THE REMOVAL OF OBSTACLES TO INTERNATIONAL TRADE

The Rôle of the General Agreement on Tariff and Trade

Note by the Executive Secretary to GATT, submitted to the Inter-Parliamentary Union

The General Agreement on Tariffs and Trade entered into force in 1948. This was the first attempt to establish a multilateral trading system on the basis of a code of conduct to govern international commercial relations and as such the GATT has replaced, so far as the Contracting Parties are concerned, the network of bilateral agreements previously in force. As stated in its Preamble, the objectives of the Agreement include the making of arrangements for the reduction of tariffs and of other barriers to trade. The GATT has now been accepted by thirty-seven governments whose imports and exports make up nearly 90 per cent of international commerce.

In acceding to the General Agreement, governments accept commitments not to resort to certain methods in their commercial policy and to limit the use of other methods in accordance with agreed principles. In drafting the agreement, however, governments recognized that a thoroughly rigid treaty might break down in practice through its inapplicability to all countries in all circumstances and that some degree of flexibility was desirable. Therefore, the new multilateral system was conceived in the form of an agreement to be administered by the participating governments with equality of voting rights. In exceptional circumstances, the Contracting Parties, acting jointly, may, by a majority of two-thirds, meet particular difficulties of individual countries by waiving some of their obligations, provided that they consider such waiver to be in the general interest and that the interests of individual countries are adequately safeguarded. This power has been used in a number of important cases, as for example in authorizing the establishment of the European Coal and Steel Community.
When the Agreement was drafted, governments further recognized that a uniform code of commercial practices might not be appropriate in all circumstances for both industrial countries and countries in the early stages of development. For the latter, the Agreement provides greater latitude in the choice of commercial policy methods and measures of protection. Similarly, provision is made for countries suffering from disequilibrium in their balance of payments in that they are authorized, under specified terms and conditions, to resort to the use of quantitative import restrictions which are not allowed at all in the case of countries having no such financial difficulties.

Finally, governments anticipated, when drafting the Agreement, that there might arise between contracting parties differences and disputes concerning the application or interpretation of the provisions of the Agreement. They therefore provided that each contracting party should afford to others ample opportunity for consultation on any matter affecting the operation of the Agreement. They provided also that the Contracting Parties, acting jointly, might undertake consultations with the Contracting Parties concerned if a satisfactory solution were not reached in the bilateral discussions. When the dispute cannot be disposed of by means of consultation, the matter may be referred to the Contracting Parties. The Contracting Parties examine the case to see to what extent the action taken is consistent with the commitments under the GATT and what damage has been caused or threatened to the trade interests of the complaining country. They may recommend a practical solution for the mitigation of the damage caused and, in serious cases, they may authorize the affected country to retaliate in order to bring pressure to bear on the country which has not lived up to its obligations. These procedures for settling differences among contracting parties have proved most efficient and are an important element in the implementation of the code of good conduct.

Customs Tariffs

The General Agreement, realistically, does not aim at completely free trade. It recognizes that governments will wish to protect or give financial support to many of their manufacturing industries and their agriculture in
accordance with national policies and requirements. Protection can be granted through the customs tariff. Nevertheless, customs duties often constitute serious obstacles to trade, and the reduction of burdensome duties can make an important contribution to the expansion of world trade. Accordingly, the governments adhering to the Agreement are expected to participate in negotiations for the reduction of high duties and the binding against increase of low duties or duty-free treatment on the basis of reciprocal and mutually advantageous concessions. In such negotiations, governments reach agreement upon the maximum rates of duty to be applied to products of special interest to their trade. Concessions thus granted cannot be withdrawn or modified except by re-negotiation with the parties concerned and in accordance with established procedures. Through these negotiations, many thousands of duty rates in the customs tariffs of the world have been bound against increase and thus, during the past eleven years, international trade has enjoyed a greater degree of tariff stability than ever existed before. The establishment of these maximum rates of duty has prevented any general increase in tariffs since the Second World War and has avoided a recurrence of retaliatory tariff action which frequently hampered or destroyed trade in the past.

The commitments of tariff bindings, negotiated by one contracting party with another, become applicable to the trade of all contracting parties. Moreover, through the most-favoured-nation provisions of bilateral agreements, a number of countries not parties to the GATT enjoy most of the tariff reductions negotiated within the GATT framework.

Apart from customs duties, the General Agreement aims at preventing the imposition of special taxes and charges on imported goods by laying down the principle that any such additional charges should be limited to the cost of services rendered. The Contracting Parties, acting jointly, have recommended specifically that all consular fees should be eliminated.
Customs Formalities

Formalities and requirements for the submission of documentation, with which traders must comply, sometimes constitute greater obstacles to trade than customs duties. The General Agreement aims at the simplification or standardization of formalities and the removal of any that may not be absolutely essential. As examples, principles are laid down for the assessment of value for duty purposes, standardized requirements for marks of origin have been recommended, and contracting parties have been asked to reduce as far as possible other documentary requirements.

In 1949 the Contracting Parties advised UNESCO on the drafting of the Agreement on the Importation of Educational, Scientific and Cultural Materials. Twenty-five governments have accepted this Agreement. In 1954 the Contracting Parties drew up the Convention to Facilitate the Importation of Commercial Samples and Advertising Material. This Convention has been accepted by thirty-two governments, including many which are not contracting parties to GATT.

Quantitative Restrictions

It is a part of the philosophy of the General Agreement that governments should not grant protection for domestic products in competition with imports from other contracting parties except through the customs tariff. In particular, the GATT contains a provision prohibiting the use of restrictions on imports by means of quotas or licences. As indicated earlier, however, there are certain exceptions to this rule of which the most important is that which permits the restriction of imports by a country in balance-of-payments difficulties. A country having recourse to this exception is required to consult periodically with the Contracting Parties as a group; the need for the continued maintenance of the restrictions is discussed with countries whose trade is thus affected and recommendations may be made to the country applying the restrictions. A country applying such restrictions is required
to relax them as its financial position improves and to eliminate them completely when the difficulties have disappeared. As a result of this action and of the generally improved balance-of-payments situation of many countries, the scope of the quantitative restrictions which were applied in the first years after the second world war has been considerably reduced and gradually countries are abandoning resort to such restrictions.

The GATT's present programme for expansion of Trade

At their last Session, in November 1958, the Contracting Parties received a report from a group of economists who had been appointed to examine past and current trade trends and to assess the prospects for the future.¹ In the light of the observations and suggestions made by these economists concerning the obstacles to the expansion of trade, the Contracting Parties agreed upon a programme of action. This programme provides for the conduct of special studies by three Committees.

The first Committee which held its first meeting in February is exploring the possibility of arranging a further general round of multilateral negotiations for the reduction of customs tariffs. It is envisaged that a new tariff conference will be held in 1960-61. The second Committee, which will meet in March, will examine problems which arise out of the widespread use of non-tariff measures for the protection of agriculture or in support of the maintenance of incomes of agricultural producers and the effects of these measures on international trade as a whole. Consideration will then be given to the extent to which the existing rules of GATT and their application have proved adequate to promote the expansion of international trade on a reciprocal and mutually advantageous basis as contemplated in the General Agreement. The third Committee, which will also meet in March, will examine other obstacles to the expansion of trade, with particular reference to the importance of maintaining and expanding the export earnings of the less-developed countries.

¹ This report was published in October 1958 under the title: Trends in International Trade.