PROCEDURES FOR TARIFF REDUCTIONS

Statement by the Executive Secretary
in the Working Party on Tariff Reduction - 12 December 1962

Before elaborating to some extent on the various points which are taken up in document L/1844, I would like to make a few preliminary remarks as a background consideration of that paper. The terms of reference of the Working Party and the Decisions of Ministers in 1961, with respect to future tariff reduction in the framework of the GATT, refer to changes in the technique of negotiation. I think, however, that the recognition of this need for changes of technique rests upon considerations which go deeper than merely the question of negotiating procedures. I think it implies a recognition that what is required, if we are now to move forward in a really constructive way with the work of tariff reduction on a GATT-wide basis, is a serious reconsideration of pre-established conceptions and habits of thinking about the whole question of tariff protection. We are now living through a period of adjustment in the conditions of international trade and in the technological conditions of production. The adjustments to which I refer are not so much the new trading arrangements which have and will have important effects on the patterns of international trade, but the more basic structural and technological factors which have to be borne in mind in forming a judgment as to the adequacy of commercial policies in relation to prevailing conditions.

I think that if one takes a look at the experience of the economic development in Europe in the last twenty years, from the end of the last war, a number of striking and interesting conclusions emerge. One notices, for example, and I think this is one of the striking features of economic development in Europe, the extraordinary advances made by some relatively small countries in Europe. Of those small countries, the ones which have made the most rapid advance both in their external trade and in their internal economic development are those which have, in the main, followed a very liberal commercial policy. If we look at the experience of countries like Denmark, the Netherlands, Sweden and Switzerland - none of which are particularly endowed with any abundance of natural resources or advantages but are countries which have given their attention very largely to the development of modern techniques of production and to free and open competition in external as well as internal markets - these countries have made most extraordinary advances in their economic development even though, as I said, they are small countries and not particularly well endowed with natural resources.
The moral I think to be drawn from this example is that it is perhaps questionable whether the advantages which traditionally have seemed to lie in having a high measure of protection for domestic industry might produce the results which some people think flow from them and whether in modern conditions of production and trade some of the traditional concepts of domestic protection do not require a very close and careful scrutiny. The examples I have quoted seem to suggest the fallaciousness of views that liberal policies are suited only to large and well endowed countries and that such policies constitute too great a risk for the smaller and less endowed. On the contrary these examples seem to point to a choice between the risks of bold liberal policies and a static economy. I also think that most of us who have been engaged actively in trade negotiations over the last two decades have begun to doubt whether it is wise to think too much in terms of concessions in the sense of sacrifices. One should rather look at a reduction of the tariff protection in one country as a movement towards the greater liberalization of trade from restrictions in general which corresponds to the national interest of the country which does it. Perhaps a higher measure of national interest may be found in a collective movement towards freer conditions of trade which by expanding the total international market will create new opportunities for expansion of the national economies.

These, Mr. Chairman, are the basic philosophical conceptions which it seems to me should govern the examination of new techniques of tariff reduction which again should be the basis for the further action of the contracting parties in this field. Along these lines we have in document L/1844 put forward certain considerations. Whilst not purporting to be exhaustive they seem to us to form a useful basis for elaborating the sort of issues which should be examined by the Working Party. As you yourself Mr. Chairman have pointed out the Working Party is not charged by the contracting parties with making specific suggestions that tariff negotiations should be conducted or that a tariff exercise should be mounted. What is required is to make suggestions as to the techniques which would be best suited for obtaining a further advance if and when the CONTRACTING PARTIES decide that such a step could usefully be taken. We have naturally enough taken our starting point from the discussions by Ministers in 1961 and based ourselves on the conclusions arrived at then.

These were, as you recall, that there would be advantage in continuing the process of tariff reduction and that traditional techniques were no longer adequate to meet the changing conditions of world trade. We have also recalled in paragraph 2 of our paper the point stressed by Ministers that the most-favoured-nation clause should not be abandoned. I must say in this connexion that in considering this matter in the secretariat we have been proceeding on the assumption that what we should aim at is an exercise in which all contracting parties would take part. We think it would be appropriate that contracting parties should set as an objective an exercise from which all contracting parties in some measure or another would benefit and it would seem a natural corollary that all contracting parties, naturally in different measures and different degrees, would wish to make a contribution to the attainment of the general objective.
I stress this point in connexion with the most-favoured-nation clause. We are now living through a period in the evolution of international trading relationships while the most-favoured-nation clause has been subjected to considerable strain and I have often felt that many people have been inclined somewhat to disregard the basic importance of maintaining the most-favoured-nation clause as the basis for international trading relationships. If the most-favoured-nation clause is retained as a basis for further tariff negotiations, this underlines the importance of full participation because if the participation in these further moves towards tariff reduction were to be severely restricted by the abstention of a number of contracting parties, it would, I think, necessarily follow that either there would be some additional pressure to mitigate the application of the most-favoured-nation clause, or the application of that clause would have a limiting effect on what the participants themselves could do in the way of tariff reduction. I think that this point of the universality of participation is very relevant to the maintenance of the most-favoured-nation clause and its integrity.

In the course of the ministerial discussions there was a general feeling based, no doubt, upon the successful experience of the countries grouped together in the European Economic Community, and in the European Free Trade Association, that there are possibilities of proceeding by way of linear across-the-board reductions. I don't think it is necessary for me to enlarge in a body of experienced tariff negotiators such as this, on what are the relative merits of selective and linear reductions. What is very striking is the apparent ease with which even countries which have traditionally been competing with each other, appear to have been able to absorb, in those few years, a 50 per cent linear reduction of tariffs as between themselves. In our work it will be a very great advantage to benefit from the experience of these countries in the techniques and methods which they have found it possible to apply in their relationships with one another. This is a point which I shall return to in connexion with a later paragraph in the paper.

Whereas the validity of the consideration of the linear technique as a general rule is, I think, unquestionable, there are, undoubtedly, in so heterogeneous a body as the CONTRACTING PARTIES problems arising from the fact that their trade characteristics are very different. There is a considerable difference, naturally enough, in the general level of tariffs in individual countries. There are groups of countries with very different economic structures, countries which are at very different stages in their economic evolution and there are also countries with a very restricted range of exports for whom, therefore, the benefits from a general across-the-board reduction of tariffs appear more limited than for those whose export trade is extremely diversified. The terms and conditions of the participation must take into consideration the countries, which for various reasons, are in a special position. I find it unnecessary to cite the particular case of the less-developed countries, because these countries will certainly have something to say about it on a separate occasion, but naturally these countries are an important element in the problem to which I am referring. Very careful consideration would have to be given as to how to reconcile the heterogeneous character of the composition of the contracting parties with any general automatic linear formula.
These factors were, of course, recognized specifically by Ministers and references to these questions are contained in paragraph 4 of document L/1844.

In part B of the document we have set out the specific matters to which we think the Working Party should principally address its attention. The first of these is one on which I have already spoken sufficiently, namely the question of the adoption of a linear rather than of a selective approach. What we should be aiming at is in effect a collective approach to trade liberalization, which would be expected to lead to a general expansion of international trade. It should be to the benefit, therefore, of all contracting parties so that the concept of reciprocity country by country which has so far dominated negotiations within the GATT would be less relevant than it has been in negotiations based upon the traditional techniques.

The next question, if the Working Party retain the idea of some form of linear formula, would be the depth of this linear cut in the level of tariff protection. We have recalled in this connexion that in the course of the Ministerial discussions, reference was made to the possibility of aiming at a 50 per cent reduction in all customs duties spread over a period of five years. Looking at the matter from our vantage point now, and bearing in mind the length of time that would be necessary both to work out procedures and to implement them, a 50 per cent reduction could be achieved in a period, say, beginning on 1 January 1965 and to be completed by 1970. We suggest, therefore, that the Working Party might, if they proceed on this basis of a linear approach, take the proposal of a 50 per cent reduction to be attained by 1970 as a starting point for the discussions. It would however be undesirable to take the general target as being one which necessarily prevented the possibility of a greater degree of progress in particular sectors of trade. There might well be, indeed, certain sectors of trade where the complete elimination of duties might be possible.

The acceptance of a general target of 50 per cent should not preclude the possibility that two countries or any group of countries would decide with respect to certain sectors of trade to go further than a 50 per cent reduction, possibly even proceed on the basis of a total elimination of the duties in question. We have, of course, in this connexion, borne in mind certain concepts which are included in the important trade legislation which has recently been passed in the United States. No doubt we shall be hearing in due course from the United States more about this legislation. I understand moreover it is contemplated that, for example in cases where the European Economic Community and the United States are the dominant suppliers on the world market, it might be possible by agreement between them to proceed to complete elimination of duties. The same legislation provides also for the elimination of duties which are already very low, 5 per cent or less. The Working Party will also be aware of certain suggestions which I myself put forward in the Council before the ministerial meeting in 1961, in which I suggested that it might be worth seriously considering whether countries would feel it desirable to continue to hamper themselves by maintaining import duties on raw materials for industry and whether
in the framework of a future tariff plan it might not be possible to envisage free trade in such raw materials and perhaps also in certain tropical products, beverages particularly, which have been the subject of examination in other bodies established by the CONTRACTING PARTIES.

Again, proceeding on the basis of a linear automatic approach, a question arises as to how far it would be desirable to envisage the possibility of exceptions. I think that it is only realistic to assume that any country which is contemplating entering into so vast an enterprise might find it difficult to apply such a move absolutely without exceptions. On the other hand, if exceptions are multiplied, they may in fact indirectly drive us back to our starting point: a product-by-product negotiation. We assumed therefore that generally speaking the list of exceptions to the general formula adopted should be very restricted. We considered various ways of approaching this problem, for example by establishing a common list of exceptions applicable to all participating countries. This we felt was an unpromising approach, since the conditions in each country differ very much and the inclusion of any product in the common list would mean its exclusion from the whole of the exercise. I would think that the better course would be to envisage that each country should determine the list of exceptions which it feels would be inevitable for it to make, and that these lists of exceptions should be subject to discussions and negotiations. But here again I must emphasize that if the exception lists prove to be substantial, I fear that the negotiation of these lists would degenerate into the same sort of product-by-product negotiation from which we are trying to escape. I think most of you have fresh memories of the rather unhappy fate which was met by the recent attempt of the European Economic Community to introduce the principle of linear reductions. There, owing to the abstention of many contracting parties from the negotiations, thanks to the limited powers of others which did participate, and due to the exceptions which for various reasons were found necessary to make, this linear approach could in fact only be applied to a very modest extent.

Paragraph 8 of L/1844, Agricultural Exports, is clearly a key paragraph in the document. We are all aware through our own bitter experience that many important agricultural products which enter into international trade and which are of vital concern to many contracting parties, depend for access to international markets on conditions which are quite extraneous to the tariff. In fact the conditions of access for many of these products are not determined by the customs tariff at all, but by other restrictions and regulations which have completely taken the place of the tariff in regulating the conditions of trade. I think therefore, that if we are to look forward to a very broad participation in the negotiations, we shall have to consider what is the best method of ensuring that, at the same time as negotiations proceed on the reduction of tariffs on industrial products and those food and agricultural products, the access of which to markets is governed by the tariffs, we can simultaneously proceed with respect to the important sector of trade in food and agricultural products which is governed by factors other than tariffs. If one refers back to the record of the ministerial discussion, it will be seen that there was an
Implicit recognition that advance in the field of tariff reduction would have to be accompanied by parallel negotiations with regard to these important agricultural products. This is a view which was further confirmed in the discussions which took place at the twentieth session with regard to the possibility of convening a further ministerial meeting in 1963 to consider inter alia the launching of further negotiations for the reduction of tariffs.

In paragraph 9 we have referred to special problems, which incorporate those to which I have already referred and which are dealt with in the quotations from the ministerial conclusions in paragraph 4 of document L/1844, that is the different characteristics of the trade, tariff level and economic structure of contracting parties. There will perhaps be other problems which will have to be taken into consideration. Here again we have been very mindful of the experiences and examples which can be derived from the activities of the European Economic Community and the European Free Trade Association in connexion with total tariff disarmament. For example, in the Stockholm Convention establishing the European Free Trade Association there is the important Article 20 which deals with difficulties in particular sectors arising from the tariff disarmament inherent in the provisions of the Stockholm Treaty. There are also further detailed provisions for enabling the member States to cope with such problems, including a very close supervision of such measures by the Council of the European Free Trade Association, and provisions which provide for limitations of the duration of measures of this kind. Also, I think significantly, we find provisions which call for an examination of the structural nature of the problems involved with a view to arriving at constructive solutions rather than restrictions.

Similarly, in Chapter 1 of Part 3 of the Rome Treaty, there is a series of provisions described as rules governing competition. There are provisions which relate, for example, to dumping practices and which, again significantly, provide for the intervention of the European Commission in alleged situations of dumping. The interventions of the European Commission in dealing with these matters seem to have been aimed at limiting the possible recourse to anti-dumping measures by discussion, examination, analysis of the problems involved and by concerted action between the member States of the European Economic Community. The same Part of the Rome Treaty also contains in Article 101 certain relevant provisions about laws or administrative provisions which distort the conditions of competition. It is true that some of these matters are dealt with in the General Agreement itself, but it has been suggested to me on various occasions in informal consultations with certain contracting parties that if we are to look forward to so far reaching a proposal as a 50 per cent cut in the general level of tariff protection over a comparatively restricted number of years it may very well be that we may have to take a look at some of the provisions of the General Agreement to consider how they would be applicable in circumstances such as those dealt with in the Stockholm Treaty or the Rome Treaty, and perhaps more particularly into the procedures which are provided for the operation of the provisions of the General Agreement.
Here - if I may be allowed a personal intervention on this point - I always felt disappointed that perhaps too little attention in the past has been paid to those provisions in Article XIX which deal with emergency action, i.e. those provisions which envisage the possibility of a consultation both with individual contracting parties and with the organization before escape clause action is taken. These provisions exist already but they have never figured very much in the application of Article XIX. Perhaps greater emphasis on these provisions for prior consultations and discussions might be appropriate if as a result of a fairly rapid and sweeping reduction of tariff levels we might be led to expect a rather more frequent resort to the provisions of Article XIX than might otherwise be the case.

I come now to an equally essential problem: the position of less-developed countries. It is, I think, a matter of common knowledge that the less-developed countries in the GATT have shown an increasing lack of interest in participating in the tariff reductions negotiations sponsored by the CONTRACTING PARTIES. This is motivated, I suspect, to a very large extent by the rather rigid view of reciprocity which has prevailed in these negotiations. But this is certainly by no means the whole of the truth because even when it was indicated in the course of the Dillon negotiations by the most important participant in those negotiations, the European Economic Community, that it would be disposed to make significant concessions to less-developed countries without insisting on full reciprocity the same lack of interest prevailed nevertheless. I would hope, however, that the less-developed countries in considering this new approach would take a more open-minded view of it. As I said in my introductory remarks, it would seem to me that from a programme of such importance and scope as the one I have outlined, all contracting parties would benefit to some extent and I would fail to believe that all contracting parties cannot contribute to some extent. I recognize, of course, that it would be unrealistic to expect the less-developed countries to undertake the same basic commitments as economically more advanced countries. But it does seem to me, in the interest of the less-developed countries themselves, that they could expect to derive considerable advantages from participating in a programme of this kind, quite apart from the advantages which they will undoubtedly derive from reductions in tariff levels on products of interest to them.

It seems to me that particularly in the less-developed countries there is going to be over the next decade in the very nature of things, a serious limitation in the volume of imports which they will be able to afford. I am inclined to doubt whether the level of tariff protection is going to be a determining factor in the volume of imports into the less-developed countries. The determining factor is going to be their earning power which is likely, as far ahead as one can see in most cases to fall below the level of the effective demand for imports. If this is true, it is going to be necessary for the less-developed countries whether they wish it or not to impose restrictions on the amount of imported goods. I wonder whether it would be also in their interest to impose upon their consumers in addition the excessive protection or the heavy taxation which is inherent in the maintenance of excessive protective duties.
Secondly, is there not also an added danger in the conditions which we are envisaging that an excessive degree of protective duties will result in the distortion of the economies of the less-developed countries and the wastage of resources? Undoubtedly the increase of price levels for imported products resulting from an excessive degree of protection is going to exercise a considerable attraction for resources which should be directed to production which is more relevant to the economic development of the less-developed countries themselves.

Finally, the needs of less-developed countries to develop their exports are not limited to the development of their exports only to industrialized countries. Their need to develop exports is an overall problem - they will need, I think, also to consider the development of exports to each other, and through participation in the sort of programme which I have in mind, it will be possible for the less-developed countries to facilitate exchanges of trade between themselves, which will be an important contribution to the improvement of their economic position as a whole.

With respect to paragraph 10 we felt that rather than attempt to define any automatic criterion for the participation of less-developed countries, the CONTRACTING PARTIES in the first instance should leave it to the judgment of each of the countries concerned as to the extent and direction in which that country feels it has a contribution to make. Furthermore whatever institution may be set up to administer the tariff plan would consult with individual countries about the contribution which is suggested by each country with a view to arriving at the maximum degree of co-operation which is commensurate with the economic circumstances of the country proposing it. Paragraph 10 therefore comes down heavily in favour of an offer and consultation rather than an attempt to define contributions by rules of automatic or general application.

Paragraph 11 deals with a technical point which I think is largely irrelevant if the expectation or desire of general participation is achieved. Insofar as it is not, it seems to us that the principal supplier rule is not so relevant to the type of exercise which we have in mind as it is in negotiations which proceed on the basis of negotiations by pairs of countries, and that if through the abstention of a particular country which is a principal supplier to one of the participants, the participant wishes to exclude the product from negotiations, that can be achieved by including the product in the exception list applicable to that country. It is not therefore necessary to give serious consideration to the problem of the principal supplier rule.

That brings me to the last point which relates to procedural arrangements. It seems to us that the evolution and implementation of a plan such as I have been describing would involve various stages. First of all the stage which we are initiating today which is an examination on a technical basis of the terms and conditions of such a plan; secondly, a decision by the CONTRACTING PARTIES to undertake such an exercise, at which time no doubt the contracting parties themselves would lay down the procedures both for the completion and implementation of the plan; and at the last third stage a conference which would be
charged with the actual implementation of the plan agreed upon through the stages I have indicated. If the contracting parties, for example, decided, perhaps at the ministerial meeting which is contemplated in 1963, that such an exercise should be carried out, the essential negotiation which would determine the content and scope of the plan could take place in a period immediately following the decision by the CONTRACTING PARTIES. Then at some stage further removed a formal conference would be held which in the circumstances, I should imagine, could be of a somewhat more limited duration than those to which we have become accustomed. This conference would actually determine the final shape of the plan and the individual contributions which would be made by contracting parties.