

External Affairs
Supplementary Paper

No. 53/19 THE FUTURE OF THE GENERAL AGREEMENT
ON TARIFFS AND TRADE

Text of an address by the Under-Secretary of State for External Affairs, Mr. L.D. Wilgress, prepared for delivery at the Annual Convention of the Canadian Manufacturers' Association, May 27, 1953, at Toronto, Ont.

...At the outset I would like to say a few words about what GATT is and what it stands for. The name is derived from the initials of the General Agreement of Tariffs and Trade, which was concluded at Geneva on October 30, 1947. It has also been said facetiously that the word GATT stands for the initials of Geneva, Annecy, Torquay and Toronto, the three places at which multilateral tariff negotiations have been held and the place where some of us hope the next round of tariff negotiations will be held.

It is useful to bear in mind these two derivations of the word GATT, that is, both the real derivation and the facetious one, because together they represent the two phases of what GATT stands for. First of all, it is an organization the membership of which is composed of the contracting parties to the first multilateral tariff agreement ever concluded. Secondly, it is a procedure for conducting a whole series of bilateral tariff negotiations between different countries in one place, at one time, and incorporating the results of these negotiations in one multilateral instrument. In both of these spheres GATT has demonstrated its usefulness and it is for this reason that I feel we can view its future with confidence.

As an organization GATT derives its existence from the stipulations of Article XXV of the General Agreement on Tariffs and Trade which provided for joint action by the Contracting Parties. By these stipulations it is required that representatives of the contracting parties shall meet from time to time for the purpose of giving effect to those provisions of the Agreement which involve joint action and, generally, with a view to facilitating the operation and furthering the objectives of the Agreement. It is under these stipulations that seven sessions of GATT have so far taken place. They have afforded an opportunity for representatives of the governments concerned to meet together and discuss not only matters arising out of the operation of the Agreement but also subjects of general interest in the commercial policy field. As such, GATT is the only organization on a worldwide basis that provides a forum for the discussion of matters relating to tariffs and commercial policy. The experience of the seven sessions that have been held has demonstrated the need for such an organization. It is safe to predict that increasing use will be made in the future of this forum.

GATT is served by a small but efficient secretariat which has its headquarters at Geneva. Although with a total strength of only about thirty-five persons and an annual budget of around \$350,000, this secretariat has been able to do excellent work. It has produced some good reports. It is able to do this because in the off-season between sessions the staff has time for the research and study necessary to prepare reports on commercial policy questions.

It is important to bear in mind that it was never intended that GATT should exist as an organization. The General Agreement on Tariffs and Trade was negotiated at the same time as a draft Charter for an International Trade Organization was being drawn up. It was felt that the negotiations should take place in order to secure as wide a reduction as possible in tariffs. In that way the I.T.O. could start off with a practical demonstration of an attack on trade barriers. It was also agreed that margins of preference should be negotiable on the same basis as rates of duty so that during the course of the negotiations not only could rates of duty be reduced but also the extent of the preferences accorded by one Commonwealth country to another or exchanged between Cuba and the United States.

It was intended that once the I.T.O. commenced to operate it would take over responsibility for supervising the operation of the General Agreement and for dealing with the problems of commercial policy. The Havana Charter of the International Trade Organization was never ratified so that the I.T.O. has not come into being. In the meantime, however, GATT has been carrying on many of the functions which were envisaged for the I.T.O. in the commercial policy field. As such, it has been demonstrating the need for an organization to deal with these problems.

The General Agreement on Tariffs and Trade consists of three parts. Part I relates to the exchange of most-favoured-nation treatment and to the schedules of tariff concessions. Part II has taken over and adapted for purposes of the Agreement a whole series of articles for the draft Charter for the International Trade Organization. The principle underlying the selection of articles from the draft Charter for incorporation in the Agreement was the necessity of having provisions to protect the tariff concessions.

It was, therefore, chiefly articles from the Commercial Policy Chapter of the draft Charter which were included in the Agreement although there was one important article taken from the Chapter on Economic Development. The other parts of the draft Charter, such as the Chapters on Employment, Commodity Agreements and Restrictive Business Practices, were not included in the General Agreement. Part III of the Agreement incorporates those provisions peculiar to the General Agreement itself, such as territorial application, entry into force, withdrawal, modification of schedules, amendments, etc.

Another important fact to bear in mind is that the General Agreement on Tariffs and Trade has not yet been ratified by any country. It is being applied provisionally in accordance with a Protocol of Provisional Application. This protocol provided that the governments would apply provisionally Parts I and III of the General Agreement and Part II to the "fullest extent not inconsistent with existing legislation".

The other side of GATT is the procedure which has been evolved for the conduct of tariff negotiations. At Geneva in 1947 there took place a unique experiment in trade agreement negotiating technique. This has now become a well-established procedure for the conduct of a whole series of tariff negotiations between different countries in one place and at one time. It is peculiarly adapted to the requirements of the United States Reciprocal Trade Agreements Act. This Act required the United States Government to give public notice of intention to hold negotiations for a trade agreement and to give interested parties in the United States an opportunity of making their views known at public hearings. Obviously this elaborate machinery can be simplified if a whole series of negotiations with different countries are held in one place, at one time, and the results embodied in one trade agreement.

Since the negotiations at Geneva in 1947 two other sets of tariff negotiations have taken place under the auspices of GATT. One of these was held at Annecy, France, in 1949, for the purpose of admitting certain important trading countries to GATT. The other was held at Torquay, England, in the winter of 1950-51. This was not only for the purpose of admitting other trading nations but also for the purpose of permitting all of the contracting parties to negotiate once more with each other, particularly having in view the fact that the concessions negotiated at Geneva had been bound for a three year period only, that is to the end of 1950. At the end of this year the tariff concessions negotiated at Torquay are no longer bound since the three year term will again have expired. Another round of tariff negotiations similar to that which took place at Torquay must be held soon. From this you will see that the procedure which was evolved at Geneva in 1947 is likely to become a permanent feature. We may anticipate a round of multilateral tariff negotiations taking place at intervals of about every three years.

There is one respect in which GATT has an advantage over the other organizations which have been set up since the last war. This is the flexibility of its basic instrument.

Article XXIX of the General Agreement provided that if the Havana Charter for the International Trade Organization had not entered into force by a certain date, which date has already passed, the Contracting Parties would meet to agree whether the Agreement should be amended, supplemented or maintained. At the appropriate time, therefore, a meeting can be held which would lead to a thorough review and no doubt revision of certain of the provisions of the General Agreement.

The meeting envisaged in this Article may be one of the important steps for giving effect to the measures necessary for the conduct of world trade on a broad multilateral basis as envisaged in the proposals agreed upon at the Commonwealth Economic Conference held in London towards the end of last year. Enough has been said about the objectives of these proposals for us to know that they relate to the convertibility of currencies and the conduct of world trade on a broad multilateral basis. Objectives such as these can be attained in two ways. One way would be to hold an international conference or conferences of the type which took place when the charters of the Specialized Agencies were drawn up at the end of the war.

The other way would be to make use of existing facilities. One such facility would be to take advantage of the provisions of Article XXIX of the General Agreement and to hold the meeting provided for in that Article. This could be supplemented by arrangements to hold another round of tariff negotiations. We can see, therefore, that through the machinery of GATT it would be possible both to bring about further reductions in tariffs and to formulate new trade rules better adapted for the conduct of world trade on a broad multilateral basis than the existing provisions of the General Agreement.

Of the two ways in which the objectives of the Commonwealth Economic Conference can be pursued in the field of trade, the approach through GATT appears to be much more simple and practical than the approach through a conference. It is better to make use of existing facilities than to fashion new ones. This is all the more true when the existing facilities such as those offered by GATT are flexible and can be readily adapted to the new conditions and to the fresh outlook occasioned by the experience of the post-war years and by the examination we have been giving recently to the whole question of international trade and payments.

Article 2 of the North Atlantic Treaty provides that the parties will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them. This encouragement of economic collaboration needs to be dealt with on a basis wider than that of NATO. GATT provides such a basis because it embraces the majority of the leading trading nations of the world. Thirty-four countries are now contracting parties to the General Agreement. This represents an increase from the twenty-three countries whose representatives in 1947 signed the Geneva Final Act which authenticated the text of the General Agreement.

In fact, since its inception GATT has been steadily gaining in strength. Each session in proving more fruitful than the previous session. A useful technique has been developed for dealing with disputes between contracting parties.

This consists of appointing a group composed of a chairman, two neutral assessors and representatives of the two parties to the dispute. This has proved to be a highly successful method of settling disputes. A great deal of time at recent sessions has been taken up with consultations over import restrictions imposed in accordance with the balance of payment provisions of the General Agreement. This at first revealed a legalistic approach to the question of import restrictions not unlike the debates which had been taking place in the International Monetary Fund. The reason for this attitude had been that countries were sending to the GATT sessions their financial experts who approached the problem from the same point of view as their representatives in the Fund.

The seventh session of GATT which took place in Geneva last autumn proved to be the most lively and successful of all of the GATT sessions. The most important topic discussed was the granting of a waiver to the Schuman Plan countries to enable each of them to extend preferential treatment to the coal and steel products of the other members of the Community. The discussion of this subject

brought home to a number of persons, who in the past had been somewhat sceptical about GATT, that the General Agreement was of value in providing safeguards and checks against regional preferential arrangements. At the seventh session the consultations with regard to balance of payment restrictions were much more realistic than in the past. Discussion was directed primarily to the specifically trade aspects of the quantitative restrictions. This led to good results and to an avoidance of the legalistic approach which had characterized previous consultations.

Experience, therefore, is proving that GATT is an effective organization in the field of tariffs and commercial policy. Being the only organization dealing with these problems on a world-wide basis, it has come to take its place alongside of the principal international agencies in the field of economic co-operation. This is a rather remarkable achievement for what at the outset was not intended to be an organization at all but merely a sort of primer for the pump which was to be represented by the International Trade Organization. The primer has taken the place of the pump, although without many of the accessories which were intended to adorn it.

Apart from the merits of GATT as an organization, we must not lose sight of the value of the numerous tariff concessions embodied in the schedules to the General Agreement. Each country values highly at least some of the concessions it secured at the three rounds of tariff negotiations held at Geneva, Annecy and Torquay. Hence, no one country would lightly abandon the inroads that already have been made into the tariff barriers to trade. That these inroads are substantial is indicated by the fact that since the Reciprocal Trade Agreements Act first came into force in 1934 the average ad valorem incidence of United States duties on dutiable goods has been reduced from 46.7 per cent to 12.5 per cent. Part of this reduction has been effected through the concessions granted at Geneva, Annecy and Torquay and embodied in the appropriate schedule to the GATT.

While, therefore, GATT has thoroughly justified its existence, I would say that its fate depends upon what will happen in the next few weeks. I am, of course, referring to the proposals now before the Congress of the United States for the renewal of the Reciprocal Trade Agreements Act and for the passing of the Customs Simplification Bill. Of these two proposals the former is the more vital. GATT has been developed largely upon the basis of the Reciprocal Trade Agreements Act and it is difficult to conceive of its continuance if the Act is not renewed.

The United States by the nature of things has to provide the leadership in the new approach to the solution of the problems of international trade and payments. Taking any of the indices commonly used to measure economic strength, we find that the United States represents about one half of the economy of the whole world. Without the leadership of the United States there is the danger of the world splitting up into a number of regional economic blocs, each of which would be discriminating against the others. This sort of chaos would be the negation of stability. Such economic instability would breed political instability. Accordingly, it may be said that the success of the free world in solving its economic problems is of decisive importance in the struggle against Soviet Communism.

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