General Agreement on Tariffs and Trade (GATT)

The General Agreement on Tariffs and Trade was a PACT originally adopted at Geneva on October 30, 1947. It governed tariff concessions on industrial products as agreed to among its 23 original signatories. These initial GATT partners included the most important countries allied in World War II against the Axis Powers. The negotiations were driven by the postwar agenda of the main Allied powers, the UNITED STATES, the UNITED KINGDOM, and Canada, to create postwar institutions to prevent a reemergence of war and depression. This aim could be accomplished, in their view, only by ending economic nationalism and the extensive protectionist policies that had characterized the inter-war period.

The GATT was supposed to be an "interim" agreement until an International Trade Organization (ITO), which would provide a more ambitious regulatory framework for world trade, was established to join the INTERNATIONAL MONETARY FUND (IMF) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK) in overseeing the international economy. While the Final Act of the United Nations Conference on Trade and Employment at Havana, Cuba, establishing an ITO, was signed on March 24, 1948, this so-called Havana Charter was withdrawn from consideration by the TRUMAN Administration in 1950 because of the almost certain defeat it faced in the US Senate. This left the GATT by default as the mainstay of the international trading system. It, along with the IMF and the World Bank, was intended to promote a global free trade system.

To underline its "interim" status, secretarial support for the GATT was provided by the UN's Interim Committee for International Trade Organization. Over its almost 50-year lifetime, the GATT SECRETARIAT, which remained very small by UN standards, had four Executive Secretaries (subsequently upgraded to the more prestigious title of Director General): Eric Wyndham White, Olivier Long, Arthur Dunkel, and Peter Sutherland. Another sign of the provisional nature of GATT was that its Secretariat did not actually have a permanent home until 1977 when it moved into the Centre William Rappard on the shores of Lake Geneva.

There were several key principles embodied in the various articles of GATT. It established the principle of non-discrimination in international trade as expressed in most-favoured-nation (MFN) treatment (Article I) and national treatment (Article III). Under “MFN treatment," signatories to GATT agreed to extend the lowest tariff rate that was generally applicable to the imports from all other GATT countries. Under “national treatment,” member countries agreed that tax and regulatory policies should not be applied to imported or domestic products so as to afford protection to domestic production. Additionally, the agreement required the publication and transparency of trade regulations (Article X); the use of tariffs not non-tariff barriers to regulate trade (Articles III through XXIII); the objective of a progressive reduction of tariffs (Article XXVIII); the private, and not governmental, nature of trade; the acceptance of barriers against dumped or subsidized imports (Article VI); the settlement of disputes through consultation and negotiation (Articles XXII and XXIII); and the avoidance of retaliation.

Over eight rounds of negotiations, culminating in the 1986-1994 Uruguay Round, progress was made in lowering average tariff rates on manufactured goods levied by industrialized countries from 40 percent before GATT to around 4 percent. Progress was also made in eliminating barriers to trade such as exchange controls, import licensing, quotas, and other quantitative restrictions that were even more damaging than tariffs. But it was not until the Uruguay Round that significant separate agreements were reached covering the two key excluded areas of agriculture and services.

In its negotiations, the GATT employed an easy three-step recipe to reduce the overall level of protectionism in the world economy. First, less visible non-tariff trade barriers were, wherever possible, replaced with tariffs or, better still, eliminated. Second, maximum (or “bound”) tariff rates were negotiated. The “binding of tariffs” results in countries agreeing not to

increase a tariff after it has been lowered. Third, the bound rates continued to be lowered over time in subsequent rounds of negotiations.

For most industrialized countries, under GATT rules, bound tariff rates were the same as MFN tariff rates. But for developing countries, bound tariff rates were often much higher than the actual "applied" rates, that is, the existing rates then in place, and consequently the bound rates served as a ceiling. This gave these poorer countries the flexibility to raise tariffs arbitrarily and unexpectedly if they so chose. In contrast, countries that bound their tariffs at applied levels were required to compensate their trading partners if for any reason they raised their tariffs. During the Uruguay Round, there were detailed schedules of bound tariffs by Harmonized System classification for each individual country participating in the negotiations.

The Uruguay Round tariff cuts, which were fully phased in by the year 2000, averaged almost 40 percent and lowered the average tariff on industrial products levied by developed countries from 6.3 percent to 3.8 percent. The proportion of the value of these products that were duty free rose from 20 percent to 44 percent. The proportion facing high tariffs above 15 percent fell from 7 percent to 5 percent. And the proportion of these tariff lines that were bound increased from 78 percent to 99 percent.

According to a 1997 Organization for Economic Cooperation and Development (OECD) study, average tariffs would be reduced substantially when the Uruguay Round cuts were fully in place. For the four largest economies (the United States, the European Union, Japan and Canada), tariffs would average in the 4 to 7 percent range and be higher in the European Union and Canada than in Japan and the United States. Excepting Switzerland and Sweden, bound tariff rates would be significantly higher in other advanced OECD countries, averaging from 9 to 25 percent. And bound tariffs would be even higher in the developing countries of Mexico and Turkey, averaging 35 to 45 percent, which would be representative of bound tariff rates in the developing world. Applied tariff rates only averaged 14 percent in Mexico and 10 percent in Turkey.

While much progress had been made in eliminating or lowering non-tariff barriers (NTBs), at the turn of the century they still existed and were important. The OECD examined the prevalence of NTBs among OECD countries. The NTBs considered fell under two rubrics: price controls and quantitative restrictions (QRs). Price controls covered Voluntary Export Restrictions (VERs) like those used for automobiles and textiles, variable charges, and antidumping and countervailing duties. QRs included non-automatic licensing, export restraints, and other quotas and import prohibitions. The OECD study showed that QRs were still very prevalent.

The GATT and its Secretariat were subsumed into the WORLD TRADE ORGANIZATION (WTO) on January 1, 1995. The GATT and its related understandings and agreements became parts of Annex 1A to the "Marrakesh Agreement Establishing the World Trade Organization." Consequently, future GATT negotiations will take place under the auspices of the WTO, the GATT will be administered by the WTO, and disputes will be resolved under the new rules of the WTO's dispute settlement understanding. (P.M. Grady)

See also Bretton Woods Agreement, Annan.

For further reading: Hart, Michael. *Fifty Years of Canadian Statecraft: Canada at the GATT 1947-1997*. Ottawa: Centre for Trade Policy and Law, 1998. Organization for Economic Cooperation and Development. *Indicators of Tariff and Non-tariff Trade Barriers: Update1997*. Paris: Organization for Economic Cooperation and Development, 1997.