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## GATT Round 1973

Interview with Mr Hans König, Director of the German Committee of the International Chamber of Commerce, Cologne

*Mr König, even though the Kennedy Round was a great success, the demand for another GATT Round is gaining ground. What, in your opinion, are the principal problems which have to be solved in the next Round?*

I see one of the main problems in the tendency of many governments to adopt, more or less openly, a protectionist stance, with the result that the unwritten rules of international conduct as well as binding international commitments are no longer receiving sufficient attention. New progress is necessary if what has been achieved by the liberal world trade system is to be preserved. The monetary crisis in the second half of last year — which, as the recent events in connection with the pound sterling showed, has by no means yet been resolved — demonstrated that the present system of world trade must be reviewed and revised. In the 25 years since its inception there have been several structural changes which call for amendments and modifications to be applied to the existing system. I wish, first of all, to draw attention to the enlargement of the EEC from six to

ten, which in itself, under GATT rules, requires the initiation of compensatory negotiations.

I should say that, besides, the following problems would have to be taken up at another GATT Round:

- ☐ the problem of the regional integration, especially EEC;
- ☐ the shift in trade obstacles from tariffs to non-tariff barriers;
- ☐ the protectionism in trade with agricultural products;
- ☐ the problems of the developing countries;
- ☐ the need for structural adjustment in the industrialised countries to make sure of as untrammelled and multilateral trade relations in the world as possible;
- ☐ the question of a sufficiently strong international institution to supervise further liberalisation measures;
- ☐ an attempt at harmonising economic policies to accomplish some measure of international coordination between the various countries.

*Although trade in the industrial goods sector has been expanding since the Kennedy Round owing to the 35 p.c. cut*

*in tariffs, there is a demand for the complete removal of all tariffs on semi-manufactures and manufactures. How could this problem be approached in the framework of another GATT Round?*

There is undoubtedly still scope for further cuts or even the suppression of all tariffs in the industrial goods sector. Generalised tariff cuts would have the advantage of lessening the differences between the regional integration areas and third countries. The possible negative effects of increased regional integration in the wake of the EEC enlargement on world trade and on the nations taking part in it would thereby be greatly alleviated.

Agreement on a number of basic principles would, however, have to be sought from the outset. In the first place, an exact time-table would have to be drawn up, not necessarily for the removal of all tariffs, but at least for annual rates of reduction and for a lower tariff level definitely to be attained by the end of a certain period. Secondly, agreement would have to be reached on the method to be chosen. The

International Chamber of Commerce believes that, despite the difficulties encountered during the Kennedy Round, the linear method again merits to be preferred in the next round of GATT negotiations, even though in certain instances this method will have to be coupled with a sector or product-by-product approach. Besides, it must be taken into account that there are certain industrial goods for which exemptions will have to be granted because they are needed for reasons of national security or considered as "sensitive" requiring structural adjustment grants before they can stand up to international competition. On the other hand, there are two types of customs duties which could be dealt with in a first phase — "trivial" duty rates which are of no practical significance and the anomalies in the various tariffs structures (tariff disparities).

From the point of view of the International Chamber of Commerce there is one point which I should like to make in this context: Business circles have always felt that tariffs are a more straight-forward instrument of trade policy and easier to assess than the many hidden trade obstacles of a different nature, because they can be allowed for more easily in costing and planning. So we should not like to see the tariffs reduced or removed in the industrial goods sector only to be confronted with a mushroom growth of other trade obstacles instead.

#### **Non-Tariff Barriers to Trade**

*Success in regard to the removal and harmonisation of the non-tariff barriers to trade has hitherto been no more than modest. Do you share the view of GATT that a multitude of opportunities for further progress towards trade liberalisation exists in this sphere?*

When the latest GATT negotiations were over, the International

Chamber of Commerce turned its attention immediately to the question of the non-tariff barriers. We think like GATT that there are good prospects for reducing and harmonising some of the non-tariff barriers.

It must be borne in mind, however, that the non-tariff barriers comprise a large number of widely varying measures with only one thing in common: they all obstruct trade. We think it would be useful if they were divided systematically into two groups. One group belongs to the sphere of trade policy and includes quantitative restrictions, export subsidies and a large number of "para-tariff" obstacles to trade. The second group consists of measures concerning technical specifications, regulations on hygiene, statutory provisions on foodstuffs, agricultural policy, social policy, structural adjustment policy and indeed many others. A priori, measures belonging to this second group are not intended as trade protection measures but when applied in practice they can have this effect.

#### **A Differentiating Approach**

This difference should be kept in view when GATT deals with the problem. For the first group of non-tariff barriers it will certainly be necessary to obtain binding regulations. Some rules already exist but are not always observed. There are, for instance, the quantitative restrictions which have been banned by GATT. Care must be taken that these regulations are heeded in practice. As for the second group, it will not be possible to deprive the governments of their freedom of action, as it is a quite legitimate task for any government to lay down safety standards or specifications for, say, machines. The aim should rather be an international harmonisation of these standards and specifications. In so far as this cannot

be done within a reasonable time consultations between governments should be arranged. Moreover, an attempt should be made to draw up rules of good conduct to deal with certain distortions. Take pollution control as an example; most industrialised nations are giving this problem top priority. Quite a number of new charges have been or are being imposed on manufacturers and consumers in the interests of environmental policy. These may impede commerce, unless they are coordinated from the outset. A case in point are the impositions on automobile manufacturers in the USA which serve the protection of the environment. There should be a far-reaching international coordination in this field, preferably before statutory measures have been taken on the national level, since it is as a rule easier to coordinate national regulations before they have passed into legislation than afterwards.

*Would it not be much easier to find solutions for some of these problems—e.g., questions of standardisation—through an unofficial body such as the International Chamber of Commerce?*

There exists another international organisation which has been dealing with such questions of standardisation for a long time: the International Standardization Organisation — ISO. We are co-operating with it very closely on questions with a bearing on technical standard specifications. There are other fields in which the International Chamber of Commerce has succeeded in harmonising diverging standard regulations without governments having to take action. The Incoterms for business transactions (cif, fob, etc.) and the uniform rules and customs for documentary credits may be instanced. Similar examples can be mentioned in transport, marketing, the protection of inventions, etc.

*The extremely restrictive trade practices of the industrial countries in the agricultural sector, which hit the developing countries particularly hard, are perhaps politically the most delicate problems. What steps are necessary and practicable to remove the trade barriers in this sphere?*

### **Agricultural Protectionism**

It will not be possible to complete a successful round of liberalisation measures for industrial goods unless some new arrangements are reached as well for the trade in agricultural products. We are aware that a number of important trading partners feel disinclined to agree to more liberalisation in the sphere of industrial goods unless a modicum of liberalisation materialises in the agrarian sphere at the same time. The trade in farm produce has of course for some considerable time obeyed rules of its own which are not really compatible with the rules of conduct in a market-orientated economy. It is a fact that farming productivity, and thus farm production, has risen very substantially, more particularly in the industrialised countries, while political and social considerations have compelled governments to assure those employed in agriculture of incomes which stand comparison with those prevailing in manufacturing industry and the services sector. In consequence the national farm sectors have been largely protected from outside competition. I think that agricultural protectionism is a problem existing in the relations between the countries of the temperate zone — Europe, North America, South Africa, Australia, Argentina, New Zealand — rather than between industrial nations and developing countries.

It is very difficult to make a forecast about possible steps towards liberalisation in this sphere; a wholly satisfactory solution can only be achieved by

structural changes in agriculture for which all industrial states are striving. However, some immediate measures to ease the situation in international agricultural trade should certainly be introduced in the near future. For the Kennedy Round the EEC made a proposal which is as topical as ever — to “freeze” the support measures at a certain level. There is another possibility — to set aside a certain proportion of any growth in consumption in the various countries for imports, so that exporters in other countries do not feel shut out altogether.

### **A System of Uniform Subsidies**

*A comparison of the support systems for agriculture in various industrial states indicates the existence of the most diverse variants. Would it be possible to achieve a uniform subsidy system for the industrial countries?*

I do not see much chance of this being done. The farming policies have grown historically, with the result that it would be extremely difficult to change over to a uniform system. When we set up the agricultural market of the EEC, we saw that agreement was possible rather on “adding up” the existing agricultural measures than on a synthesis of the various agrarian policies, for each member naturally wanted to keep his national advantages within the European system. It would hardly be desirable or practical to attempt a similar procedure on a world-wide basis. Some realignment will perhaps be achieved by the entry of Great Britain, Eire, Denmark and Norway into the Common Market. Incidentally, it is doubted whether the British Government would have been able to keep up their present system of direct subsidies much longer because of its increasing impact on the budget.

*Could this problem perhaps be eased in the long run by*

*making more use of structural policy?*

Undoubtedly it could. A reduction of the population employed in farming, which has already gone a long way in the past 20 years and will continue, should result in greater productivity and profitability for farm enterprises. In the EEC we possess today already agricultural units which operate very profitably, but also others which, in spite of the EEC's agricultural regulations, can neither live nor die. Given a sound and consistent structural policy, many of the problems in the agricultural sector which are today felt to be pressing may no longer be with us in ten years' time. And in the short term a new GATT Round must be used to explore ways leading to a modicum of mutual concessions so as not to imperil a successful solution in the industrial goods sector.

### **International Division of Labour**

*In spite of the preference systems adopted by some western industrial countries, the countries of the Third World are pressing for a more sweeping redistribution to their advantage as part of the international division of labour. Do you see a possibility of these claims of the developing countries being given more consideration by the industrialised nations at the next GATT Round?*

It goes without saying that the international division of labour cannot be altered by signing a treaty. All one can do at a GATT Round is to attempt to bring about more favourable conditions for a shift to a better international division of labour.

In the view of the International Chamber of Commerce it is desirable that the concessions which the industrialised countries grant each other in a new liberalisation round should automatically, without reciprocity, apply to the developing coun-

tries. In certain circumstances the granting of such concessions could be accelerated in favour of the developing countries. Furthermore, an increasing integration of the developing countries into the world economy would have the effect of improving the economic structure of these countries and thereby the structure of their exports; for so far the developing countries have in the main been exporters of raw materials and agricultural products. These commodities do not as a rule compete with agricultural exports from temperate zone countries, but the demand for them—e.g. cocoa and coffee—is very inelastic.

*On the other hand, the combined effect of all the various obstacles to trade facing their products in the industrialised countries is that the developing nations are not or cannot become competitive in the markets of the developed countries?*

This problem will certainly play an important role in the next GATT Round, and this for two reasons: First, among the GATT members are a very large number of developing countries, a fact which is occasionally overlooked. And secondly, this GATT Round is intended to prepare the ground for the continued and stable development of world trade on the basis of an adequately adapted multilateral system. This is impossible if the problems of the developing nations do not receive consideration. So efforts will have to be made to draw up trade arrangements which do not impose additional handicaps on the developing countries but ease their plight. Association agreements and generalised preference systems alone will not do, especially since the beneficial results of tariff preferences are sometimes over-estimated by developing countries.

*It will scarcely be possible to resolve the trade conflicts in the agricultural and industrial*

*goods sectors without further development of the statutes of GATT. In the past Article XXIV has been an especially contentious issue. It is the basis of EEC and EFTA, although back in 1947 it was not designed for economic mergers of this size and significance. What is your view of this world-wide tendency towards the formation of blocs?*

I do not think that this question can be posed in such general terms because there is a difference between a regional integration, e. g. in EEC, of countries at a similar economic level and in a continuous geographical area and an attempt at economic amalgamation of countries separated by vast distances or at different stages of development. The conditions under which the integration process is being carried out will also affect one's assessment.

But let me say a little more about Article XXIV and the EEC. Article XXIV was not designed to provide for minor arrangements only. The minutes of the talks on the setting-up of GATT in 1947 show that the possibility of a West European integration was kept in view at that time already. It was at British request that the free trade zone was included as a second possibility. To that extent it is unrealistic if the compatibility of EEC — which is after all on the way to becoming a real economic and monetary union with harmonised social, regional, financial, etc., policies — with Article XXIV is being questioned again and again. Besides, it is one of the principal aims of a new GATT Round to remove differences or discrimination which might be caused by the enlargement of the EEC.

#### **International Rules of Conduct**

*Would not all members have to reach agreement on the form which necessary exemptions and adjustments are to take, and on*

*international rules of good conduct, if more trade liberalisation is achieved by another GATT Round?*

Yes. Certain rules of conduct are already contained in the present text of the GATT Articles. It may be sufficient to tighten them by a supplementary protocol, e. g. in the case of Article XIX. Clear provisions however will, in addition, have to be made for regulations on exemptions and adjustments and also for complaint, consultation and arbitration procedures. No Government can be denied the right to take certain temporary measures when faced with some political or economic situations. But this ought to be done in conformity with uniform rules which ensure that deviations from the normal regulations do not apply longer than necessary.

#### **Upgrading of GATT**

*This would presuppose that the GATT Secretariat is greatly upgraded and the individual countries feel obliged to accept the new rules of conduct.*

I consider these two prerequisites indispensable. I mentioned earlier that in the past ten years governments have been increasingly predisposed to neglect their international commitments. That is why the GATT Secretariat — which has less power than many other regional or international organisations — needs strengthening. And all members will have to help towards this end by surrendering a small part of their national sovereignty. Limited as its powers are, and with a very small staff, GATT has done excellent work in the past. Whenever the Director-General chose to speak, the government concerned has felt at least under some moral pressure. In future it should be given the means not only for preparing and conducting further negotiations, but to watch over agreed regulations and rules of conduct.