would be a tendency for prices of natural rubber to go down. What has happened is that the producers of natural rubber have to improve the quality of their rubber by trying to produce the type of rubber which has the same qualities as artificial rubber or better qualities if possible. This is a long-term operation. Then, you have also to find new uses for natural rubber. This is a type of work which a Study Group can do, in getting the producers to look at these long-term problems together and in trying to have some common action.

The third type of fluctuation is the cyclical fluctuation. The demand of raw materials, in particular for industrial purposes, is clearly linked with the business activity, and in business activity there is a cyclical movement. This cyclical movement is less marked than it was before the war; today there is not the type of ups and downs and depressions you had then; nevertheless, you do have a period of boom followed by a period of depression or readjustment. Even in the case of the slight movements which were experienced in 1957, 1958 and before, when the impact of the demand for raw materials is fairly sizeable and therefore, as the supply is somewhat inelastic, the effect on prices can be out of proportion even with the fluctuation in demand. It is this type of fluctuation which the commodity agreements try to meet. What part is played by these agreements? Of course, an agreement cannot very much influence the demand. The demand is there, but you cannot force the industrialists if they sell fewer motor cars to buy more tin, or more lead; they will, in the first place, reduce their stocks of materials and a replenishment will be undertaken only in line with the needs of their manufacturing production. So it is very difficult to influence the demand and therefore to influence the volume of the supply because, even if you reduce the prices you would not increase the sales in terms of volume. It is a well-known fact that the demand is something which cannot
be influenced by price movements to a very large extent. You may do it in the case of some agricultural products, but in the case of raw materials for industry, you cannot have much influence on the real demand. You can also influence to a certain extent the movement of stocks. You may, by price movements perhaps, encourage the industrialists to build up their stocks even during a depression. But this is very limited. The object then is for the producers to avoid a loss in volume and in price. They have to accept the loss in volume. It is a fallacy to believe that a commodity agreement can maintain the volume of sales. But by a commodity agreement you can avoid a fall in prices, so that the producing countries may lose in terms of volume but will not lose as much in terms of export price as they would if the market were not controlled in a certain manner.

To achieve this result various methods are used, depending on the agreement. In the case of the Wheat Agreement there was, originally, a sort of multilateral contract. The consumer countries agreed to buy a certain quantity through the Agreement when the prices reached the floor and conversely, exporting countries agreed to sell certain quantities when the prices reached the ceiling; in other words, the mechanism was through a purchasing and selling commitment on the part of the consumers and the producers so that for that fixed amount the prices could not go below the floor, and the producers were guaranteed against the fall in any year below a certain figure. At the same time, the consumers were guaranteed against excessive prices because they could get a fixed amount from the producers when the prices reached the ceiling. But in the case of the Wheat Agreement it was not possible to get the entire trade covered. These commitments did not represent the entire purchases of the countries concerned or the entire exports of the producers. Therefore the guarantee was not for the full amount of the exports but for a substantial part of them. This is one system.

The Sugar Agreement is based on quite a different arrangement; it is based on export quotas, that is to say, each of the exporting countries has a share in the market. They have negotiations and discussions. Of course, these discussions are not easy, but finally they agree on certain shares and, on the basis of their statistical material the Sugar Council decides each year what will be the basic quota for each exporting country. However, if the prices go down below a certain level, then the Council may reduce the export quotas. If the prices go up, they allow them to increase their quotas and when the prices reach the ceiling then all the export restrictions are out, and they can sell freely in order to bring down the prices to the level. But if prices go down
again, the export quotas are reduced in order to reduce the supply on the world market. Moreover, the exporting countries are obliged to keep certain minimum stocks to avoid the entire stocks being offloaded on the market. There again, if prices get out of control, exporting countries are allowed to sell from their stocks. This is the mechanism which has been arranged in the case of sugar, and you see that it is completely different from other agreements because the consumers have not any commitment except that of not buying more from the outsiders than they used to buy during a basic year. Such a system is not extremely satisfactory, to tell the truth, it has not been able to keep the prices completely within the agreed range and it has not avoided very important fluctuations. This was due also to extraneous influences, and in particular to the fact that the Eastern European countries, and in particular Russia, have had a somewhat erratic status. They were considered as exporters in the Agreement, but in certain years they were unable to export, and became buyers, so that there was an uncovered element on the market which upset somewhat the calculations. This is a second method which, from a technical point of view, is completely different from the method used in the Wheat Agreement.

In the case of the Tin Agreement, you have a third different system. It is based on the "buffer stock" method. In other words, the consumers have no commitment whatever, the producers, in principle, have no commitment either, except of giving to this buffer stock the money or the tin necessary to build the stock, and the price range is divided into three parts: the part where the manager has to buy, the part where the manager has to sell, and the part where the manager acts with discretion. The system is as follows: the manager of the buffer stock acts as a sort of speculator against the market. When the prices go down, he buys to increase the supply; when the prices go up, he sells from the stock. This is alright up to a point. But there are limits to that action; if this equilibrium between supply and demand is greater than what can be coped with by the manager of the stock, then it is necessary to introduce export restrictions as in the case of sugar. During the last depression the Tin Council was obliged to impose very severe export restrictions on the exporting countries and in doing so the whole system was nearly wrecked because the USSR put on the market an additional ten or fifteen thousand tons of tin which, of course, was not contemplated at all. The prices went below the floor level,
the purchasers from the buffer stock withdrew from the market, and the situation became chaotic. The Tin Council managed to redress the situation by taking some rather drastic action with the assistance of some governments. The Russian Government, which had sold short forward, was obliged to buy the actual tin and to deliver it at a price higher than the price they had offered because the countries put restrictions on the import of tin, and therefore the Russians, not being able to deliver their own tin, had to buy the tin on the market. After that, the Russians became more co-operative and the prices went back to the range.

This is to illustrate how different these various techniques are; they are different mainly because of the conditions of the market.

Earlier on I referred to the difficulties faced by the United States in participating in commodity schemes. The United States Government, especially under the pressure of the Latin American countries, has somewhat changed its attitude towards commodity agreements and has lately been more co-operative. They are a party to the Wheat Agreement, because they are interested as an exporter; they are also a party to the Sugar Agreement, although their own import trade is completely outside the range of the Sugar Agreement; they are not a party to the Tin Agreement but collaborate in practice with the Tin Council. Lately, they have agreed to become party to a Coffee Agreement, which is not yet a fully-fledged commodity agreement but just a temporary arrangement, especially on stock retention. At the Bogota Conference of the American States in 1960 they reluctantly agreed to be more receptive to the idea of commodity agreements. I don't know how this will influence the international work of commodity agreements, but for reasons I have explained, the difficulties do not always spring from the unwillingness of some consumer countries to enter this field; they are often due to very important technical and physical limitations.
XII. THE AVOIDANCE OF UNFAIR COMPETITION IN INTERNATIONAL TRADE

The principle of international trade being based on equality of treatment for all suppliers, this implies that the terms of competition will be fair. No country is prepared to grant the benefit of the most-favoured-nation clause if there is any danger of unfair competition. That is why you have in the GATT, and any other system of multilateral commercial policy, a provision which refers to the most-favoured-nation clause when the conditions of competition are affected by what are called unfair practices. And that is quite natural, as the possibilities of enforcing the clause are dependent on the existence of prices which will not disrupt the markets. These unfair practices are divided into two categories: first of all, the dumping practices; secondly, subsidies and other artificial aids to exports.

Dumping is a practice which was prevalent towards the end of the nineteenth century and at the beginning of the twentieth century. At that time, Germany was accused very often of resorting to that practice. The German producers and exporters were selling to foreign countries at prices which were lower than the prices they quoted on their domestic market. They could do that because of the very strong protective barrier existing on the domestic market, which enabled them to charge higher prices. With the profits they made, they were able to reduce their selling prices in foreign markets and thus undercut their competitors.

As for subsidies, this is another form of unfair competition by which the government, the public authorities, or even private bodies supported in one way or another by the government, are in a position to give facilities, either in cash or otherwise, to the exporters, and thus enable them to sell below their normal price and sometimes even below the cost of production.

To remedy this situation, the importing countries are entitled to impose on dumped goods an anti-dumping duty, and on subsidized goods a countervailing duty - measures which should offset the dumping or the subsidy. As these measures are left in the hands of the governments, they may lead to serious abuses. That is why the GATT, as you will learn later on, put into force a
certain number of safeguards. The first safeguard is that you are only entitled to enforce anti-dumping or countervailing duties when the dumping or the subsidization is damaging a branch of your industry, or when the dumping or subsidization is affecting seriously the export interests of your traditional suppliers. So, you have two cases: the first one is of direct damage to your own industry and it is for you to prove it. This has always been the traditional system. Then, we have introduced in the GATT, during the Review Session, the second case, which is the concept of protection against the traditional interests of exporting countries. In other words, a country is entitled to introduce anti-dumping or countervailing duties even if its own industry is not damaged or threatened, but if the export interests of its traditional suppliers are affected. But in that second case, of course, the GATT does not allow the governments to put on these taxes unilaterally. We require from them that they put the case before the CONTRACTING PARTIES and that they get an approval by the CONTRACTING PARTIES in order to make certain that there won't be any abuse. This is a very important departure from the traditional practice, because, as you will recall, there was no question in bilateral trading arrangements of putting on any anti-dumping or any countervailing duty in favour of a third party. This is a new departure which, I think, has brought a certain amount of order in international trade.

On the other hand, with the reduction of tariffs, subsidies are becoming a far more important problem. Dumping practices are limited in scope; they still exist but they have not the same influence as they had at the beginning of the century. It is true that the industry and the exporters have relied very extensively on support by the government and public authorities; and they have used, especially since the war, quite a series of ingenious methods by which the government supported and stimulated exports thus creating a situation of chaos for the world markets. You have of course the case of a direct subsidy, but very often the governments have been relying on other systems of subsidization. Instead of giving export subsidies, which are a bit too apparent, they rely on indirect methods. The GATT has a list of such methods; it is not exhaustive or complete, but it enumerates most of the practices which have been in force during the post-war period.
The first system is that of the refund of or exemption from taxes. In the GATT, we have agreed that the refund of consumption taxes or the exemption from such taxes was permissible, insofar as the refund or the exemption does not exceed the amount which has been paid or which should have been paid. It is rather annoying to have to enter into such details, but experiences show that even with this definition, some governments have cheated. We have, for example, a dispute between Germany and Austria which has been going on for more than a year; the Austrian Government, not in the GATT but in the OEEC, stated that they were entitled to refund a part of the tax, and that this was consistent with the text of the definition. Of course, that was stretching the text very much, but nevertheless Austria maintained its position and they have had two years of grace to put their house in order. The reasoning behind this provision is that if you have an indirect excise tax, or a turnover tax, this tax does not form part of your costs of production, but is paid by the consumer. In these circumstances it would be abnormal to force the exporter to pay that tax, as it would mean that the consumer in the importing country would have to pay first whatever consumer tax exists in his country, plus the consumption tax which is paid in the country of export. There was agreement on that as far back as 1947. But we had some trouble with the United States, as the United States took some time to recognize the validity of such a claim. For a long time the United States Treasury considered as a subsidy the refund of the purchase tax in the United Kingdom. Then, they accepted the exemption in the case of the United Kingdom but, curiously enough, they were not prepared to do the same for other countries having similar systems. So, for a time you had in the United States a privileged position for the United Kingdom goods and a non-privileged position for the others. But in the GATT the United States decided then to apply the rule in the same way to all the GATT countries. You see how difficult this problem is, if you leave it simply in the hands of the governments and how useful a multilateral system of trading is, because, as this case showed, unless you have some sort of worldwide rule to go by, you would have a chaotic situation if one government just gave an exemption to one country and not to another. This would create a situation which would be unfair.
But although everybody agreed on the exemption of indirect taxes, turnover taxes and the like, the governments did not agree to practices which went beyond that, including the refund of direct charges. It was accepted that these were real subsidies since direct charges are part of the cost of production. Take the example of Germany: they had a very ingenious device by which the firm, instead of paying its corporation taxes or income tax on its total turnover, paid it only for that part of the turnover which related to domestic transactions. In other words, there was a refund, or an exemption of the direct tax for that part of the turnover which related to export trade. That was considered as a subsidy. It is one of the practices which have been listed in the report of the GATT Working Party on Subsidies. Japan followed that example, and has given that type of exception not to the producers, as in Germany, but to the exporters. We hope that this practice will be discontinued presently.

As for France, during that period when their currency was over-valued and when they could not compete with the other countries, they also tried to subsidize exports in order to offset the over-valuation of the currency. What is rather important in this case is that they refunded the social security charges which the employers have to pay, for that part of the turnover which corresponded to export trade. That measure was also condemned as being an indirect subsidy.

There are, of course, other methods, and I could list a few. In countries where you have an import control, the government, without giving money, can give privileges which amount to cash. Take the retention scheme in Denmark and in some other countries, for instance. If you were exporting goods paid for in dollars or in Swiss francs which the government wanted to obtain, you were, of course, entitled to receive an import licence allowing you to import motor cars at a time when motor cars were not imported. This meant that you were able to sell on the free market, and not to surrender, part of the dollars or Swiss francs which you had received for your exports - dollars or Swiss francs which you were able to sell at a premium. In other words, the governments had not given money, had not made any payment, but there was a profit for the exporter. And the exporter was in a position to compete with the other suppliers and to quote prices
lower than its normal prices. There are a number of other very ingenious devices. In France, for instance, there was a surplus of alcohol at one time, and with their very elaborate system of protection for agriculture, the French were not able to sell it at world market prices. The Government used to buy the alcohol from the surplus wine stocks at a price which was far above the world market price, and in order to sell that alcohol to the United States the exporters had to cut down their prices. To arrive at this result, the Government authorized the exporters of alcohol to the United States to sell their dollars at a premium. These dollars were sold to people who were prepared, for instance, to buy American motor cars at any price; and, as the import of American motor cars was prohibited, there was a market for the import licences, and the dollar was sold at a premium of about 40 to 50 per cent. All these methods had the effect of giving to the exporter a profit, not in the form of a direct subsidy, but in the form of a privilege for which the consumer was prepared to pay in order to get the type of goods which he could not import otherwise. There were a series of very ingenious devices of that kind which centred around the granting of import licences for restricted goods. There were also a whole series of practices which came from the financing of exports. For example, the government used to grant a direct credit for export trade which was more favourable than the credit obtained from commercial agencies, either as regards the rate of interest or as regards the duration of the credit. This started a very strong competition between various exporters of capital goods whose terms were more favourable than the terms offered by other exporters and, in many cases, the important factor was not the question of the price but rather the terms of the credit financing. In this race, the governments were assisting their exporters by giving them the credits at prices and rates and conditions which were not similar to those you could obtain on the open market. And also, through the systems of export insurance, you could grant an indirect subsidy to your exporters. These are the various types of subsidies which have been used, and the exporting countries came to the conclusion that it was really spoiling the market. They came to an agreement which was intended to put an end to all these systems.
In the Review Session of GATT, in 1955, we had agreed that the subsidies should be banned. But we had some difficulties at the time, in particular with France and its over-valued currency and it was not possible then to reach a complete prohibition. We arrived only at a standstill, in the hope that the French situation would soon clarify, and that the prohibition would then enter into force rather rapidly. But it took some time, and it was only at the seventeenth session of the GATT that we were able to get this prohibition of export subsidies applied or, at least partly accepted. The problem of export subsidies particularly concerns industrial goods. Now - at the seventeenth session - the industrial countries have agreed to prohibit export subsidies on industrial goods and we hope to hold the line.

There are two other problems: the first one is the problem of agricultural products and the second is the problem created by the developing countries. As regards the second one, we had some difficulty at the Review Session with some developing countries, especially those of South America. These countries were resorting very often to a system of multiple exchange rates and, as I explained earlier, the system of multiple exchange rates involves what may be export taxes in certain cases, and export subsidies in others; and it is very difficult to sort out what is a tax and what is a subsidy, so long as you do not know what is the real rate of exchange of the currency. In any case, a number of these countries were rather opposed to the idea that these practices could be condemned. Moreover, the International Monetary Fund said that this was not a GATT matter but a Fund problem; and that you cannot condemn it in the GATT if the Fund does not condemn it. So the multiple exchange rates were not covered by the ban. It was clearly an exception, for they were not exempted from the anti-dumping and countervailing provisions. In other words, the importing countries were still authorized to put on anti-dumping or countervailing duties if they considered that the exchange rate applied for the exports implied a certain subsidy. The most famous example is that given in the case of the Uruguayan wool tops. The Uruguayan industrialists had found it extremely useful to ask the Government to give them the premium on the dollars they would earn if they exported wool tops,
emphasizing that it would be a good operation for the Government. The Government accepted and there was a fantastic development of wool top exports from Uruguay, to the extent that there were even American industrialists who came down to Uruguay and set up a business so as to be able to sell wool tops on the American market much cheaper than their competitors. This did not last very long. The United States Government put a countervailing duty on the Uruguayan wool tops. So, they directed their exports to Western Europe. Very soon the Western European wool top producers reacted very violently and obtained from the various governments concerned an import prohibition on the Uruguayan wool tops. This was not exactly the remedy which the GATT advised them to take, but this experiment shows anyway that the export subsidy does not work when you are meeting with strong opposition in the importing countries. At present, the position is different because the multiple exchange rates are gradually disappearing. There are very few countries in Latin America as well as outside Latin America still resorting to that system. Some countries which were not very much opposed to the ban did not feel that they were affected by it, and thought that they were covered. There has been even some opposition in the discussions at the seventeenth GATT session on the part of a number of developing countries such as Israel, India and Pakistan against this ban on subsidies. I think that this should not be exaggerated: these countries are not in a position to subsidize extensively, not having the financial means; they could do this sort of operation with multiple exchange rates because the system does not involve any direct subsidy from their Treasury, and they do not realize that what they would be doing would be simply to subsidize their exports by means of a progressive devaluation of their currency. That is why this sort of attitude should not be taken too seriously. It is of course a mistaken attitude, but it is the general attitude of the less-developed countries who feel that they must keep their complete freedom of action whereas the industrialized countries should be tied down by all sorts of rules. This is something which will probably be corrected in the long run. There is also this idea, also slightly mistaken, that the developing countries, insofar as they have no industry in the same line, benefit from these subsidies. They feel that if the others are prepared to sell them goods cheaper than they should, it is all to the
profit of the consumer countries if they get something for nothing. Up to a point it is true, but, as in all these practices, it is not a very profitable operation in the long run because when there has been some exaggeration in the competition then the exporters get together, have a sort of cartel arrangement, and then, of course, you have the reverse. That is why, also, I think that on the whole, this opposition to the ban on subsidies is somewhat shortsighted; it may lead to the reverse, to a sort of cartelization of the export trade, and the result would not be so favourable to the importing countries. On the whole the clean type of competition is far better for all concerned.

We shall go back now to the problem of primary products, especially agricultural products. This is a far more difficult question. We tried at the GATT Review Session to extend the ban on subsidies to all products. We met then with a very formidable opposition, mainly on the part of the United States. You have seen during the discussions on subsidies at the last GATT session that a number of agricultural countries were somewhat disappointed by the ban on industrial products because they claimed that this action should show more clearly the difference of treatment between industrial and agricultural products. This is true. But since 1955 they have had some experience with the ban on agricultural products. In the OEEC they tried to ban both types of subsidies. This made the agricultural exporting countries very happy, and they said that the OEEC is a good place because you can get in the OEEC what you cannot get in the GATT. After a year, the OEEC provided for a general notification of the subsidies, those which existed, those which had been deleted, suppressed or terminated. Then, looking at the position in the agricultural sector, the OEEC discovered first, that the governments had not even taken the trouble to notify the subsidies they were giving in the agricultural field, and, secondly, that they certainly had no intention, in spite of the ban, of eliminating these subsidies. In other words, the departments of agriculture of the member countries simply ignored the commitments undertaken by their own governments. Another point which became clear was that there is no point at all in banning
export subsidies in the agricultural field, for the good reason that the subsidization does not take the form of direct export subsidy. Therefore, even if the ban had been enforced it would have created an unfair situation because some countries which had the system of direct subsidies would have been caught, while the others would have continued scot-free. Following that discovery, they came to the conclusion that they could not continue to enforce a ban which was not observed by some countries and they agreed then, reluctantly, that, for the time being, the ban on export subsidies on agricultural products would not be enforced. The countries were encouraged to eliminate them and in particular to consult; in fact they were looking back towards the principle followed in the GATT. As regards agricultural products, the GATT says that countries should refrain from using subsidies, and that they shall not use subsidies which have the effect of giving more than an equitable share of the market. After their attempt to ban agricultural subsidies the OEEC had to come back to the same sort of provision as in the GATT, and, although they saved their face by saying that it was a temporary deviation, that they would revert soon to the complete ban, when they tried in 1960 even to strengthen the provision, the result was a complete failure.

As I have said, in the case of agriculture, you cannot have a simple ban for export subsidies because most of the subsidization is done through other means. But in the case of industrial products, you can compare the export price with an internal price which is a genuine market price. In the case of agricultural products, with a few exceptions, the internal prices are just as artificial as export prices may be. So you have there a very serious problem: you cannot apply the same criteria as in the case of industrial products. This of course is part and parcel of the entire complex of agricultural problems which the GATT has decided to tackle as a whole, especially in Committee II of the Programme for Trade Expansion. It shows that in the field of agriculture, in spite of what some agricultural producing countries feel, you cannot have exactly the same regulations as in the case of industrial products. This is not because there is a desire to have two sets of rules, but simply because the conditions in the agricultural sector are such, at present, that the application of the simple rule for exports of industrial products would create inequalities and would be inefficient, as the OEEC experience has already shown.
There is also another practice, which gives another aspect of the avoidance of unfair competition in international trade; we have called it "market disruption". When we discussed, as far back as 1947, the problem of anti-dumping measures, we had a certain number of proposals to the effect that anti-dumping duties could be used to offset what was called "social dumping". Certain countries wished to retain the right to penalize by discriminatory taxes goods coming from countries where the cost of production is lower than in most of the industrialized countries. It was then decided to exclude that possibility, by authorizing the imposition of anti-dumping duties and countervailing duties in cases where there is an unfair practice. It was however stated that it would not be authorized to apply the same sort of remedy in cases where the price was not a dumped price or a subsidized price but was simply the result of the conditions of production. In those days, there was not too much opposition to that ruling as very few countries were in a position to exports goods at substantially lower prices. But when Japan put forward an application to accede to the GATT the question, of course, became extremely serious, and, in spite of the very strong support of the United States, a number of countries refused to grant GATT treatment to Japan.

Their argument was that they had had a bad experience with Japan in the thirties and considered that, by allowing Japan to obtain the same privileges as the other countries, they might be forced to take measures against their traditional suppliers which would not be justified simply because they were to offset a particularly disruptive competition from Japan. As a result, the GATT tried to find some safeguards. We devised a system which, in our opinion, was a good one. Unfortunately, it was not politically acceptable to a number of countries, and, as the GATT provides for the possibility for individual members to refuse GATT commitments vis-à-vis a country when it joins the GATT, there was nothing to prevent a number of countries from resorting to that provision in spite of strong diplomatic pressure on the part of the United States. Since that time we have tried to find a solution to the Japanese problem; a few countries have been able to withdraw their invocation of Article XXXV; and, while still maintaining the right to discriminate against Japan, others have applied the GATT de facto without too much difficulty.
Apart from the problem of Japan we have had to deal with similar cases in Asia. We have had the case of India and Pakistan in the cotton textile field, and also in the jute industry. Here the problem was not so severe because India and Pakistan, having free access to the United Kingdom market, were able to develop or maintain their exports without trying to diversify their exports and their markets. Indeed they have not tried, except perhaps in the case of jute, to penetrate the markets of other industrialized countries. No country had invoked Article XXV against India, so that from a legal point of view the position was slightly different. This position, incidentally, has a certain bearing on the attitude of the United Kingdom towards Japan because, if the textile producers in the United Kingdom have to absorb, for political reasons, a large amount of grey cloth coming from India and Pakistan, it is far more difficult to bring them to the point where they have also had to face Japanese competition. A new development has taken place in recent years; this has been the fantastic production of Hong Kong. Hong Kong is a small place but with an enormous pressure of population, especially Chinese coming from the mainland, completely destitute, and prepared to work at any price. They represent a pretty good labour force, skilled workers for the most; and even those who are not skilled have got a sort of tradition by which they can make very good workers in a short time. So, with the presence of this surplus labour force, with the ingenuity of a number of Chinese operators who had come from Shanghai and other places, and also with a very abundant supply of capital (because Hong Kong is a financial centre and is attracting practically all the savings of the Chinese communities outside China) and with the combination of everything which is necessary for production in skill, labour and capital, Hong Kong developed very rapidly an effective, efficient cotton textile industry. Today Hong Kong is exporting to the United Kingdom, to Australia, and other places grey cloth which is of such good quality that it is not possible, I have been told, to get the same quality in the United States, for example. They have first-class grey cloth, they have up-to-date equipment, and they can sell at very, very low prices. On top of that, when the United States obtained from the Japanese exporters the setting-up of a voluntary control on the export of garments, the agents of the
big American department stores came down to Hong Kong, got in touch with the Chinese operators, and they developed in two or three years a fantastic garment industry which is not bound by the Japanese commitments, and so can sell enormous amounts of garments to the American department stores. This is a new problem which has cropped up in Asia.

There is still a tendency in industrialized countries to consider that these exports are to be treated as dumped goods. We have always firmly refused to consider them as such because they are not dumped, the prices are not lower than the prices quoted on the domestic market, they are not subsidized, and, therefore, we consider that this is not a problem which can be covered by the principle of protection against unfair competition. In other words, we do not consider that it is something which the governments can neutralize by unilateral action. It is a problem which, we felt, the governments should put for consideration to the GATT, and if there was a case then we could find the remedy for it. But of course there are other considerations, the main one being political. In the case of Japan, you have a country which is in an awkward position with 80 million people today and nearly 100 million in a few years time, with a very poor land of which only 15 per cent can be cultivated, and which has to export or die. From the political point of view it is quite clear that you cannot just refuse to accept Japanese goods, and let them die on their island. You have a similar problem in Asia, in the case of the developing countries. These countries have to develop their exports and, if they have lines which are competitive, I think it is normal that they should try to find a market for them. While recognizing the political importance of maintaining and opening the market for these goods, we recognize also that there may be a problem for the industries which have to face a very severe disruptive kind of competition in certain cases and, if no particular procedure were evolved, it would force the governments to raise the level of their protection against everybody and to take measures that would be more detrimental to world trade as a whole than if they were allowed to take certain measures to meet this particular threat. This is a very delicate problem. Once you depart from the most-favoured-nation treatment, you get into difficulties,
and there is a very strong reluctance on the part of the United States mainly, as well as of other countries, to depart from it. Some years ago the GATT was not able to get the governments to approve a scheme which was evolved simply because it appeared as allowing officially a departure from the most-favoured-nation clause. So we are in a dilemma: if we want to meet these situations we have either to allow the countries to increase their tariff barriers against everybody, which is not good, or the countries have to depart from the most-favoured-nation treatment with, of course, a number of very strict safeguards. The United States and some other countries have tried to solve these difficulties by adopting a system of "voluntary" export controls. Instead of restricting imports on some Japanese goods, the United States, for instance, went to the Japanese Government and asked them to restrict their exports instead of putting new tariffs on them. We had a similar case some years ago when the Americans were under pressure to restrict imports of watches from Switzerland and were rather reluctant to meet the demand. So, they went to the Swiss Government, asked them to restrict the export of their watches, and agreed to let these watches, free of import restrictions, into the United States. Coming back to the Japanese example, in order to avoid the risk that the United States Government would put up new tariffs, Japan took a series of decisions which forced the exporters to accept a certain discipline in limiting the exports of certain goods to a certain ceiling, and, in certain cases, in enforcing a price control and avoiding quoting prices which went too much below the prices of other countries. This system did not work very well. First of all, these controls were bilateral, and the exporters were smart enough to declare that they were exporting to a country where no such controls existed and then they re-exported their goods from that country to the United States.

I think that the governments have come now to the conclusion that these export controls are not very satisfactory, and there is a desire to use the GATT machinery to try and solve these problems. We have been able, at the seventeenth session of GATT, to get an agreement on an experimental system of multilateral consultations, and we hope that the contracting parties will use that rather than
take the law into their own hands. This is to be considered as part of the problem of avoidance of unfair competition; not because we believe that this sort of situation is the result of an unfair competition, but simply because it is considered as unfair by a certain number of countries. And that is why we have to devise certain measures in order to meet this very serious preoccupation on the part of a number of importing countries.
XIII. THE RELATIONS OF THE GATT WITH OTHER INTERGOVERNMENTAL AGENCIES DEALING WITH ECONOMIC PROBLEMS

The last point of our programme is the co-ordination which has been established between the GATT and other intergovernmental agencies dealing with economic problems. As you have seen from the talk I gave you on commodities, there is a certain amount of confusion in the action of these various international agencies and, although the heads of these agencies are trying to avoid duplication, they sometimes are not able to achieve what they want, first, because there is some lack of co-ordination in the national services and also because the governments like raising the same questions in different places.

The GATT, because of its wide responsibilities in the field of trade, has a number of contacts with other agencies; and we have to spend considerable time and energy in making the best use possible of these contacts and to avoid the possibility that the various agencies follow different policies and give conflicting advice to the governments.

There are three main groups of agencies with which we have to deal. First of all there is the United Nations and its Regional Commissions; secondly, the United Nations Specialized Agencies; and thirdly, what you might call the more limited agencies, either because they are regional, or because they have only a technical rôle to play. Our position vis-à-vis the United Nations is somewhat anomalous because of our particular situation. As you know, in 1947, the idea was to set up an international trade organization which would become a specialized agency of the United Nations; but this failed, mainly because the United States Congress was not prepared to accept the Havana Charter. In the second attempt for the setting up of a trade co-operation organization, a provision was inserted in the Agreement (to establish the OTC) that this new organization might become a specialized agency of the United Nations. There were a certain number of problems in connexion with this status, but the idea was that the organization would become a specialized agency, as the IMF, the FAO and others. We have for the GATT a de facto situation which is that of a specialized agency, because the ICITO was considered as an interim commission for its specialized agency, and
we have continued to maintain the status. We are invited to meetings of the United Nations, as are other specialized agencies; we have a seat on the ACC, which is the Administrative Committee on Co-ordination composed of the heads of the various specialized agencies in the United Nations, and we have even the extraordinary status of belonging to the United Nations Pension Fund. So we have a situation which enables us to collaborate very closely with the United Nations. There are, of course, some conflicts because the United Nations considers that its jurisdiction is all-embracing and, unless a specialized agency has a formal agreement with the United Nations, the Secretary-General considers that he is internationally responsible. That is why there has been a tendency to consider that the United Nations was entitled to discuss trade problems which come within the jurisdiction of the GATT. In other words, there is no clear-cut jurisdiction accepted by the United Nations for the GATT. It is true that the United Nations recognizes the GATT in a certain number of ways. For example, the United Nations recognizes the nomination of the Chairman of the ICCICA, which is now vested in the GATT. There have been other cases where the United Nations has referred matters for consideration by the GATT; for instance the case of transport insurance discrimination; but there is quite a range of problems where there is a tendency for duplication.

What is even more important is that the GATT does not include all the members of the United Nations, and especially members of the Eastern European bloc. For that reason, practically every year, at the assembly of the Economic and Social Council, the representatives of the USSR try to propose the setting up of a trade organization, which would be under the wing of the United Nations, and which would have to do exactly what the GATT does at present. And invariably the answer of the other countries is that it is completely unnecessary in view of the existence of GATT, and there is no need to set up a body doing exactly what the GATT does. That is where the matter stands today. But because of the absence of the Communist bloc in the GATT there is always some temptation on the part of the United Nations to try to deal with trade problems. It is, of course, a rather delicate situation. And, although the answer of the United States and the United Kingdom and other countries to the Russians is: "If you want to deal with trade problems, come to the GATT"
everybody knows that if the USSR were to put in an application to join the GATT, the reception would be rather cool. For this is not the real answer. We have seen it when Poland asked for accession to the GATT. Then, we had the greatest difficulty in securing for her the status of an associate member, by which she is entitled to participate in the work and in discussions of the GATT without benefiting from any trade commitments from the GATT members. Of course this might not deter the USSR or the other Eastern European countries as they are certainly not prepared to accept any definite trade commitments. What they want is to have a forum where trade problems are discussed. So it is not absolutely impossible that the formula of "associate members" might provide a solution for this difficult problem of jurisdiction.

Another problem where we have had some difficulties with the United Nations has been the question of commodities. There has been a tendency on the part of the Soviet bloc and a certain number of under-developed countries to raise questions pertaining to commodities in a political body, instead of dealing with them from a technical and trade point of view. A certain amount of confusion has arisen; certain governments have refused to discuss commodity problems in the United Nations, and want to have them discussed in the GATT, such as the United Kingdom and the United States. There have also been a certain number of under-developed countries who would have preferred having commodity problems discussed in the GATT while others wanted to have them discussed in the United Nations. We have tried to clarify the confusion in the Sub-Committee of the ACC.

Another field where there is a need for collaboration is the field of research work. The United Nations prepares each year a number of economic surveys, and in these they naturally touch on trade problems. There is a sector in which we consider that GATT has particular competence; that is the annual surveys of trade trends. To a certain extent a danger of duplication exists there. We have tried to avoid duplication by personal contacts, by exchanging drafts and doing things which the United Nations does and vice-versa. As we are not just describing events but trying to draw some conclusions, we do not want the governments to receive conflicting views. As far as possible we have tried to come out with the same type of reports and recommendations, but
it does not mean that we are bound to accept views on which we may differ, and we may have certain differences in emphasis; what matters is that we try as far as possible to avoid giving conflicting advice to the governments. I must say that we have been rather successful.

In many ways we have been pioneers. We have launched an hypothesis on what appears to us a trend, and we have left the United Nations and other agencies to work on the ideas more fully as we have neither the money nor the staff to go into detailed examination. For instance, we were the first to discover, some four years ago, that trade among industrialized countries was developing more rapidly than trade between the industrialized countries and the less-developed countries. We have led the United Nations to see how this worked out in practice and to look at the implications involved. This is the kind of rôle which the GATT is playing. We have also been reaching a certain number of conclusions about the effects of substitution, the production of primary products in the industrialized world, the changes in the technical structure of industry, and the import of raw materials. We have seen what the influence of these factors has been on the probable trend of exports of primary products by the under-developed countries. These ideas were picked up later on by other agencies in the United Nations and they have gone more deeply into the matter; but our rôle has been to try and discover a certain number of trends in world trade, because we undertake a more detailed and closer analysis of world trade channels.

The last field in which there is a need for collaboration with the United Nations is the field of technical assistance. The fact that we are not a fully-fledged specialized agency prevents us from being a party to the technical assistance programme of the United Nations, which feels that in the absence of any specialized agency they should be responsible for technical assistance in the trade field. We are of the opinion in GATT that it is necessary for the United Nations, which has not the same experience as we have in these matters, to collaborate with us. They do so to a large extent, especially in the selection of the experts, and also in their briefing. But this system is not fully satisfactory; it would be better if we were responsible for this work. We have tried to maintain contact in the selection
of experts. But the United Nations come to us only when they have difficulties in finding the right man, not in a systematic way. We have been able to do something in this respect however, and we now get in touch with the experts on trade and customs matters who are sent abroad by the United Nations. We generally see them if they come to Geneva before going to their assignments. And when I travel abroad, I always make a point of calling on the resident representative of the TAB, the Technical Assistance Board, to talk with the experts in the field.

One of the best examples of the need for co-operation is in connexion with the customs nomenclature. The work on this is done in Brussels by the Customs Co-operation Council, which is an intergovernmental organization, a technical body composed of customs officials. After two or three years of effort they produced a customs nomenclature which was based on the League of Nations standard nomenclature, and which has been accepted by practically all the European countries. It is in everybody's interest to use this standard nomenclature because it has been the result of very thorough examination there are very elaborate interpretative notes, and there is a standing Committee which is able to discuss and make rulings on the classification of items which are not otherwise classified. Therefore, there is a great advantage in keeping this work going so that all the countries which want to standardize and improve their nomenclature will have the benefit of the work of the Council. But it so happened that the United Nations' statisticians disliked the Brussels nomenclature, because they felt that it did not dovetail into their requirements as statisticians. They created a customs nomenclature which started from their statistical nomenclature and, with the assistance of a few experts, they evolved what is called the "NAUCA". This nomenclature was adopted by the Central American countries and was also suggested for the Federation of the West Indies. But the NAUCA had not much success because it did not fit in with the requirements of the customs administration which felt that, after all, their first duty was to collect the taxes and duties and that the collection of data is somewhat secondary, whereas the statisticians thought the collection of data was a first requirement. So, apart from countries which had a very simple trade pattern, nobody wanted to accept it. The United Nations tried very hard to sell it and all the experts sent in the field
were told to push it on the governments concerned. But this was not very successful; and everybody, the Brazilians, the Australians, the New Zealanders and so on, resisted it. This feud went on between the statisticians and the customs officials for a time, and finally they came to us and we tried to mediate in this affair. In the end everybody was fairly satisfied because we agreed that the statistical pattern would be along the lines of the SITC, but that the tariff items would be taken from the Brussels nomenclature, so that it was possible to move easily from one nomenclature to the other. Thus we have reached agreement between the two sides, which shows that some diplomacy is needed in the relations, not only between governments, but also between international agencies.

We have very close connexions with the regional commissions of the United Nations: the ECAFE, the ECLA, the ECE, and now with the ECA, the African Commission. It is quite evident that all these regional commissions have had to tackle the trade problems which they could not ignore, and in certain cases the regional commissions had rather ambitious aims.

In the case of the ECAFE, we had from the very beginning very good and close contacts. Our general idea was to act as a kind of advisor on trade problems for the regional commissions, with them asking us for advice, instead of having these commissions setting up a trade department which would do, to a large extent, what we are doing here. This system worked very well with the ECAFE: they adopted the habit of asking us for advice on any trade problem which they had to examine, they sent us their drafts for correction and comments, and very often they asked us to prepare papers for the sessions of their Commission. For instance, the ECAFE is under an obligation to report from time to time on the developments of the Common Market and now of the Free Trade Area in Europe, and they have asked us to do the job for them, simply because they feel that we know the inside story, that we have to follow these developments closely, and that what we would prepare would certainly be better and more up-to-date than what they could prepare in Bangkok. This is a burden for us sometimes, but we have decided that it is in our mutual interest to do this work for them. Thus, when they tried to enter the field of technical problems such as the question of customs nomenclature to adopt, what facilities to introduce, the formalities to get rid of,
the practices which could be useful to stimulate exports, and the methods of
export promotion, they came to us and we gave them advice on all the points
raised. We attend, as far as we can, the meetings of the Commission; I have
been there practically every year for the last five or six years, we are in a
position to take part in the debates and, very often, to exercise some
influence on the thinking of the delegates to these meetings. And, as in all
countries, especially in these new countries of Asia, there is a certain
amount of confusion about commercial policy and they do not know exactly how
to work it out, it is extremely useful to be there and to help them in
framing a sensible policy, not only in their regional arrangements but also
in their arrangements with the rest of the world.

With the ECE we have constant contacts, but the field of work of this
Commission is limited by the existence of the OEEC in Paris. When this
Commission was set up it was considered that it would deal with all the
problems between the European countries in the East and in the West. But
since the OEEC took over all the mutual relations between the Western European
countries, the ECE has practically nothing left in the trade field but the
relations between the Eastern and Western European countries. Their task
has become rather specialized and not very productive as there is a very
great reluctance at this level to do something internationally. On the other
hand, the trade is conducted on bilateral lines because the Eastern European
countries know practically no other system of trading. So the scope for action
is rather limited; however, we have been keeping in touch with them. There
has been the problem of who should try to devise a system of a link between
the State-trading countries and the Western world. We have collaborated in a
rather reasonable manner although here again we are a bit inhibited by the fact
that we have only Czechoslovakia in the GATT, Poland and Yugoslavia being in a
separate category. But we have been working together. There have been a
certain number of other cases in which we have given advice to the ECE. For
instance, they prepared a certain number of conventions on technical problems,
such as the transit of containers, etc., and we gave them advice on how to
draft the convention. In the field of research, in the preparation of the
economic surveys there has been a contact with us, especially in the trade
field. We have given them information and data. There might have been a
better co-ordination in certain respects, especially when we worked on the
projections of forecasts of the demand for exports from non-European countries,
mainly under-developed countries. We started the study and thought it was a
good idea. Then they copied it, did it on a somewhat different basis.
Because of this competition in the field of forecasts, we raised the question
at the international level, and we have set up a small group which tries to
agree on the making of these forecasts because, depending on the way you make
a forecast, you may arrive at very different results if your purposes are
different, and that would only confuse the governments concerned. We have
at present a problem of conflict with the FAO because they come to conclusions
regarding the demand for agricultural products in Western Europe which do not
tally with our own forecasts. You see now the kind of collaboration which
is required.

With the ECLA the story is rather different. We had to meet with very
strong opposition from the ECLA to start with. The first time I went to
Santiago to talk to the Executive Secretary of ECLA I had in my briefcase a
report which had been prepared by the ECLA secretariat and approved by the
Commission and which, in our opinion, was just a malicious pamphlet against
the GATT. My first task was to go over this pamphlet with the officials of
the ECLA and show them what was wrong, unfounded and biased in it. The first
agreement we reached was that they would not publish anything about the GATT
which would not be checked first by us, because there was no point in giving
to the governments the impression that there were two institutions fighting
each other or one treating another as an enemy. It has always been a
difficult task to get ECLA on a common line of thinking. There is still in
the minds of some in the ECLA secretariat that the South American countries
would be better off if there was no GATT. We have, of course, been working
together in the same way as we have done with the other agencies and
commissions, and in particular we have a good relationship regarding the
statistical work and analysis, we send our drafts to each other and try to
come to the same line of thinking. On the operational side we have been
associated very closely with the preparations of the Free Trade Area Agreement
of the Montevideo Treaty. The contacts have not always been with the
Commission itself, and in certain cases we have not supported the views of the Commission. The ECIA was rather working on a basis of a loose preferential arrangement which was clearly contrary to the GATT in a number of respects, which had no chance of being accepted in the GATT, and would have certainly raised serious opposition on the part of the United States. We advised the countries concerned to look for a formula which would be closer to the GATT and which would be acceptable by all the GATT trading partners. After all, the trade inside the Latin-American area represents 10 per cent of the total trade and these countries could not ignore the views of the others, particularly the United States, which has important trading relations with the area. We advised them to look at the formula of the Free Trade Area which seemed to fit in with the particular problems of Latin America and to be guided by it instead of entering into a very loose preferential arrangement which in our opinion had no future. The governments agreed; they negotiated a draft which was along the lines advocated, but which had the effect of limiting the geographical scope of the arrangement because there were a number of countries such as Colombia, Venezuela, Ecuador, Mexico, the Central American countries, Cuba, Haiti, and Nicaragua which were not prepared for that sort of arrangement. At the Panama meeting there was a bit of a clash between the countries which had worked out the new draft and those who were clinging to the Mexican draft, and we played a certain part in getting the United States delegation to be friendly to the new draft. Finally, the GATT view was accepted by the governments; the Mexican Government followed our advice and associated themselves with the new approach as they had, very clearly, trade interests in this affair. So there was a certain resentment on the part of the ECIA at the fact that their pet idea had been discarded and that some countries had followed the advice of the GATT. With the setting up of the Montevideo Treaty we hope that this latent conflict will be eliminated, although we always have a certain feeling that things could be improved.

With the ECA our relationship should be more or less along the lines of our relationship with the ECAFE. I think that they feel the need for guidance in the trade field; they come to us for advice. We have, unfortunately, not been able so far to attend the meetings of their committees. But we are going
to do the same kind of technical assistance work as we have done with the
ECAFE and we hope that this will be rather useful for the African countries
which are in need of clear ideas and technical know-how, as they have even
less experience than the countries in Asia had ten years ago.

With the Specialized Agencies of the United Nations the relationship of
GATT varies from Agency to Agency. We have a statutory link with the
International Monetary Fund. GATT Article XV obliges us to consult the Fund
in a number of cases, and to accept its findings when they relate to balance-
of-payments or exchange matters. There we have a problem with the Fund because
the United States was of the view that all these problems of restrictions for
balance-of-payments reasons should be more or less settled by the Fund and that
the GATT would simply have to transpose into the trade field the decisions
taken by the Fund in the exchange field. This principle was not accepted in
1947 and the compromise reached was that we would accept the factual findings
of the Fund on questions which were in their jurisdiction, but that the decision
would still be ours, that we would not be forced to accept the decisions or
the recommendations of the Fund. So more so as the Fund is not exactly
adapted to this rôle. For instance, when the Fund tells us that a country
is in balance-of-payments difficulties we cannot say that we differ from them
on that point. But the consequences of that are really our own business, and
we have to look at the implications for the particular trade interest. So
we have come to a kind of arrangement by which the Fund gives us their
opinion on the exchange side and tells us if the country has balance-of-payments
difficulties, if there is a threat to the reserves of the country concerned;
or if there is no such threat, whether the reserves of that country are so
low that it is necessary for that country to replenish its reserves before it
lets the trade flow in freely. We also accept the views of the Fund about the
degree of restriction necessary in order to maintain the balance of payments
of the country concerned. But then, so far as we look at the trade aspect of
the restriction, we consider that we are free to do what we like.

There have been other difficulties, but I think that they are now matters
of the past. For instance, we had some difficulties about the multiple exchange
rates, which the Fund considered as coming under its jurisdiction. But as
the multiple exchange practices are no longer applied or, at least, not to the same degree as before, this is a matter of the past.

Another Agency with which we have had some difficulties is the FAO. There again, the FAO claims that anything which is agricultural comes under its jurisdiction, that any particular trade in agricultural products should be governed by the FAO and not by the GATT. That would mean that the GATT would be limited to the exchange of industrial products and, from a general point of view, it is not easy to see how you could divide the world into two parts—those who trade in agricultural products who have not got any protection except the FAO; and the others, who deal in industrial products, who would have the protection of the GATT. This problem started in 1947 when we had to deal with the commodity question. Under the Havana Charter all the commodity problems would have to be tackled by the GATT, and the FAO would have just a secondary rôle. Of course the FAO objected to that strongly, and that is why, when we set up the ICCICA, we gave them one member out of three. The main clash came, however, two years ago when we decided to tackle the agricultural problem. When Germany got out of balance-of-payments difficulties we saw then that the German Government had absolutely no intention of eliminating the restrictions on agricultural products. This meant that we had a big fight on our hands. We had to look into the problem from a general angle and, in particular, to examine the reasons why Germany and other countries were not prepared to play the rules of the game. We therefore had to make a very thorough examination of the agricultural policies and we found out that in many cases the restrictive system was not a trade problem as such, but a result of an agricultural policy including support prices which had to be implemented by a restrictive system. As soon as we got to that point, and began to discuss that problem, the FAO stepped in and said that the GATT should not deal with that problem which came under FAO jurisdiction, and they set up a Group of Experts to make recommendations on support policies. The countries were not very happy with the report of the FAO Group because it was very much influenced by the protectionist ideas of the European farmers. Countries which have an interest as agricultural exporters didn't very much like a report which gave its blessing to the worst features of support policies in the importing countries. On the one hand there were
the exporting countries who wanted this matter to be discussed in the GATT where they had a sort of legal safeguard and could enforce it vis-à-vis the other countries; and, on the other hand, there were the importing countries or the industrialized countries who wanted to have the matter discussed in the FAO because they knew that, first of all, there was no legal safeguard in the FAO and, secondly, the general trend of opinion in the FAO was in favour of the producers, and not in favour of the exporters. In view of these conflicts with the FAO we have decided to set up a special liaison machinery. We meet from time to time with the representatives of the various FAO divisions and try to avoid too much opposition, at least in the secretariats. We are now launching a particular study on the measurement of the degree of protection in the agricultural field, and the work is divided between the two Organizations. So we hope that gradually we might come to some sort of common approach to the agricultural problem, as we have realized that in order to improve the position, it is necessary not only to get the support of the people responsible for the trade but also of the people responsible for the agricultural policy.

We have not had these difficulties in the ILO. Our points of contact are not so numerous. First of all we want to have the backing of the forces behind the ILO, which is a special organization because it is not a purely intergovernmental body. It is an international organization where you have the triple representation of the governments, the employers, and the workers.

Two or three years ago, the employees group put forward a resolution asking the governments to give support to the GATT, and in particular to ratify the OTC. We had the support of the trade unions in the United States, but at first we had some opposition coming from the trade unions in Europe, where the trade unions were extremely protectionist. It was some time before we could convince them that it was not in the interest of the workers to support inefficiency and that they should look at the interests of GATT as consumers. We now have obtained a pretty good liaison with them, and with the Federation of Trade Unions also. We are now engaging in a study on market disruption which is closely connected with the ILO, as well as a study we are making now on wages and productivity which is a common joint study with the ILO.
The Fund, the FAO and the ILO are the three main Specialized Agencies with which we have relations. In the case of UNESCO we have some contacts, in particular with regard to their project for better understanding between the Eastern European countries and the Western world, and we have been attending meetings at which these problems were discussed, especially as regards the trade field. We have also assisted the UNESCO in preparing a convention for the exemption of duties on educational material, books and scientific equipment for schools and so on. We have given them technical advice as well as political support, because our delegates have been those who have pushed the idea, and that has been accepted.

In the case of WHO there was also a project of the same kind to obtain free entry for certain types of medicine on social grounds. This did not succeed because we came to a conclusion that it was not really necessary to have a convention simply in order to get the Treasury in the various countries to exempt the purchases of medicine by their own State hospitals and health departments.

This is the position of GATT regarding its relations with the United Nations and their Specialized Agencies.