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At their Eighth Session recently completed in Geneva, the Contracting Parties to the General Agreement on Tariffs and Trade decided that in October 1954 they would meet to review the operation and the provisions of the General Agreement in order to consider to what extent it would be desirable to amend or supplement the Agreement in order that it may contribute more effectively to early progress towards its objectives. It is therefore an opportune moment to recall the circumstances in which the GATT was born and sketch some of its achievements and shortcomings, and finally to make some conjectures about the future.

The roots of the General Agreement reach back to the war years when the United Nations together laid plans for the post-war world. In the field of trade and payments clear and bold lines of policy were agreed upon. The United Nations would seek a world trading system based on nondiscrimination and a full and free exchange of goods and services. The elimination of exchange controls and trade barriers would be the subject of international agreement and worked out through international institutions, the International Monetary Fund in the exchange field, and the International Trade Organization in the trade field. It would, to my mind, have been more logical and led to better results if these two agreements - which are essential complements to each other - had been negotiated together. The international agreement Sec/140/53
establishing the International Monetary Fund and the International Bank for Reconstruction and Development, were worked out at the same time at the famous Bretton Woods conference. There is of course a close connection between the Fund and the Bank, but it is by no means as close as the relationship must be between the International Monetary Fund and an international body dealing with trade.

The International Monetary Fund agreement was drawn up before the end of the war, and was brought into operation shortly thereafter. The drafting of the International Trade Organization charter began in 1946 and was not completed until March 1948. The Havana Charter has not been ratified and it must be regarded, in its present form at any rate, as a "dead letter". Reasons were various - the Charter is a complicated document covering a wider field than commercial policy in the strict sense. It also represents an uneasy compromise between conflicting economic theories. Some of its provisions are therefore equivocal and many of them obscure.

The Charter came before a United States Congress which at the time was confronted by urgent and difficult decisions of policy in the economic, political and military fields. There was not a sufficient surge of popular support to force the Charter to the head of the legislative queue. In Europe governments were preoccupied with the tasks of economic reconstruction. They bent their energies to making the most of the magnificent opportunity presented by the Marshall Plan. The International Trade Organization concept seemed to them to relate to a somewhat remote future. It could, even then, only hold promise if the United States was prepared to adopt the Charter as the basis for its international trading policy.
Happily, whilst the I.T.O. Charter was being worked out, the Preparatory Committee - which had been appointed by the Economic and Social Council to draft it - had, in 1947, sponsored negotiations aimed at lowering tariffs and removing other barriers to trade amongst its own members. In order to protect the tariff concessions an agreement was drawn up. This agreement, known as the General Agreement on Tariffs and Trade, or GATT, incorporated all the important commercial policy provisions of the Havana Charter. Thus the GATT constitutes an international code for commercial policy. Moreover, it provides for periodic meetings of the parties to it - the Contracting Parties - to consider any questions which involve joint action and generally with a view to facilitating the operation and furthering the objectives of the Agreement. These periodic meetings have provided an important international mechanism for the discussion of questions of commercial policy and for the settlement of differences between governments in the trade field. The GATT therefore has come to fill an important role in the fabric of international life.

It has in fact partly filled the gap left by the failure to establish an International Trade Organization. It began with 23 members. The membership has increased by two tariff conferences at Annecy in 1949 and Torquay in 1950. The government of Uruguay has within the last few days acceded to the General Agreement, bringing the total number of members to 34. In Geneva this year Japan was admitted to associate membership and will be henceforward participating fully in the discussions of the Contracting Parties. The General Agreement, therefore, now includes the great majority of the most important trading countries, which account for rather more than 80 per cent of the world's international trade.
Having thus traced the evolution of the General Agreement, and set it in its proper international context, I should like to sketch briefly the type of work which has been done within the framework of the General Agreement - some of its achievements and some of its shortcomings.

The work of the GATT in the field of tariff reduction is well known. The conferences of Geneva, Annecy and Torquay reduced, or bound against increase, the duties on 58,000 tariff items covering an important part of the trade of 34 countries which together account for nearly 80 per cent of world commerce. These concessions, initially negotiated for a period of three years, have been prolonged once for a further period of three years, and more recently at the Eighth Session of the Contracting Parties this year for a further period of 18 months, that is until July 1955.

Whilst it is true that the benefits of these concessions have been limited by the widespread use in many countries of import restrictions, the tariff concessions, particularly those made by the United States and Canada, have undoubtedly contributed significantly to the restoration of a trading equilibrium between the dollar and non-dollar worlds. Moreover, the GATT tariff truce has operated as a powerful check on the recent trend towards a general upward movement in tariff rates. In fact this stability in tariff rates is the major contribution of the General Agreement. The withdrawal of a concession negotiated and incorporated in the Agreement is extremely difficult, and in general entails compensatory concessions not only for the country with which it was directly negotiated, but also to other countries which are substantially interested in the trade. There has been much talk about the use of the "escape clause" which enables a country in certain
circumstances, when its domestic producers are seriously injured or threatened with serious injury, to withdraw the negotiated concession. In fact, however, resort to this clause has been rare. In the United States, for example, which has granted some 2,000 concessions or bindings under the General Agreement, the escape clause has been successfully evoked only in three relatively minor cases. It must be admitted, however, that the existence of the escape clause, and frequent appeals to it even though unsuccessful, tend to undermine the confidence of traders in the maintenance of the tariff position which is essential if they are to make the necessary effort to enter and establish themselves in foreign markets. This of course is particularly true in difficult markets where heavy investment is necessary in order to establish a foothold. It is therefore probable that in the review of the General Agreement of which I spoke at the beginning, further consideration will be given to the nature and scope of the escape clause.

The General Agreement, however, is much more than merely an agreement on tariffs. Quantitative restrictions on imports have occupied the attention of the sessions of the Contracting Parties perhaps more than any other subject. The General Agreement contains a formal ban on the use of import quotas for protective purposes. It is the only international instrument which contains a specific obligation on this point. The Agreement recognizes, however, that a country which is experiencing balance of payments difficulties may restrict its imports in order to protect its monetary reserves. It requires governments maintaining such measures to consult from time to time with the Contracting Parties and also to consult at any time that their restrictions are substantially intensified. At each session of the Contracting Parties so far, consultations
on import restrictions have figured prominently in the Agenda. For some time the work of the GATT in this field was extremely disappointing if judged by the results at which the Agreement aims — that is, the progressive elimination of restrictions. It would be wrong, however, to conclude that this failure is due to any fundamental weakness in the Agreement. In the first place, during the so-called transitional period after the war, the question of the justification for balance of payments quantitative restrictions was in fact almost entirely in the hands of the International Monetary Fund. Before the Contracting Parties enter into a consultation they consult with the Fund, whose findings on the state of the balance of payments of the country in question are binding. Financial conditions in the transitional period have been such that in almost every case the International Monetary Fund has had to find that the degree of the restriction practised did not go beyond the financial necessities. In the face of such findings there was little that the GATT could do. What it might have done was to have given more careful consideration to the practical trade effects of restrictions and the way in which restrictions were administered so as to ensure that all avoidable damage to trading interests was in fact being avoided. More recently the Contracting Parties have been devoting rather more attention to the trade aspects of import restrictions than to the purely financial and balance of payments aspects. This is a move in the right direction and will do much to reinforce the valuable psychological influence of these consultations by keeping in the foreground that quantitative restrictions are impermanent and that the incidental protection they offer to domestic industry is also impermanent.
These general comments on the somewhat disappointing nature of the experience of the GATT in dealing with quantitative restrictions must now be tempered by the somewhat more encouraging results arrived at during the recent Eighth Session of the Contracting Parties. At that Session Belgium reported measures designed to remove discrimination against dollar imports. South Africa announced the complete elimination of discrimination in its import controls. The Netherlands announced important reductions in their dollar import restrictions. Greece reported a substantial liberalization of its import trade. There is also more general recognition than hitherto of the harmful effects which restriction has on world trade in general, and in particular on the country which imposes restrictions.

The Contracting Parties have made a significant and unique contribution to international cooperation in providing a tribunal for the settlement of disputes. The Agreement contains provisions enabling any contracting party which considers that any benefits accruing to it under the Agreement are being nullified or impaired by the action of another contracting party, or if the attainment of the objectives of the Agreement is being impeded, to bring the matter before the Contracting Parties if direct consultations have proved unavailing. The Contracting Parties then hear the parties to the complaint and make recommendations for settlement. Generally - such is the prestige which the Contracting Parties have acquired - these recommendations are sufficient to lead to a settlement. If they do not, it is true that the sanctions are weak since all that the Contracting Parties can do is to relieve the complaining party of obligations under the Agreement, thus enabling it to retaliate against the offender. Even this, however, is an
important and novel idea since if unhappily a dispute cannot be solved and leads to retaliatory measures, the retaliation is kept under international control. A considerable number of cases have been brought before the Contracting Parties in this way. An even larger number have been settled out of court, and there is no doubt that the possibility of having recourse to the Contracting Parties has been an important factor in encouraging this direct settlement. As an outstanding example I would quote the differences which arose between India and Pakistan over license fees charged by the government of Pakistan on raw jute exported to India, but not on exports to other destinations. The Contracting Parties, when seized of this matter did not proceed to any rulings or recommendations. They urged the two countries to make a further effort to reach agreement through direct negotiation and made some suggestions as to the lines on which these negotiations might be fruitfully directed. An agreement was eventually reached and whilst this agreement was clearly in the main due to the desire of both parties to arrive at a reasonable settlement of the difficult and important questions at issue, the friendly advice of the Contracting Parties undoubtedly contributed to the successful outcome of the negotiations within the rules and spirit of the General Agreement.

In most of the cases so far ruled upon by the Contracting Parties, a settlement has been arrived at. I would quote, for example, the dispute arising out of the United Kingdom Purchase Tax, the question arising out of certain tariff and import measures of Greece, a complaint based upon an import surcharge imposed by France, and a complaint by Norway against Germany regarding discriminatory treatment of imports of sardines etc. Some questions are still open, with differing prospects of success.
It is interesting in this connection to record the most recent technique adopted by the Contracting Parties for dealing with these cases. Their practice now is to appoint a small panel composed of representatives of countries not directly affected by the charges to be examined. Each party is invited to present its case and is afforded an opportunity to discuss the points arising from them. The panel then considers the information and arguments laid before it and prepares its findings and recommendations which, after discussion with all the parties concerned, are submitted in final form to the Contracting Parties. An adaptation of this procedure was made at the last Session for setting up Ad Hoc Panels of Arbitration to deal with differences which may arise out of a somewhat controversial decision according to the United Kingdom certain facilities for tariff action in derogation of the provisions of the Agreement.

It is clear that the experience of the Contracting Parties in the settlement of differences is fraught with great significance for the future of the General Agreement, because its effectiveness depends in the last resort upon the willingness of governments to abide by its rules and by the rulings of the Contracting Parties on the interpretation and application of those rules.

Apart from these specific matters of business, the periodic meetings of the Contracting Parties afford a valuable opportunity for consultations between governments on questions of commercial policy. Moreover, they bring together at regular intervals officials from all the national capitals who are responsible for the day to day conduct of commercial policy. Through these contacts there is developed a better understanding of the interest of other countries and the international implications of national policies. These
personal contacts undoubtedly contribute also to effective and friendly working relationships between the different governments.

I have tried so far to give a picture of the evolution of the GATT. It is a record of limited but substantial achievement during a period of great difficulty. One of the advantages of the provisional nature of the Agreement, and its modest establishment, is that it has enabled us to test through experience and experiment the strength and weakness of the Agreement. As will have been seen, the achievements have been solid but we must not lose sight of the other side of the picture. As I have said before, progress in the removal of import restrictions has been disappointing. There is a pause in the process of tariff reduction and there is some evidence of a tendency to move in the opposite direction. On the other hand this pause is being used to explore new techniques for a further advance. Some of the provisions of the Agreement, particularly those relating to quantitative import restrictions are complicated and obscure, and have lent themselves to intricate legalistic argument. There is too little effective coordination between the work of the International Monetary Fund on exchange restrictions, and of the GATT on trade restrictions. The provisions relating to export subsidies are weak and ineffective. The time too has come when the Agreement, which at present is being applied provisionally, and therefore does not require the amendment of pre-existing legislation contrary to the Agreement, should become permanent and fully binding. The secretariat, which has existed on a year to year basis, should be strengthened and more permanently established. By introducing appropriate functions for this strengthened secretariat and through other administrative devices the machinery for the administration of the Agreement
in the interval between sessions should be strengthened. These of course are matters which will come under consideration in the review. What is most encouraging for the future are the terms in which this review has been agreed upon. At the recent Session most of the contracting parties stressed the importance of proceeding cautiously so as not to jeopardise what has so far been achieved. There was widespread agreement on aims and objectives, and emphasis that the review should be directed towards revising the provisions and methods of the GATT in order to make it more effective and not less effective. The review, therefore, should start on the right basis. Whether it will come to a fruitful conclusion will depend upon the evolution of national policies in the meantime. Attention will be focused in the first instance on the results of the United States Foreign Economic Policy Commission which is due to report early in 1954. There is a growing feeling that the conditions are now ripe for the restoration of currency convertibility and the removal of trade restrictions which have bedevilled international trade since the war. There is a healthy disillusionment with controls, but this forward movement depends upon the restoration of a durable equilibrium between the non-dollar and the dollar worlds. The bases for such an equilibrium do not exist so long as there is widespread inflation in many countries accompanied by low productivity and a mass of debilitating economic controls. Equally, however, the conditions for equilibrium do not exist unless the non-dollar countries have the opportunity to earn a sufficient supply of dollars to enable them to satisfy the demand for dollar imports in their own countries. At the present moment there is an uneasy equilibrium which depends upon severe control of dollar imports and a still substantial flow of dollar aid through military programmes and other non-commercial sources. In recent
years inflationary pressures have been increasingly brought under control, productivity has been rising and there has been a healthy revulsion from controls. There is, therefore, new hope for the sort of trading world which is the aim of the GATT, and there is correspondingly anxious expectancy of the outcome of the current review of the United States foreign economic policy, and of the decisions which the United States Government will take in the light of these findings.

The Contracting Parties in setting their sights at the review and the strengthening of their Agreement by the autumn of next year have shown an encouraging confidence in the outcome. Confidence is not however the same as complacency and the next year will be one of momentous decisions. A choice lies before the governments which cannot be evaded or long delayed, and the choice once made will be irrevocable. There is a chance now - a chance that will not easily recur - to restore a vigorous and unified trading system in the free world, a system liberated from the fetters of artificial restrictions. If this chance is not seized - and seized now - the free world may remain permanently divided into trading blocs - a situation which cannot fail to have serious repercussions in the long run in the political field.