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<u>The General Agreement on Tariffs and Trade</u>

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The General Agreement on Tariffs and Trade was signed by twenty-three countries at Geneva on October 30, 1947. It will come into effect provisionally on January 1, 1948, when seven major countries, Australia, Belgium-Luxemburg, Canada, France, Netherlands, U.K. and U.S. will enforce its provisions. The rest of the participating countries must follow suit by June 30, 1948.

The Agreement consists of three parts. Part I gives legal effect to the tariff concessions set out in the Schedules of the Agreement, and, in addition, provides for unconditional most-favored-nation treatment with respect to tariffs and customs matters generally. Under this clause, therefore, each party to the agreement benefits from concessions granted by or to all other parties to the agreement. In addition, tariff preferences, including empire preferences, on <u>all</u> products entering into international trade are bound at the levels in effect on a date prior to the agreement.

Part II deals with non-tariff trade barriers, of which the most important are quantitative restrictions and exchange controls. This part of the agreement is designed to prevent countries from frustrating the intent of the tariff agreement by resorting to non-tariff trade restrictions. Practically all of Part II is identical with the provisions recommended for the ITO Charter now being discussed at Havana. When the Charter comes into effect, its provisions will supersede those of the Agreement; differences between the two will be ironed out by consultation among the parties.

In addition, under U.S. Congressional pressure, this part of the Agreement provides that the tariff concessions specified in the Schedules may be withdrawn or suspended if, due to unforeseen developments, they cause or threaten serious injury to home producers. However, if the country withdrawing the concession does not reach agreement with the affected parties after such action is taken, the latter may withdraw equivalent concessions.

Part III of the Agreement deals chiefly with procedural matters. The agreement will enter into full force after it has been formally accepted by countries whose trade accounts for 85 per cent of the trade of all the negotiating countries. Any party may withdraw from the agreement, upon six months' notice, after January 1, 1951. As noted above, the agreement will come into force provisionally on January 1, 1948, when the seven countries undertake to apply the provisions of Parts I and III, and of Part II, insofar as it is consistent with existing legislation. This latter provision might easily prove a means of evading the responsibilities imposed by the agreement; its interpretation, however, is not clear and must be left to the Legal Department.

The concessions granted within the terms of the agreement affect two-thirds of the imports of negotiating countries, and nearly one-half of total world imports. The State Department analysis of the general agreement details U.S. concessions and benefits on the basis of U.S. trade in 1939. In that year, total U.S. imports were $2.2 billion, of which concessions have been made on $1.8 billion, or 78 per cent of total imports. Of the total concessions made, approximately 72 per cent consist of "bindings," or agreements to maintain the status quo, 22 per cent consist of tariff reductions of 25-50 per cent, and 6 per cent consist of tariff reductions of less than 25 per cent.

The U.S. obtained concessions on 1939 exports valued at $1.2 billion, or 40 per cent of total exports in that year. The extent to which such concessions are divided between bindings and actual reductions is not given.

It is estimated that U.S. exports in 1947 will reach $14.6 billion, and imports $5.6 billion. By applying the 1939 percentage to these figures, we can get a rough estimate of the amount of trade likely to be affected -- $4.4 billion of imports and $5.8 billion of exports.

The general reaction of U.S. businessmen, as well as that of most other countries, seems to be that the Agreement will have little effect upon trade in the near future. The one opportunity for immediate benefits lies in the possibility of increased imports into the U.S., the U.S. being the only major country without exchange controls to block an increased flow of trade.

It is too early to tell whether the tariff cut will be reflected in lower prices of imported goods within the U.S., or whether it will be absorbed by the foreign producer or intermediate distributors. However, it is reported that the retail prices of certain imports in the U.S., including whiskey, fabrics and china, will decline when the new tariffs come into effect.

The British press takes the point of view outlined above. They feel that the U.K. is most likely to benefit, in the short run, from concessions gained by itself and the other Commonwealth countries from the U.S., notably on meat, butter and wool. It is hoped that increased exports of these items to the U.S. in the near future will increase the flow of dollars to the sterling area dollar pool.

The White Paper (Cmd 7258) issued by the U.K. indicates that the proportion of British trade affected by the agreement is relatively small: 10 per cent of the value of British imports and 15 per cent of exports in terms of 1938 trade and prices.

Total U.K. exports in 1938 amounted to £562 million; concessions received by the U.K. are valued at £92 million, of which tariff rates were bound on £ 44 million and reduced on £48 million. Total U.K. imports in 1938 were £941 million, and the U.K. has granted concessions on £93.5 million of this total, of which £63.1 million are bound and £30.4 million reduced.

The U.K. has also granted additional indirect concessions insofar as it has agreed to the reduction by other Commonwealth countries of the margin of preference they normally accord to the U.K. These concessions affect U.K. exports to Commonwealth countries valued at £36 million in 1938.

The only aspect of the Agreement subject to sharp controversy in the British press arises with respect to rubber. Concessions made by the Colonies in reducing margins of preference to the U.K. were made chiefly to the U.S., and upon condition that U.S. consumption of synthetic rubber be limited to 25 per cent of consumption of natural, synthetic and reclaimed rubber.

Prior to the Agreement, an arrangement existed whereby the above percentage was 33.3 per cent. However, reclaimed rubber was not included in the previous agreement, and its inclusion in the present one means, according to the British Rubber Growers Association, that consumption of synthetic rubber, in absolute terms, is now permitted to be larger than before, despite the lower percentage. British protests resulted in an announcement by the U.S. Department of State on December 19, 1947 suspending this section of the Agreement pending renegotiation.

French press reports emphasize the fact that an exact evaluation of the new agreement is difficult because France is changing to a new tariff system, based chiefly on ad valorem duties rather than on specific duties. In addition, the prewar use of import quotas as a protective device has been dropped, although quantitative control of imports to protect foreign exchange resources, will, of course, continue in effect.

Canada appears, according to the Canadian press, to have received its most important concessions from the U.S., 90 per cent of its exports to the U.S. being affected. Canada has granted concessions affecting 67 per cent of its import trade, and it is estimated that the level of import duties on dutiable imports from the U.S. alone has been reduced by about 15 per cent.