

DIRECTIONS FOR WORLD TRADE

IN THE NINETEEN-SEVENTIES

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The Trilateral Commission

A Private N. American-European-Japanese
Initiative on Matters of Common Concern

This report has been prepared for the Trilateral Commission and is released under its auspices. It was thoroughly discussed at the Trilateral Executive Committee meeting held in Brussels on June 23-25, 1974, and the Joint Statement issued by the Executive Committee in Brussels was based in part on it. The authors, who are experts from North America, Western Europe and Japan, have been free to present their own views. The Commission will utilize the report in making any proposals or recommendations of its own. It is making the report available for wider distribution as a contribution to informed discussion and handling of the issues treated.

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DIRECTIONS FOR WORLD TRADE
IN THE NINETEEN-SEVENTIES

A Report of the
Trilateral Task Force on Trade

to the

Executive Committee of
The Trilateral Commission

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The Rapporteurs

GUIDO COLONNA DI PALIANO was born on April 16, 1908, and educated at l'Universita degli Studi, Naples. He joined the Italian Foreign Service in 1933, subsequently serving in the United States, Canada, Cairo and various major European capitals, as well as at the OEEC. From 1956 to 1958, he was Deputy Director of Political Affairs in the Ministry of Foreign Affairs. From 1958 to 1962, he was Ambassador to Norway. Mr. Colonna became a Member of the EEC Commission in 1964, and continued in this position when the Commission became the European Community Commission in 1967. He was a Commissioner until 1970, when he took up his current position as President of La Rinascente, the Italian department store chain.

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NOBUHIKO USHIBA was born on November 16, 1909, and studied law at Tokyo Imperial University, graduating in 1932. He joined the Japanese Foreign Service in 1932, subsequently serving in various major European capitals. In 1951, Mr. Ushiba was appointed Director-General of the Trade Bureau of the Ministry of International Trade and Industry, later becoming Director-General of the Economic Affairs Bureau of the Ministry of Foreign Affairs. After serving as Ambassador to Canada from 1961 to 1964, he became Deputy Vice Minister and then Vice Minister of Foreign Affairs. He left this post in 1970 to become Ambassador to the United States, serving until 1973.

The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on Trade, with Mr. Philip H. Trezise serving as principal drafter.

Although only the three rapporteurs are responsible for the analysis and conclusions, they were aided in their task by extensive consultations held during 1973 and 1974 in North America, Europe and Japan. These included discussions with Trilateral Commission members and experts from outside the Commission, including high-level government officials, at meetings held in Washington, San Francisco, Chicago, Toronto, London, Bonn and Tokyo. Among those consulted were the following:

Doris Anderson, *Editor, Chatelaine Magazine*
Shogoro Ariga, *Executive Managing Editor, Mitsui and Company*
Russell Bell, *Research Director, Canadian Labour Congress*
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Lane Kirkland, *Secretary-Treasurer, AFL-CIO*
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Tatsuzo Mizukami, *President, Japan Foreign Trade Council*
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John H. Perkins, *President, Continental Illinois National Bank & Trust Company*
John Pinder, *Director, Political & Economic Planning Institute, London*
Charles W. Robinson, *President, Marcona Corporation*
William M. Roth, *Roth Properties*
Albert Schunk, *German Metal Workers Union (representing Eugen Loderer, President of the Union)*
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Takeshi Watanabe, *Japanese Chairman, The Trilateral Commission*
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SCHEDULE OF TASK FORCE ACTIVITIES:

- December 17, 1973 — Joint meeting of the Task Force on Trade and the Task Force on Relations with Developing Countries, in Washington, to discuss the implications of the oil crisis. Also participating were the Commission Director, the three Chairmen, the Secretaries, and members of The Brookings Institution.
- December 18 — Task Force meets to select principal drafter, agree on topics to be treated in the report, and arrange future meetings.
- February 6, 1974 — Japanese Trade Task Force meeting, Tokyo.
- February 19 — Trade issues discussed at San Francisco regional dinner, with Trezise present.
- February 22 — Trade issues discussed at Chicago regional luncheon, with Trezise present.
- February - March — Ushiba consults with Japanese consultants and government officials.
- Early March — First draft of the report completed.
- March 12 — Meeting of European consultants, Bonn.
- March 21 — Meeting of the three Rapporteurs and Hager, London.
- April 24 — Trade issues discussed at Canadian regional meeting, Toronto; Trezise present.
- Early May — Second draft of the report completed and circulated within the Commission.
- June 24 — Discussion of the report at the Executive Committee meeting, Brussels.

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SUMMARY OF THE REPORT OF THE
TASK FORCE ON TRADE:
Directions for World Trade
in the Nineteen-Seventies

A major multilateral trade negotiation, as called for by some 100 countries in last year's Tokyo Declaration, is the one most hopeful prospect on the international economic horizon.

This is a time of troubles, when inflation, energy crises, and unprecedented balance of payments problems afflict nearly all nations. The structure of international economic cooperation has already been weakened. It could be pulled down in an ultimately pointless scramble for national advantage. A new GATT round offers the possibility of restoring a sense of common purpose and of strengthening the system of rule and order in world trade.

The backlog of issues for negotiation runs from industrial tariffs, which are by no means irrelevant in spite of progress in reducing them, through agricultural trade, non-tariff distortions, export restrictions, safeguards against import disruption, and reform of the General Agreement itself, to trade relations with the third world.

A major reduction in industrial tariffs is needed, both to bring down obstacles to world trade and also to moderate the discriminatory effect of the emerging Western European free trade area. Pending United States trade legislation would provide the basis to achieve deep reciprocal cuts in outstanding levels of tariffs.

For agricultural trade, which has been neglected in earlier negotiations, the need is to reach a bargain which gives the efficient producers greater access to commercial markets abroad and gives importing nations adequate assurance as to future supplies of key commodities. This means an agreement on holding and managing stocks of cereals as well as on improved conditions of commercial trade. It will require commitments to make gradual but important changes in domestic farm policies. A suc-

cessful bargain here would have far-reaching implications for international cooperation.

Non-tariff distortions in most cases must be dealt with by revising and tightening international rules of conduct, rather than by straight trade-offs. Since few third world countries can be expected to accept stronger GATT rules, many non-tariff agreements will have to be made on a conditional most-favored-nation basis.

Restrictions on exports, the latest of the non-tariff distortions, must be put under rule. At a minimum, advance consultation and the principle of sharing short supplies should be written into GATT. Even if agreement on this is possible only among the industrial countries, it will be a significant step forward.

The question of new safeguards against disruptive imports can best be answered by introducing into the GATT a mediation procedure, based on specific guidelines. This would leave open the possibility of emergency protection, but it would put restraints on arbitrary or unfounded national actions.

Successful negotiations on agriculture, non-tariff distortions and safeguards would call for substantial revisions in and additions to the General Agreement on Tariffs and Trade. Given that the industrial countries probably will be the only ones ready to assume new commitments, it would be desirable to incorporate these into a supplementary Code which would be open to every nation but which would be operated by those subscribing to it rather than by all 80 contracting parties.

The trade interests of the developing countries will have to be given special attention. An effort should be made to identify third world products for tariff reductions; the General Preference schemes should be improved and the United States and Canada should join Japan and the Western European countries in them; commodity price stabilization agreement possibilities need to be explored afresh; and food reserves against potential famine in developing countries must be created.

This mix of new and old questions foreshadows a lengthy and complex negotiation. Its outcome, nonetheless, could go to make the inescapable fact of economic interdependence far less worrisome and far more tolerable than it seems in 1974.

I. WHY A TRADE NEGOTIATION

At Tokyo last September more than 100 sovereign nations agreed to undertake a new multilateral negotiation on the conditions governing world trade. This will be the seventh negotiation to be held under the aegis of that useful and durable international contract, the General Agreement on Tariffs and Trade. It has the promise of being the most comprehensive yet. It may also prove to be the most important, in a sense larger than its trade aspects alone, for it will offer an opportunity to restore and strengthen an international structure of cooperation that has been weakened by time and by neglect.

To some, to be sure, the timing of this renewed international effort to improve the trading system is wildly inauspicious. There is a palpable air of uncertainty about the world economy. Most countries face unprecedented payments problems deriving from the sharp rise in oil prices. Shortages, of commodities and of processing capacity, have been general, and some are likely to persist even as world economic activity slows down. Worries about the adequacy of food supplies, in the short and long run, have not been laid to rest. Inflation has become a global phenomenon. The monetary system is in disarray, at least if we think of a system as operating under agreed rules. One of the pillars of the European Community — the customs union — seemingly has been put in jeopardy. In these circumstances, it may be asked, is it prudent to begin a major multilateral negotiation in the course of which the parties will be expected to make new commitments to reduce and remove their protective trade barriers?

The answer, it seems to us, is that the multilateral negotiation decided upon at Tokyo is precisely relevant to many, although of course not all, of the world's current economic difficulties. Trade policy is one of the keys to a more efficient use of limited resources. It thus bears directly on the problem of shortages. Even though we obviously cannot claim that the GATT negotiation can eliminate immediate inflationary pressures, it will be addressed to the enduring problem of scarcity and thereby real costs and prices.

Looking at specific problems, it is clear that if we are to have greater protection against supply disruptions, we must have a multilateral structure of supply assurances and stronger guidelines on how export restrictions may be applied, if at all. Non-tariff trade distorting measures probably have become more damaging to trade in recent years; this trend can be arrested only by negotiations to tighten the rules and to develop

new ones. Tensions in the trade relations between the advanced industrial countries and the developing world have worsened under the debate-confrontation procedure that has been so much in vogue; substantive negotiations afford the possibility of relieving these tensions.

We have also considered the argument that another GATT trade round is an attempt to apply the techniques of the past to a world that has changed in radical ways. This misses the point, we think. It is certainly true that some of the preoccupying issues of the moment are novel, or relatively so; export restrictions, for instance, have only incidentally been considered during past trade negotiations. But the objective should be exactly to find multilateral understandings and procedures to deal with these new issues. That earlier negotiations have been more narrowly confined in no way precludes or proscribes innovation in this round. Indeed, as we develop in subsequent pages, nearly all of the subjects that would make up a comprehensive negotiating agenda would have little precedent in GATT experience. A serious negotiation inevitably will have to break a vast amount of new ground.

One of the matters in debate prior to the Tokyo meeting was whether a trade negotiation could proceed without a restoration of order in the monetary field. The Tokyo Declaration sensibly recognizes that trade and monetary problems must be considered concurrently. The links between them argue for progress on both, not for priority for one or the other.

It should be clear, however, that the trade and monetary negotiations do deal with different aspects of the international economy. A monetary system, if it works well, is a mechanism for facilitating trade, investment, and tourism *in general* and for enabling across-the-board adjustments to be made when *general* shifts in underlying economic conditions occur. Thus a change in a country's exchange rate affects all its prices in the international market, both for imports and for exports, and for all its other foreign transactions as well. We need a system that assures that such changes will work toward general equilibrium, that is that they respond to basic market forces rather than to manipulation for special advantage.

Trade measures typically are particular in their effects. Protection is normally afforded to some products, not to all. Even a generalized trade action — a surcharge on all imports, say — can only be partial and thereby distorting in its impact. The aim of a trade negotiation is to reduce and minimize these particular distortions and the costs that go with them, leaving it to the monetary system to correct general dis-

equilibria. And, as is noted in the Tokyo Declaration, liberalized trade will facilitate the orderly functioning of the monetary system, just as it is true that a well-working monetary system will promote trade.

In brief, we believe that the reasons that have been arrayed against having another trade negotiation lack merit. We think that there is no good alternative, that the case for going ahead is overriding. Autarchic or bilateral solutions to the problems of the day hold out no real promise. Special bilateral deals for oil cannot give insurance against high prices or, in the end, against arbitrary interruptions of supplies. Commodity shortages have contributed to the frightening phenomenon of global inflation but few if any nations can improve their price performances in the short or the long run by opting for greater domestic self-sufficiency. Attempts to cope with the secondary effects of the escalation of oil prices on an individual country basis — say, by restrictionist import policies and the artificial promotion of exports — is sure to lead to frustration and quite possibly to disastrously costly commercial hostilities among the chief trading countries. The shortcomings or failures of the existing multilateral economic institutions certainly cannot be remedied by a drift to national or regional insulation from world economic affairs.

If the world was now to shelve the Tokyo agreement to negotiate, the result would be a further period of marking time in which the erosion of the multilateral arrangements that have supported the long postwar prosperity would continue unchecked. There is more here than questions of narrow economic advantage or disadvantage. The world, but particularly the principal industrial regions, has a fundamental political stake in the strengthening of rules and obligations, and institutional devices, through which national economic interests can be guarded by setting tolerable restraints on unilateral national actions. No one can foresee now the results of the large and complex negotiation that is still in its early stages. The goal is nevertheless clear. It is to make economic interdependence, which is inescapable in the modern world, a more manageable and less troubling condition. Or, what is the same thing, it is to find a range of livable compromises between the legitimate claims of national sovereignty and the imperatives of international order.

II. THE NEGOTIATING ISSUES

It seems certain that the scope of a new trade negotiation will be wider than any in the past. Six rounds of general trade negotiations took place between 1947 and 1967, of which only the first (when the GATT was agreed upon) and last ventured beyond tariffs as such. These negotiations, and the provisions of the GATT itself, achieved significant reductions in preexisting obstacles to trade. Industrial tariffs were brought down *on the average* to quite modest levels, quota restrictions were banned in principle, and a range of other trade-limiting or trade-distorting measures were subjected to international rule. But one whole trading sector, agriculture, came to be treated so exceptionally as to be put largely outside the system. For a number of reasons, to be discussed in a later section, the GATT's effectiveness in the consistent application of its provisions was far from perfect. And, as was inevitable, changes in the GATT have lagged behind changes in world trade patterns and practices.

The seventh GATT round, as foreshadowed by the Tokyo Declaration, therefore has within its aegis the old issues — including those ignored in the past — and some new issues as well. They may be listed as follows:

- Tariffs on industrial goods, the standby of past GATT rounds
- The conditions of agricultural trade
- Non-tariff measures
- Export controls and scarce supplies
- Safeguards against import disruption
- Reform of the GATT
- Trade relations with the third world

Before turning to an examination of each of these, we may observe that we have consciously limited the scope of our discussion to them. Other subjects readily could be included within the range of trade policies of substantial trilateral concern. They include the special problems relating to trade with the USSR and Communist China, the questions surrounding direct foreign investment and the role of the multinational corporation, and particular features of trade in energy resources. These are separable topics, however, and we believe they should be treated apart both to do them full justice and to avoid an unduly extended report here.

III. DO TARIFFS STILL MATTER?

The short answer is that tariffs do matter. They remain the most pervasive restraint on international trade. While a negotiation strictly limited to tariffs on industrial goods would be doomed, a round that failed to focus on industrial tariffs would also fail.

Despite six rounds of postwar reductions, tariffs continue to be applied to 60 percent of international trade in industrial goods. The average dutiable rate of 10 percent masks many higher duties, some of them prohibitive in their effect. Beyond that, the proper measure of a tariff's impact on industrial trade is not its *nominal* level but rather the *effective* rate on the value added by manufacture. Effective rates are very often considerably higher than the listed tariffs. In practice, also, the most onerous duties and the highest effective rates tend to be applicable to labor-intensive goods, which contrasts wryly with the many verbal commitments to greater market access for the exports of the developing countries. Finally, of course, even quite low tariff rates can sway investment decisions and lead to misallocations of resources.

It is inconceivable, in any case, that the occasion of a major trade negotiation would not be taken to try to reduce the commercially discriminatory and the politically divisive impact of the Western European free trade area, which seems bound to emerge from the arrangements between the Community and the former European Free Trade Association (EFTA) nations. The United States, Canada, Japan, Australia, and others will wish to negotiate reductions of Community tariffs and those of the other Western European states so as to mitigate growing Europe-wide discrimination against their exports. This will have to be a reciprocal process. The bargaining will not be easy, for the Community's external tariff is not only protective of affected industries but is symbolic of European integration. Nonetheless, a bargained reduction of tariffs offers the only practicable answer to the free trade area problem, which cannot be wished away. As for the Community's special preferential arrangements with other countries, they are much less important commercially. But here too a general cut in duties would help to relieve fears of an impending division of the trading world into rival blocs.

Most economists today would argue for a progressive, across-the-board, and automatic reduction and elimination of tariffs on industrial products. This approach would promise a maximum of results and it would greatly simplify the negotiating procedure. The success of the EC

and the EFTA in cutting tariffs by an automatic formula suggests that it would be practical to do so on a wider scale. In fact, the "working hypothesis" advanced by the United States and Japan in 1972 at the GATT was essentially for an automatic, phased elimination of duties.

The EC, however, has made clear that it is not prepared to consider eliminating its tariffs at this time, and the American government apparently will not be given the requisite authority to do so by the Congress. Thus it will be necessary to find an alternative approach to tariff bargaining. The broad goal surely should be maximum tariff reductions, staged over a transitional period that is long enough to allow affected industries time to adjust to new competitive situations; it is useful to recall that both the EC and the EFTA found it possible to eliminate their internal tariffs in fewer than ten years. How to negotiate the particulars is less evident, however.

Among possible negotiating techniques, three are commonly advanced:

— A linear reduction of tariffs in stages by an agreed standard percentage. This was the basic Kennedy Round principle, although in practice it had to be qualified by numerous exceptions and modifications.

— Tariff harmonization which in its strictest form would mean the same tariff levels everywhere for similar goods, but which can also be taken to mean a levelling down of high tariffs without aiming for identical rates. It has long been a European Community position that the disparately high tariffs in American, Canadian, and Japanese schedules should be scaled down more nearly toward the comparatively level ranges of EC duties. The Kennedy Round negotiations dealt with the tariff disparities question, but on a limited scale and only after long and hard bargaining over the thorny problem of reciprocity.

— Sector-by-sector negotiations, which strictly read might call for separate reciprocal bargains industry-by-industry. In that form, the approach holds out minimum hope for results. Apart from the difficulties about defining industrial sectors, the problem of satisfying the claims to reciprocity by this method is all but insoluble. Still, the problems of particular industries are certain to enter the negotiation and some measure of intra-sectoral bargaining cannot be foreclosed.

The pending American legislation would allow the U.S. negotiators to offer (a) to eliminate tariffs of five percent ad valorem or less; (b) to

reduce by 60 percent tariffs between five and twenty-five percent; and (c) to reduce by 75 percent tariffs above twenty-five percent, provided that the new duties must not fall below ten percent. If these are the eventual American negotiating ranges they will set the outer limits of the international tariff bargaining, since the Congress is not likely to enlarge its grant of authority once the negotiations are under way.

As a practical matter, the American formula affords a considerable degree of negotiating flexibility. Under its terms it should be possible to devise a working hypothesis or general rule for reducing duties which would accommodate to a degree pressures for reductions in the disparately high tariffs (possibly by setting average upper limits of broad industrial categories). Sensitive industrial sectors undoubtedly will have to be given special attention, but the commitment to a general rule will help to keep this problem within bounds.

IV. THE ELEMENTS OF AN AGRICULTURAL BARGAIN

As the odd man out of postwar liberalization, agricultural trade has been the source of chronic quarrels among the principal members of the GATT. The blame can be assigned widely and impartially. It was the United States that insisted in 1955, to much dismay elsewhere, upon a waiver that entirely freed its agriculture from the restraints of the GATT. Most of the other contracting parties chose for their part to protect their vulnerable farm products without bothering with the waiver process. The European Community's common agricultural policy (CAP) turned out to be a program not only for insulating its agriculture from world markets but also for promoting large surpluses to be off-loaded abroad with the aid of export subsidies. In the Kennedy Round, agricultural trade was the object of a prolonged, bitter, partly theological exchange, ending with the hastily contrived International Grains Arrangement, which collapsed within a few months.

We consider that in another negotiation a fresh start should be made on the conditions of international trade in agriculture, in the first instance among the industrial countries which account normally for most of the commercial trade in farm commodities.

To begin, current prices of the chief traded farm commodities are high enough so that trade flows are largely unimpeded by the national or regional restrictions designed specifically to protect domestic prices. It is a period, therefore, in which some of the earlier international tensions have diminished and in which a calmer view of the changing agricultural scene should be possible. Second, the vulnerabilities in the present structure of world agriculture have been dramatically shown, in the aftermath of the USSR's exceptionally bad 1972 harvest. The need to reexamine agricultural trade relations can hardly be ignored.

If, of course, present inflated levels of world agricultural prices are expected to remain unchanged indefinitely, the exporting countries might see a negotiation as being irrelevant in that trade barriers would have become ineffective. In that case, the import needs of a number of developing countries, most importantly in South Asia, would present continuing and acute problems. These would not be manageable on a commercial basis, obviously, and would call for a food aid effort that would be extremely difficult to mount.

The likely outlook, however, is not for unchanged high prices. It is commonly overlooked that wheat acreage in the United States, Canada, and Australia had been deliberately cut back after 1968 in order, as the United Nations Food and Agriculture Organization put it, to cope with "production in excess of available outlets." The USSR's crop failure in 1972 thus came when the world's chief exporters were restricting output and when stocks, except for those in the United States, had already been depleted. With a relaxation of acreage restrictions in 1973, wheat production in the three exporting countries went up by 20 percent. And while world demand will continue to rise, as population and incomes rise, so will farm productivity. So the prudent guess must be that we shall see during the next few years a return to agricultural relationships in which output in the exporting nations will tend to outrun effective demand in most years, and the old questions of protectionism and dumping will again be before us. At the same time, however, the recent experience of short supplies and export controls will keep in the picture the question of security of supplies.

These two considerations — potential surpluses and worries about supplies — suggest the essential elements of a bargain. On the one hand, the more efficient agricultural producers will have a claim to improved conditions of market access, whether for cereals or dairy products. On the other, importing nations properly can ask for assurances that their normal requirements will be met in all predictable circumstances.

During the Kennedy Round the discussions centered briefly on a Community concept that was given the label *montant de soutien*, or level of support. It was not fully explored then, but the basic idea offers the most promising approach to the access problem, which derives mainly from efforts to protect domestic support levels from import competition. In effect, the procedure would be to determine, first, the difference between an agreed world base price for each of the commodities concerned and the intervention or target level in the importing country or region. These differences or margins of protection would then be frozen and thereafter gradually reduced. Both steps would have to be negotiated. There is no automatic formula here. Political realities doubtless would require a limit on the possible reductions in protection in any year or over any stated period. Allowance would have to be made for rising price levels. Exceptional treatment would have to be given to programs applied specifically to low income farmers and disadvantaged regions.

Security of supply must in the end rest upon the physical availability of stocks. Long-term purchase contracts may give reasonable assurance to one or a few importing nations, but not to all. Once a sufficiently bad harvest has occurred, only reserves in being can make up the resulting shortage.

In the past, the United States and Canada alone have held agricultural stocks and then principally in order to support domestic price levels. An international program would set out deliberately to build stocks, presumably mainly of cereals but possibly also of oilseeds and some other commodities, on the basis of shared responsibilities. The costs of acquiring and holding the stocks would be borne by individual governments, with their target levels determined according to volumes of production or consumption, or a combination of the two. Releases from stockpiles could be according to mutual agreement under predetermined guidelines, or the criterion could be price. Buffer stock operations to iron out year-to-year price fluctuations could be fitted into the general stockpiling agreement; these would involve commitments to add to stocks when output rose above trend and to sell when crops fell short of the average.

In our opinion, agriculture is sufficiently special a case as to require a substantially self-contained negotiation within the general round. The notion that industrial concessions can be traded for agricultural concessions has little support in experience or in the nature of the trade problem. The eventual result should be a balanced agricultural settlement, covering security of supply and reductions of import protection, whatever the actual protective techniques may be. What will be necessary is a readiness by all those participating to be prepared to offer modifications in their own restrictions on imports. The United States and Canada, for instance, could hardly expect to reach a package agreement involving the Community that did not offer improved conditions of access for European dairy products into North American markets.

A separate settlement for agriculture also would have to deal with some of the main non-tariff measures. An access-stockpile agreement would bring the issue of export subsidies for the major crops under closer control by reducing incentives to produce surpluses by providing for the disposition of excess output in stocks. This might be supplemented by a general commitment to place the use of subsidies under agreed rules and to make them subject to mandatory consultation with competing suppliers. The other principal kind of non-tariff measure in agriculture is the quota restriction, which is applied to a wide range of

farm products. Quotas are illegal *per se* under the GATT, but on agricultural goods (as is true of coal) they have sanction of long usage and their wholesale elimination is not a reasonable possibility. But an obligation to increase quota levels annually, subject to minimum exceptions, might be an acceptable compromise within an overall agricultural bargain.

We stress that we have only sketched the outlines of a possible agricultural agreement. Its negotiation would be perhaps the most difficult task of all those on the international agenda. If something like it could be arrived at, there would have to be a far reaching extension of international cooperative effort. The agreement could not be self-executing. It would require exchanges of information, consultation, and joint decision-making on a significant scale. Non-participating industrial countries — the USSR of course being the most important — inescapably would be drawn into consultation about its implications and perhaps into membership.

In this section we have discussed an agricultural trade negotiation between the industrial countries, with the United States, Canada, Australia, Japan, and the Community as the principal parties. The compelling agricultural and food needs of the developing nations of course must be considered in any review of the conditions of agricultural trade. We shall therefore come back to the subject when we turn to the trade problems of the less developed world.

V. NON-TARIFF DISTORTIONS OF TRADE

The Tokyo Declaration contains a commitment to "reduce or eliminate non-tariff measures or, where this is not appropriate, to reduce or eliminate their trade restricting or distorting effects, and to bring such measures under more effective international discipline."

This carefully phrased passage reflects the range and the complexity of the non-tariff issue. Only a few of the non-tariff measures will lend themselves to quick and decisive disposition. Some will require agreement on definitions and interpretations before procedures can be established for dealing with them. Reciprocal bargains of the kind customary in tariff negotiations may be possible on a few matters, but mostly the search will be for codes of conduct to be applied by the contracting parties. The non-tariff field is preeminently one for a strengthening and tightening of international rules, rather than for definitive trade-offs.

Any categorization of the many practices lumped under the term non-tariff measures must be arbitrary. The following list is probably fairly inclusive, however:

- Quantitative controls on imports and, now, on exports
- Burdensome customs and administrative entry procedures
- Subsidies to exports and the defensive measures taken against them, e.g. anti-dumping and countervailing duty policies
- Industrial, safety, health, or environmental standards applied discriminatorily against imports
- Discriminatory public procurement policies
- Government aids to industry which have protective effects

If, as we suggest should be done, the agricultural negotiation was to be handled as a substantially separate package, some of these categories — import quotas and export subsidies and limitations on exports — would be reduced in their scope. There will still remain, nevertheless, a very wide area for fact-finding, rule-making, and negotiation.

Fortunately, the GATT parties and its Secretariat began immediately after the end of the Kennedy Round in 1967 to assemble data and to consider strategies for acting on non-tariff measures. General guidelines have been drafted for the application of industrial and other standards. Progress has been made toward more precise definitions of customs valuation practices covered by Article 7 of the General Agreement. The OECD has spent more than a decade in an as yet fruitless

effort to arrive at a convention on public purchasing; the problems and alternatives have been minutely studied. In other cases a good deal of preliminary work has been done.

Building on what has been done thus far, including the limited and ultimately abortive non-tariff bargains struck during the Kennedy Round, a negotiation could accomplish a significant improvement in the conditions of international trade. The non-tariff articles scattered through the GATT could be made subject to interpretive notes. International codes could be drawn for such matters as public procurement policies and the operation of national or regional standards. A relatively small number of non-tariff distortions — import quotas on industrial products and the American Selling Price customs valuation rule in the United States are examples — might be eliminated outright, either in special bargains or as a part of a general dismantling of trade barriers. Even in so sensitive an area as government aids to industry, it should be possible to design a set of principles that would distinguish between, say, regional development incentives of a preponderantly protective character and those which may be construed as primarily offsetting of actual local disabilities.

An important question is whether any extension of GATT obligations in the non-tariff field should be subject to the basic GATT rule of unconditional most-favored-nation treatment. In some instances — customs valuation procedures for example — anything else would probably be impracticable. But should the parties to a code governing public procurement apply the rule of non-discrimination to countries that are unwilling to accept the code? We think that the European Community's view here is the right one, that is, that when new commitments are undertaken their application may properly be limited to those ready to participate. Apart from the matter of equity or, in the customary GATT usage, "balance," the extent of progress on the non-tariff front will likely depend on the possibility of selective application. We assume, of course, that any new agreements on non-tariff measures would be open to any country prepared to accept their terms.

It is apparent that any serious forward movement on non-tariff measures will call for a stronger GATT. The not always crystal clear language of the General Agreement will need to be given greater exactitude, at least in interpretation. New provisions may have to be added. Most important, something more will have to be done toward enforcement, or toward effectively resolving disputes. We shall return to this subject in considering GATT reform.

VI. EXPORT CONTROLS AND SCARCE SUPPLIES

Article 11 of the GATT bans quotas or other restrictions (aside from taxes) on exports as well as on imports.* It exempts from this stricture, however, "export prohibitions or restrictions temporarily applied to prevent critical shortages of foodstuffs or other products essential to the exporting contracting party." The exemption reflected postwar circumstances. Its authors did not anticipate the application of export limitations on anti-inflationary grounds, nor did they foresee politically motivated export controls. The question now is how to expand on Article 11 to deal with the widespread resort to restrictions on exports.

For the withholding of petroleum by the Arab producers and the earlier American restrictions on soybean exports are only the most publicized of the applications of this non-tariff obstacle to trade. At present, the United States has controls and the EC a virtual embargo on exports of scrap steel. Exports of cereals are embargoed or limited by a number of countries. As the American government lifts wage and price controls it asks for commitments from the exempted industries to limit their exports. There are many other examples.

It is necessary to distinguish between the different motivations for the application of export controls. One is straightforwardly political, as stated by the Arab nations in relating the volume of oil shipments to the Arab-Israel dispute. Another, of which oil may come to be representative, is a drive to raise prices by cartel action. A third, and currently the common one, is to try to transfer inflationary pressures to foreign customers by diverting intended export shipments back to the domestic market.

Political boycotts and cartel actions unquestionably present grave challenges to an inherently interdependent community. If normal economic life in large parts of the world can be held hostage to the arbitrary decisions of a few suppliers, then the outlook for a durable international order cannot be bright. At the same time, we have only a meager basis for judging the seriousness of this threat. For many primary goods, at any rate, cartels are likely to be difficult to organize

*Article 20 allows measures "essential to the acquisition or distribution of products in general or local short supply" provided they are applied equitably, but it seems clear from the record that this was intended to be applicable to special and transitional situations of the early postwar period and that Article 11 is the relevant one.

or to sustain. But the temptation to try to enforce high prices by restrictions on supply certainly will be present, and politically-grounded measures are always possible.

At least for oil, the prudent supposition must be that the consuming nations will have to live indefinitely with the hazard that their imports in the last analysis are vulnerable to the actions of the major producers. But the current phase, which developed out of circumstances of extraordinary political tension, does not give us the best grounds for judging the future. If the consumers can succeed in reducing wasteful uses of oil and can act together in any degree on increasing alternative energy sources, a more tolerable short-run balance will come into being. While this is going on, a careful assessment can be made of the ways in which the great trading nations can cope with future threats of supply interruptions.

A first and essential step, in any event, is to act to restore order among the industrial countries in respect of export control policy. If literally no rules apply as between the United States, the Community, and Japan, it would be odd to expect that other nations, GATT contracting parties or not, will be prepared to observe limits on their freedom of action. A minimum would be to further interpret Article 11 to require full advance consultation before export controls are applied and to write into it the principle that short supplies will be shared between exporters and their usual customers. It may be too much to suppose that the world is ready for mandatory sharing (for some food-stuffs and agricultural goods, however, stockpiling arrangements would serve to assure supplies), but an unambiguous advance consultation provision, if coupled with improved dispute resolution procedures in the GATT, would go a way toward bringing scarce supply restraints under multilateral control.

Whether or not such an example would be salutary with the non-industrial nations is not certain, but it could scarcely be unhelpful. Also, as will be noted in a subsequent section on trade with the developing countries, a fresh look at commodity agreements is in order. If such agreements could be negotiated, supply assurance provisions would normally be included.

VII. SAFEGUARDS AGAINST IMPORT DISRUPTION

For some time now, most especially but not only in the United States, discussions of trade policy have given much attention to finding a formula that would both enable countries to contain "disruptive" flows of imports and at the same time put limits on national freedom to raise and maintain protective barriers of an ostensibly emergency character. This interest in what have come to be called "safeguards" no doubt was heightened by Japan's extraordinary export surge in the late 1960's. More fundamental reasons may have been found in the growth of world trade in manufactures: an average annual rate of 13 percent, 1962-72, with exports of manufactures from developing to developed countries growing even more rapidly. Although no significant industries have anywhere been overwhelmed by import competition, adjustment problems of some severity have appeared from time to time. And the GATT safeguard provision, Article 19, has proved to be lacking, either as a satisfactory answer to genuine problems of short term adjustment or as a deterrent to the potential abuse of emergency import restrictions. There may well be substance, therefore, in the assertion that further liberalization of trade will depend on improving the international safeguard mechanism.

Article 19 sensibly allows import restricting measures in the event of actual or threatened "serious injury" to domestic producers, subject except in critical circumstances to a requirement of notification and consultation and in all cases to the rule of non-discrimination. It is of course not conceivable that any set of international commercial rules could be established without such an escape clause to deal with unforeseen situations. The difficulties with Article 19 have been not with the concept but with its application and even more its applicability.

In one part, the Article provides that exporting countries affected by emergency protective measures may withdraw trade concessions to balance the accounts, or alternatively, as the Article has been interpreted, that the restricting party may compensate for his action by offering concessions on other products. These can be powerful sanctions, but they can be difficult to enforce. If a number of exporting countries are involved, for example, suitable balancing concessions for each may be impossible to arrange. Or when import volumes are large, as was true for the American steel industry when it asked for protective action

in the 1960's, claims to balancing actions may exceed anything that is feasible, or even desirable if the choice is to retaliate. The international arrangement on trade in cotton textiles, now extended to all textiles, was an early and major evasion of the GATT retaliation/compensation provision, and of its no discrimination rule as well. Disruption of textile markets, it was argued, was to be ascribed to low-wage countries, not to all exporters, and thus Article 19's MFN clause could not be applied, any more than, realistically, compensation in the amounts at issue could be paid.

The other side of the story is that once an Article 19 restriction has been imposed, the GATT has no clause requiring that the claim of injury periodically be reviewed, or that concessions be restored. If compensatory arrangements are made, the matter is settled. If not, under the Article all claims are considered waived after three months. And restrictions imposed outside Article 19's purview obviously are not likely to be submitted to GATT examination, once in force.

In spite of Article 19's shortcomings, however, it is not so simple to prescribe changes. Each country's right to emergency protection must be recognized, as in the present text. The principle of compensatory action, or retaliation, is also important, for the GATT is above all a charter based on the notion of reciprocity; indeed, with or without the authority of the General Agreement, the contracting parties will retain the ultimate possibility of reacting to other people's restrictions by compensatory measures.

We think, therefore, that the most promising approach is not through a revision of Article 19, which is surely impracticable anyway under the GATT voting rules, but through a protocol or interpretive note which could be subscribed to by all the contracting parties willing to give more detailed meaning to the existing Article. The 1972 proposal of an OECD high level group, under the chairmanship of Jean Rey, was along these lines. In effect, it would recommit the participants to a multilateral escape clause procedure. It would take as principles that emergency protection should be temporary under a preestablished time limit in each case, that new restrictive measures would allow for reasonable growth from the import level at the time of their application, and that the country using such measures would be expected to undertake domestic actions to help the adjustment of its affected industry. M. Rey and his colleagues would allow departures from MFN treatment in "exceptional" cases but only within the framework of multilateral procedures. Finally, they would establish a permanent panel of mediators

in the GATT. Governments would bind themselves to turn to the mediators for advisory opinions on request of either another contracting party or the Director-General.

It seems to us that such an addition to the present Article 19 would provide both the flexibility that clearly must be available in emergency situations and a badly needed restatement of the common interest in protective measures taken by any trading nation. In particular, we believe that the proposed mediation body would be a most desirable extension of the GATT's institutional structure. We have noticed that the newly negotiated Arrangement Regarding International Trade in Textiles provides for the creation of a Textile Surveillance Body with powers of a mediatory nature. While the Arrangement sets up a highly special regime for the textile trade, the Surveillance Body holds promise of introducing into its operation a degree of multilateral judgment and control that has heretofore been lacking. It is not a prototype for a safeguards panel, but it does strongly suggest that the time has come for adding a mediation element to the GATT itself.

VIII. GATT REFORM

In earlier sections we have considered a number of issues which call into serious question the adequacy of the General Agreement as a charter of rules and obligations and as an institution for the international trading system as it is today. The General Agreement came into being in 1948 as a provisional treaty, embodying the bulk of the commercial policy provisions that had been drafted for the stillborn International Trade Organization. It is still provisional: its articles do not supersede national legislation that is inconsistent with obligations under the GATT. Its original twenty-three Contracting Parties have increased to more than eighty; with voting on a one country-one vote principle, the chief trading nations share in GATT decisions equally with all others, including a majority of members who do not or cannot apply GATT rules to their trade. Amendments require either a two-thirds or a unanimous vote. Effective procedures for the settlement of disputes are lacking and many issues consequently have been left unresolved for years. These and other weaknesses and shortcomings have not prevented the GATT from serving the international community honorably and well. But as the discussion thus far makes evident, the basic charter will have to be expanded upon if the GATT is adequately to serve present-day needs.

Thus an agricultural agreement along the lines we have suggested would call for the equivalent of a new GATT chapter and, undoubtedly, for a new consultative body as well. Action on the range of non-tariff measures, including export controls, would require detailed interpretations of the relative GATT articles and new provisions as well. A revamped safeguard provision could mean a protocol to Article 19 and, as we have seen, a permanent mediating body within the GATT.

It is possible to foresee a patchwork of new provisions, interpretations and clarifications of old provisions, and structural additions, amounting to a significant body of change in the General Agreement and its Geneva institution. On any assessment, only a fraction of the contracting parties would accept the additional obligations entailed by these changes. There would be added to the present text supplementary provisions or annexes, most of them limited in their terms to those willing to adhere to them. The adherents necessarily would include the major countries, for most new commitments or obligations of substance could win acceptance only if all of the principal trading nations (the Western European countries, the United States, Canada, Australia, and

Japan) acted together. It is most doubtful that the developing countries would be willing to assume these greater obligations.

Would it be desirable directly to combine the new commitments in a supplementary Code for the industrial members of GATT? We believe that it would. The voting and amending procedures of the General Agreement are formidable obstacles to membership-wide action, however much it may be needed. If the GATT is to be made a more responsive instrument in today's circumstances, changes will have to come through a different process, that is, through special arrangements mainly among the industrial countries. These could be codified under a separate charter in which voting power would correspond, at least more nearly, to the economic strength and responsibilities of the adherents. Suitable policy making bodies could be established, along with a special dispute resolution body (an Article 19 mediation panel could be given authority to mediate all trade disputes arising among the adherents to the Code). In the course of developing the Code, some inconsistent national laws would likely be overridden by new commitments, thereby modifying the provisional character of the GATT.

A code supplementing the GATT would need to be open to any nation ready to accept its commitments and obligations. Furthermore, Code members would continue to be bound by the general provisions of the GATT, including the most-favored-nation clause in Article 1. If the Code enabled the industrial countries to move more rapidly in reducing barriers to trade, the trading world as a whole would benefit. Nonetheless, the establishment of a separate charter, with its own institutional structure undoubtedly would arouse opposition among the large number of contracting parties not now prepared to participate. Whether this attitude could be dealt with should depend in largest part upon the extent to which the genuine trade interests of the developing countries are adequately taken into account by the industrial nations. We therefore consider this question next.

IX. TRADE NEGOTIATIONS AND THE DEVELOPING COUNTRIES

The Tokyo Declaration is replete with references to the special interests of the developing countries, whose spokesmen indeed comprised the overwhelming majority of the more than 100 nations represented. Taken all together, the Declaration gives negotiating priority to the products of the developing world, with concessions to be made by the industrial countries on a basis of less than reciprocity. The Generalized System of Preference is to be maintained and improved. And, "wherever appropriate," measures are to be taken to achieve stable, equitable, and remunerative prices for primary products, which is to be taken as a call for the negotiation of commodity agreements.

The emphasis of the Declaration is unexceptionable. Much of what it says is already contained in Part IV of the GATT, negotiated in 1965. If a new trade round is to be anything more than another expression of good intentions, the claims of the poor and poorest members of the community must be recognized in actions. There is, to be sure, a danger that the developing countries could make of the negotiations a grand debating session, as has been the standard pattern of the United Nations Conference on Trade and Development, rather than a conscientious and often tedious effort to find workable answers to hard questions. This risk avoided, however, the negotiating process should be able to give serious consideration to the preoccupations of the developing countries.

A special effort could be mounted to identify for tariff reductions — wherever possible to zero level — products of special interest to the developing countries. The General Preference schemes could be improved; assuming that the United States and Canada will be prepared to install their preferential arrangements, the negotiation could aim to expand the effective coverage of all the schemes. "Reverse" tariff preferences given to the Community by some developing countries may be an issue here, but all indications are that it is in process of disappearing anyway. Most important for the developing world as a whole, however, will be the depth and breadth of MFN reductions in tariffs and other relevant impediments to trade in manufactures generally. These will be concessions of a durable kind, which exporters and investors in the developing countries can rely upon to be maintained in most circumstances, for the industrial countries will usually have an

equal interest in seeing to it that they are not withdrawn arbitrarily.

Reference to commodity agreements in the Tokyo Declaration raises immediately the question of their negotiability and their practicability. Experience with such arrangements — for example, in coffee, cocoa, sugar, tin, and wheat — shows that they are extremely difficult to negotiate, and difficult to operate as well. Any doctrinaire — pro or con — view of the present prospects ought, however, to be waived in favor of a reexamination of the commodity scene. As prices begin to fall from their peak levels, opportunities may present themselves for negotiations involving assurances of supply against assurances on floor prices. Petroleum of course could be the outstanding case in point. A time is likely to come within the next few years when oil producers and consumers alike will see benefits in an agreement that would offer stability to both sides. For this critical commodity at any rate, the virtues of potential stability of prices and supplies might well outweigh the disadvantages of additional governmental intervention in the world oil market.

Finally, there is the problem of food reserves for the third world. The Food and Agriculture Organization has done yeoman service in pointing out the tenuous food situation in many developing countries and in making the case for building or rebuilding food stocks against potential famine. It is only realistic, however, to recognize that if such stocks are to be created, the necessary financing for them will have to come in whole or part from the industrial countries; and that the negotiation may be most feasible within a negotiation on agricultural trade under the GATT. Specifically, if the United States, Canada, Australia, the Community, and Japan are going to consider a stockpiling system for the commercial trade in cereals and other products, the overlapping issue of famine stocks must be faced. It is a priority matter, and will have to be taken up in any case. But it probably can best be negotiated in a GATT context, where the whole range of agricultural trade questions can be examined in a search for practical answers.

(As of June 15, 1974)

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