NOTES ON THE SIGNIFICANCE OF THE GATT REVIEW SESSION

1. The GATT has been in force for seven years. Although it was not intended to be more than a temporary arrangement to protect the tariff concessions negotiated at Geneva in 1947 until a Trade Organization was established, the GATT has in fact proved to be a new experiment in international co-operation. The general purpose of the review of the GATT is to give governments an opportunity to revise the text and to improve the machinery of operation in the light of experience.

The result of the experiment of the last seven years has been that governments have been working their way towards a system that will be regulated by a code of fair trading rules. At the present time it is generally recognized that it is essential to have such a code of rules in force if countries are to take the plunge and go convertible, because before a country goes convertible it must be certain that there is no collapse on the trade side. In the prewar days of convertibility it was possible to rely on the gold standard to maintain stability; but today it is essential to have not only a code of fair trade rules but to know that such a code will be maintained and applied. The present position is that a half-way stage has been reached: the degree of liberalization achieved and the near-convertibility stage reached by many countries have led to an upsurge of competition. It will be impossible to continue in this half-way position, as governments must either go forwards or backwards. Either they agree on trade rules which are an indispensable guarantee for effective convertibility or the protectionist elements will compel governments to revert to an isolationist policy, either national, regional or imperial.

As the Chancellor of the Exchequer emphasized at the annual meeting of the Fund, one of the essential factors for a return to convertibility is the existence of fair trade rules over a wide sector of trade; this means, in fact, the trade of the dollar area, the sterling area and the EPU area, at
least. This involves, first some guarantees about the future of United States commercial policy; secondly, some guarantees about the commercial policy of the non-dollar countries which represent the main markets for the exports of the convertible countries; and equally the dollar and the non-dollar group will also require commitments from the countries that are going convertible. In the survey of the main points likely to arise in the GATT review in the following paragraphs - and the items selected are by no means exhaustive - the approach will be made first from the position of the United States, secondly from that of the United Kingdom and other countries which are likely to go convertible and lastly from that of the under-developed countries.

2. As a background to the review of the GATT and in particular to the changes desired by the United States it should be remembered first that the international obligations undertaken in 1947 by the United States were unique, that is to say they involved a new development in the American tradition of commercial policy. Hence the danger that exists today that the United States might revert to isolation. Secondly, the GATT was accepted only on condition that membership could be terminated at short notice (this "provisional" acceptance applies, of course, to all contracting parties). Thirdly, the GATT was accepted under the executive powers of the President and the specified authority delegated by Congress under the Reciprocal Trade Agreements Act. Congressional approval for the GATT was never obtained; in fact on several occasions the Congress has made it clear that in renewing the Trade Agreements Act it had neither approved nor disapproved the GATT. As already stated, the participation by the U.S. Administration in the GATT has rested on the powers delegated to the President under the Reciprocal Trade Agreements Act. This provides much less clearly for U.S. participation in an organization; it is therefore of paramount significance that the United States Administration now intends to request the Congress to approve an organization entrusted to administer the GATT. The question is, what sort of changes and what kind of safeguards will be required to make the GATT an acceptable instrument of United States commercial policy.
In 1947 the United States granted extensive tariff concessions. These concessions were applied immediately and the rest of the trading world enjoyed these benefits immediately. But the same advantages did not accrue for United States exporters because the tariff concessions made reciprocally by other countries were in many instances nullified by discrimination (through quantitative restrictions for balance-of-payments reasons) against dollar imports. If the United States is to agree to a further binding of the tariff concessions and if in its commercial policy it is to continue to agree to international trade rules, the Congress should have the guarantee that the tariff concessions will really be operative; in other words, that countries that go convertible will not continue to discriminate against imports from dollar countries. Hence the vital interest of the United States in tightening the balance-of-payments provisions of the GATT.

Clearly if a country "goes convertible" it is in its interest to see that the balance-of-payments provisions are strengthened - and strengthened on a global basis; for it is difficult to see how they could be made effective on a limited or regional basis. But this does not mean that the basic philosophy of the GATT will have to be changed, i.e. while creditor countries will have to live up to their obligations, debtor countries will be able to impose quantitative restrictions if their balance-of-payments position is threatened and will be able to discriminate against imports that have to be paid for in hard currencies if they are genuinely short of hard currencies.

3. Another point on which the United States will want a firm commitment if the GATT is to get legislative approval concerns agricultural import quotas and export subsidies. The United States Administration will seek to negotiate a revision so that it (the Administration) is not faced - as at present - with commitments under the GATT that are in conflict with the mandatory provisions of United States legislation on agricultural imports and exports, and on support prices. The United States, in the words of Assistant Secretary Waugh, "wishes to assure itself adequate leeway to take such measures as may be necessary to prevent imports from impairing its domestic farm programmes. On the other hand, it wishes to protect its agricultural exports against arbitrary and restrictive
measures which might be imposed by other countries". The main conflict between the GATT provisions and the United States legislation is that the latter requires the President under certain circumstances to impose quantitative restrictions (or fees) on agricultural imports even when there is no restriction of domestic production, whereas the GATT (Article XI) allows a government to impose import restrictions on agricultural products only when that government is restricting domestic production. If the GATT is to be brought into line with United States domestic legislation the scope of this GATT provision would have to be widened to cover such products as cheese, butter, etcetera, which are included in United States domestic price support programmes but whose domestic production is not restricted in any way. The GATT contains a safeguard that a fair share of the domestic market should continue to be granted to importers, so that if domestic consumption increases an equal share of the increase will be given to domestic producers and importers. This safeguard does not appear to conflict with the United States legislation; in other words, the United States may seek to widen the scope of the escape clause but there should be no substantial change in the principle.

Through the accumulation of stocks that result from agricultural support prices, a vicious circle is set up in which the guaranteed domestic support prices attract imports, which are cheaper; the imports must be limited by means of quantitative restrictions; at the same time there is a natural inclination to dispose of the surplus stocks on the international markets and to dump them at prices lower than the prices prevailing in the domestic markets of the exporters. This may compel other countries to take the position that if the GATT does not deal in one way or another with subsidies - governmental assistance to exports - the danger to international markets will be very serious and it will be difficult for governments whose domestic markets are threatened with United States surpluses to accept the commitments regarding stricter rules for the use of quantitative restrictions, referred to in paragraph three above. In any event, there is no doubt that the negotiations that will take place in the field of agricultural import quotas and export subsidies will be one of the most difficult and complicated matters in the review of the GATT.
To sum up, where lies the balance of the advantage in what the United States seeks in the review of the GATT? If the requests are granted it is probable that, on the one side there will be much stricter balance-of-payments provisions; there will be a binding commitment on the part of the dollar countries not to resort to quantitative restrictions on industrial products - a commitment that appeared to have only an academic value in 1947 but which in present circumstances, when there is a real threat that the protectionist forces will concentrate on quantitative restrictions, is of real importance. On the other side there will be some weakening in the commitment concerning quantitative restrictions in the agricultural sector, but it may be expected that this would be counterbalanced by definite commitments on the use of subsidies. Further, there will be a guarantee on the continuing stability of United States tariffs, the probability of further lowering those levels, and other commitments - equally important from the point of view of traders - on United States customs administration, customs valuation of goods and other formalities.

4. To turn to the countries that are likely to go convertible, what will be the repercussions of convertibility on the pattern of trade not only with the dollar countries but among the non-dollar countries? What kind of trade rules will they need? It is most essential that the GATT trade rules should be modified to ensure that the convertible countries do not become subject to the same kind of discriminatory measures against their exports by non-convertible countries as the United States exporters have suffered in the last seven years. Among the European countries it is clear that the GATT will have to take up the task of liberalization at whatever point the OEEC will have reached and will have to require countries when they become convertible to abandon quantitative restrictions as an instrument of commercial policy, at least with the exception of limited "escapes" in the agricultural sector. At the same time countries which have not gone convertible will be required to refrain from introducing discrimination against those which go convertible and further to subscribe to the principle of gradually removing their discrimination so as to eliminate it entirely when, later on, they go convertible.
So far as quantitative restrictions for agricultural products are concerned - these form the hard core of non-liberalized imports of such countries as Belgium, Germany, France and Switzerland - it may well prove difficult in view of the United States position on agriculture, to obtain from European countries an undertaking to eliminate quantitative restrictions on certain agricultural products, but it is clear that these countries could not claim an escape clause wider than that which the United States is seeking. Perhaps these countries would be willing to go beyond the safeguard of "fair shares" (see paragraph three above) by accepting commitments involving global minimum quotas of agricultural imports in return for tariff concessions. If some escape is granted for agricultural imports one can foresee difficulties for some European countries which are exporters of agricultural products to other European countries; the former would be obliged to abandon industrial quantitative restrictions while they would not get the same advantage for the export of their agricultural products. This inequality would be felt more acutely still in countries like Denmark and the Netherlands which have a persistent complaint about high tariffs in other European countries. It is only to be expected, therefore, that low tariff countries, and more particularly those which are agricultural exporters, may wish either to keep some of their quantitative restrictions for subsequent bargaining, or will accept complete elimination of quantitative restrictions only when some concrete satisfaction is obtained in the tariff field.

There will probably be some resistance to the attempt to strengthen the GATT rules on the part of continental European countries which will prefer to keep the present system under which their use of quantitative restrictions is governed by the OEEC rather than by the GATT. The difficulty, in the new set-up of convertibility, is that European continental countries have become accustomed in the last seven years to a different system as regards trade and payments relations among themselves. The idea of imposing a much stricter code of conduct regarding the maintenance of quantitative restrictions and of extending these commitments to the rest of the world must come as something of a shock. This explains why some of these countries have been trying to keep the new trade rules under OEEC rather than under GATT. It may be useful to comment
briefly on the main differences between the two systems. In general terms the OEEC code is based on reciprocity while the GATT rules are based on solidarity. This means that the GATT recognizes that a country with no balance-of-payments difficulties is not entitled to maintain quantitative restrictions. In other words the GATT distinguishes clearly between the obligations of creditor countries and the obligations of debtor countries. In the OEEC the obligations of member countries to achieve a specified percentage of liberalized trade is the same for creditor as for debtor countries. This explains why a country like Switzerland has been able to accept OEEC commitments but not GATT commitments because in accepting GATT commitments it would have been obliged to give up those quantitative restrictions which, under the OEEC, it retains for bargaining purposes.

Another reason why some European countries which fear outside competition prefer the OEEC code is because the OEEC has maintained a form of discrimination against non-OEEC countries since, with limited exceptions, liberalization measures have only been applied to the trade of the member countries. This has developed a soft market for the exports of a number of countries which they might lose if faced by the full force of competition from outsiders.

To sum up, if the countries that are thinking about going convertible can obtain the commitment through the GATT rules that when they go convertible they will not be discriminated against by non-convertible countries, and if a firm commitment on agricultural protection can be reached, this would give a sound basis for further progress towards convertibility.

5. To turn to the position of the under-developed countries there is general recognition among industrial countries that the GATT should give to these countries more flexibility in renegotiating their tariffs that are bound under GATT. This element of greater flexibility would not go far beyond the present text of GATT, but when this text is tightened it may be necessary to provide a special régime for under-developed countries. Further it may be necessary to review the provisions which enable under-developed countries to impose protective quantitative restrictions for infant industries. It would not appear impossible to devise a system to meet the legitimate needs of
under-developed countries and at the same time to safeguard the export interests of industrialized countries so as gradually to bring the under-developed countries within the orbit of the GATT and to help to develop their commercial policy for the benefit of all concerned rather than leaving its development to unilateral action.

One difficulty about the solution to this problem, which is essential not only for economic but also for political reasons, will be the definition of an under-developed country. If governments could agree without too much difficulty in granting a special régime to countries that are clearly at a low level of development they will probably be more reluctant to grant similar privileges to countries which, although not fully developed, have a higher standard of living than some fully developed countries (Australia, New Zealand for example), or to countries which, although their standard of living is not very high, have reached a fair degree of industrial development (Argentina, Uruguay for example).

6.

To sum up, this analysis of some of the main points indicates that the review of the GATT is likely to be an important landmark in postwar economic cooperation. So far, GATT has shown what can be achieved by the adoption of a common standard of commercial policy in the field of tariffs, where a wide degree of stability has been achieved. But the work is obviously incomplete so long as some kind of standards are not accepted in the field of quantitative restrictions. This is a problem to be tackled; but it is a very difficult one since the interests of all countries concerned are far from similar. Nevertheless there does not seem to be any other way or place than through the GATT and the review of the GATT to devise secure safeguards which would seem to be indispensable if there is to be any hope of convertibility. This involves political decisions in most countries, in particular in the United States. The GATT has to be written in the context of convertibility and the escape clauses rewritten in order to safeguard convertibility when it has been achieved; that is to say, there must be enough flexibility to meet the need to reinstate genuine balance-of-payments quantitative restrictions if the
overall balance-of-payments position of a country that has gone convertible deteriorates, and to discriminate against a currency which is really scarce while maintaining the flow of trade with the rest of the world. On the other hand, the escape clauses will have to be tight enough to avoid the use of the escape to defeat the objectives of convertibility and to cover protective motives.