Nontariff Barriers and the Free-Trade Area Option (*)

The present state of international commercial policy among the industrial countries of the world has called forth lively discussion among professional economists and government officials and in the popular press concerning new initiatives that should be taken during the 1970's toward freer trade. The absence of such initiatives, it is felt, may well result in a general resurgence of protectionism and an undoing of the gains attained during the decade of the 1960's. One alternative would be the creation of a broad-based, industrial free trade area — with or without participation of the EEC — perhaps composed of the North Atlantic group of countries (NAFTA), or all industrial countries including Australia-New Zealand and Japan (IFTA). This possibility has aroused considerable interest in the United States, Britain and Canada as a potentially viable trade-policy option for these countries (1). This paper investigates the relationship between the free-trade area option and nontariff barriers to international trade among industrial countries.

Introduction

In recent years, a great deal has been written about the role of so-called nontariff barriers (NTB's) to international trade. As tariff levels among the world's major trading nations have been progress-

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(1) See, for example, the monographs by David Robertson, T. M. Rybezynski, Hans Liesner, Gerard Curzon, Maxwell Stamp, Harry Cowie and others under the auspices of the Atlantic Trade Study, London, published in 1967 and 1968. See also T. M. Franck and E. Weisband (Eds.) *A Free Trade Association* (New York: New York University Press, 1968) and the papers by Jacob K. Javits, Judd Polk, Robert G. Hawkins and others in *Columbia Journal of World Business*, Sept.-Oct. 1968.

ively reduced — particularly after the successful conclusion of the "Kennedy Round" of tariff negotiations — attention has increasingly focused on other factors tending to restrict trade. Indeed, it is periodically alleged that such barriers have been used overtly and covertly by many countries to offset either wholly or partially the reduced tariff protection arising out of postwar multinational trade negotiations. Whether or not this in fact is the case, it is nevertheless clear that the *relative* importance of nontariff restrictions to trade has risen as tariff levels have fallen, and that they will represent a growing component of future trade negotiations.

From an analytical point of view, nontariff barriers to trade comprise one of the most perplexing subjects in the study of international commercial policy (2). For the most part, professional forays into the area have ended in little more than descriptive surveys of the kinds of restrictions thought to exist in various countries, and even the task of identification and classification is often extremely difficult (3). Aside from problems related to the multiplicity of types, variability, and intent of nontariff restrictions to trade, the major difficulty inheres in their measurement. In the case of tariffs, each individual customs duty represents an explicit burden on imports and is expressed as a number, which may be compared, manipulated and combined with others in a variety of ways in order to develop acceptable and theoretically defensible estimates of protection. This is not true of nontariff barriers, which rarely exist in such explicit form. And even when they do — as in the case of quantitative import restrictions — the NTB's may be extremely variable from one time period to the next.

The project upon which this paper is based had three basic purposes: 1) to develop an orderly and useful classification of nontariff restrictions to trade; 2) to provide a reliable inventory and inter-country comparison of nontariff barriers imposed by the major

(2) For one of the pioneering studies in the field, see Percy Bidwell, *The Invisible Tariff: A Study of the Control of Imports into the United States* (New York: Council on Foreign Relations, 1939). Another early study is J. Grunzel, *International Protectionism*, (London: Oxford University Press, 1916).

(3) See, for example, William B. Kelly, Jr., "Nontariff Barriers", and Douglas Dosser, "Fiscal and Social Barriers to Economic Integration in the Atlantic Area", in Bela Balassa (Ed.), *Studies in Trade Liberalization* (Baltimore: Johns Hopkins Press, 1967); Hans Liesner, *Atlantic Harmonization: Making Free Trade Work* (London: The Atlantic Trade Study, 1968), and R. M. Stern and R. J. Smith, "Transatlantic Dfferences on Trade and Tariff Policy", *Banca Nazionale del Lavoro Quarterly Review*, September 1968.

industrial nations, and at least a preliminary estimate of their role in trade among these countries, with special emphasis on their impact on U.S. exports; and 3) to assess the implications of nontariff trade barriers for a broad-based industrial free-trade area. The following countries were considered: France, Germany, Italy, Netherlands, Belgium-Luxembourg, United Kingdom, Norway, Sweden, Finland, Austria, Switzerland, Portugal, Ireland, Japan, Australia, New Zealand, Canada and the United States. Nontariff barriers on all products groups, including agricultural commodities, were examined within the framework of the Standard Industrial Trade Classification (SITC) system.

As will hopefully become clear in what follows, nontariff barriers today assume a major role in international commercial policy, a role which is certain to become even more significant in the future. Efforts for trade liberalization will increasingly focus on nontariff restrictions, and provisions covering any future free-trade areas will inevitably have to address themselves to this problem in a direct manner. Indeed, it may well be that the formalization and commitments attending the creation of a multinational industrial free-trade grouping will provide the best means of reducing nontariff barriers among the advanced countries of the world.

The Nature and Operation of Nontariff Barriers

In the broadest sense, nontariff barriers to international trade encompass all private and governmental policies and practices that serve to *distort* the volume, commodity-composition, or direction of trade in goods and services. Clearly, this represents a weak operational definition. It hinges upon a fine judgement as to what is "distortive" of trade and what is not. In their day-to-day operations, businessmen influence the volume and pattern of international trade in a wide variety of ways on both the supply and the demand side of the economic equation. Reduced production costs and prices, increased product differentiation as well as advertising may, for example, serve to reduce imports when practised by import-competing suppliers, and to increase sales abroad when implemented by exporting firms. Yet it would be nonsensical to classify such measures as nontariff barriers and to point to their "distortive" impact, even when practised by large multinational corporations. At the same

time, business firms — acting alone, in groups, or in concert with governmental units — do often engage in practices which clearly fall under the heading of nontariff barriers. Similarly, national governments and individual governmental units at various levels may apply a wide variety of measures which can and do affect trade, sometimes as a remote side-effect not at all connected with the primary purpose of the specific policy action.

Economists have contributed to the confusion surrounding NTB's by largely ignoring the problem of *intent* of nontariff restrictions to trade, which is perhaps the governing element from a definitional standpoint. They have tended simply to group nontariff policies and practices thought to affect international trade in a *functional* manner, more or less as follows: 1) Quantitative controls on imports and exports, including state-trading. 2) Government procurement policies. 3) Customs procedures. 4) Antidumping legislation and practices. 5) Border tax adjustments. 6) Miscellaneous internal policies that affect trade (4). As will become clear shortly, we shall employ a classification system more closely related to the intent of nontariff restrictions — one designed to be both operationally useful and consistent with the standard theory of trade-restriction.

Nontariff barriers to imports may work in several ways, each of which may or may not be important in any specific instance. *Import-directed* NTB's tend to result in higher prices of imports and import-competing goods for domestic consumers and users and reduce the supply of goods available by: (a) imposing significant costs on foreign exporters or domestic importers; (b) quantitatively limiting the volume of imports permitted; (c) imposing conditions of high uncertaintly and risk on domestic importers or foreign exporters, to which they respond by limiting the volume of trade; or (d) a combination of the above. *Export-directed* NTB's may artificially stimulate foreign sales by lowering or removing costs that would otherwise have to be borne by exporters. This permits lower export prices and enhances domestic suppliers' competitiveness in world markets relative to their foreign counterparts. For foreign consumers or users, such measures will — if successful — bring about reduced prices and increased supplies of the commodities in question. Export-

(4) See W. B. Kelly, *op. cit.*, and Robert E. Baldwin, "Nontariff Barriers: A Brief Survey", in U.S. Senate, Committee on Finance, *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies* (Washington: U.S. Government Printing Office, 1968).

directed nontariff barriers may also be aimed at *impeding* sales abroad, particularly of primary commodities, when it is desired to increase value-added at home or to avoid resource-depletion (5).

Types of Nontariff Trade Restrictions

As noted, it is perhaps most useful to group nontariff barriers by intent. This is because there are a large number of distortions to trade which are generally considered NTB's, but which are applied without the specific purpose of impeding imports or artificially stimulating exports. Accordingly, we shall use the following three classifications:

Type I - Measures designed primarily to protect domestic industry from import competition, to restrict exports, or to strengthen domestic industry in competing with imports or competing for export markets. These are sub-classified into import-directed and export-directed groups.

Type II - Trade-distorting policies and practices which are imposed primarily with the intent of dealing with non-trade-related problems, but which are periodically and intentionally employed for trade-restrictive purposes.

Type III - Policies and practices applied exclusively for non-trade-related reasons, but which unavoidably serve to distort international competitive conditions and hence affect trade.

Type I Restrictions: Import-Directed

There are about a dozen NTB's applying to imports that can be distinguished as belonging to the Type I classification: implemented with the specific intent of impeding imports or stimulating exports in a manner distortive of trade. This category also includes measures designed to restrict exports of trading partners for the purpose of protecting domestic industry.

(5) It is, of course, possible to illustrate the operation of nontariff barriers in a more formal way by using economic analysis, but this is beyond the intent of this paper.

1. *Quantitative restrictions*: Quotas and discretionary licensing imposed on imports. Also, quotas and licensing designed to restrict exports, including " voluntary export restrictions ", to which a nation may submit either under pressure from trading partners desiring to reduce their own imports of the commodity in question, or as part of a multilateral agreement.

2. *Variable levies*: Essentially *ad valorem* import surcharges — including tariff quotas (6) — which may be varied according to conditions prevailing on the domestic market. These are applied most often to imports of agricultural commodities, in order to insure that the domestic price of farm produce remains within a range specified under the national or regional agricultural policy. A two-fold protective effect may be felt, as a result of (a) the levy itself and (b) increased uncertainty among foreign suppliers and traders as to their ability to compete in the protected market.

It may be argued that any administrative prerogative to raise tariffs in an *ad hoc* manner for whatever reason represents a form of variable levy. Escape-clause and " national security " provisions for increased tariff protection are two examples of this. In the case of the U.S., two additional examples are provisions under the Tariff Act of 1930 which permit tariff increases in order to " equalize costs of production " and offset " unfair acts " on that part of foreign exporters (7).

3. *Supplementary charges*: Lump-sum, specific charges on imports, as opposed to the *ad valorem* charges usually associated with variable levies. The impact on costs and uncertainty is essentially the same as under variable levies.

4. *Minimum import prices*: Often applied, in connection with variable levies or supplementary charges, to imports of agricultural commodities. A minimum import price is fixed which will not disrupt the domestic market. Foreign suppliers must offer their

(6) Tariff quotas represent variable tariffs, the levels being contingent on import volume. For example, a country may impose an *ad valorem* tariff of 10% on the first 1,000 units, and 50% on all imports over 1,000 units.

(7) The relevant U.S. provisions have been embodied in the following: (a) Escape clause, Trade Expansion Act of 1962, Sections 301b and 351; (b) National security, *ibid.*, Section 232; (c) Cost equalization, Tariff Act of 1930, as amended, Section 336; (d) Unfair acts, *ibid.*, Section 337. The effect of the last two provisions is probably minor, and would appear to operate largely through the trade-retarding effects of uncertainty.

goods at or above this price. Otherwise, a supplementary charge or variable levy will be applied so that the import price equals the established minimum and domestic suppliers are safeguarded. Minimum import prices may also be applied in conjunction with state-trading practices and quantitative import controls.

5. *Conditional imports*: Application of a system similar to that employed under minimum import prices to quantitative import restrictions. Quantitative barriers are set according to the state of the domestic market, with imports freely permitted under certain conditions and severely restricted under other circumstances. Generally, conditional imports are again characteristic of trade in agricultural commodities, with the size of the domestic harvest acting as the determining variable. Once more, there is a two-fold restrictive effect operating through a quantitative limitation of imports and increased uncertainty.

6. *Import calendars*: Usually implemented in connection with quantitative restrictions — and sometimes with supplementary charges and variable levies — on imports of agricultural commodities. Typically, imports are restricted from the time a domestic crop is harvested until all of it has been consumed. They are relatively free from restriction during the remainder of the year. Import calendars are used by a number of industrial countries. For example, Austria employs them to restrict entry of such commodities as carrots (June 1 to February 28), strawberries (June 1 to July 13), and so forth.

7. *Mixing, milling, and domestic-content regulations*: Restrictive of trade by specifying the domestically-produced content of all products of a certain type permitted to be offered for sale in the importing country. Such regulations may serve as a trade barrier in terms of both reducing the imported content allowed and raising the cost of the product due to the necessity of further processing within the importing country.

8. *Discriminatory government purchasing*: Discrimination in purchases for government account of goods and services in favor of domestic suppliers. Whereas there may at times be sound reasons — with regard to quality and service — for domestic purchases by national and state-local government and quasi-governmental units, restricted bidding and other " buy-domestic " practices and legislation, as well as domestic-content regulations imposed on government contractors and sub-contractors, clearly represent import restrictions. This includes " tying " foreign-aid credits and grants to purchases in the donor country (8).

9. *Buy-domestic extensions*: Government action designed to coerce the general public or nationalized, government-regulated, or government-influenced industries or business firms to purchase import-competing goods or services in preference to imports. This distortion may apply both to goods already in existence as well as goods to be produced in the future which require long production lead-times and a major public or private capital commitments.

10. *Subsidies*: Direct government subsidization of import-competing suppliers through tax rebates, credits, and so forth.

11. *Antidumping measures*: Practices and attendant legislation designed to impede " dumped " imports. These are generally implemented in the form of quantitative import restrictions or import surcharges, but may also involve government subsidization of import-competing suppliers (9).

12. *State trading*: Practices associated with state trading insofar as they are distortive of trade and designed to protect import-competing suppliers.

Type I Restrictions: Export-Directed

There are a smaller number of Type I NTB's specifically aimed at promoting or restraining exports. These appear to be of substantially less overall significance than those intended to protect domestic suppliers from import competition.

1. *Subsidies*: Direct government subsidization of exports by means of rebates, resale arrangements, and so forth.

2. *Export credit insurance subsidization*: Actuarily unsound export credit insurance schemes which have historically operated with deficits covered by the government.

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(8) See for example, Organization for Economic Cooperation and Development: *Government Purchasing* (Paris: OECD, 1966).

(9) For some applications, see A. Mastropasqua, *Le Marché Commun et la Défense Contre le Dumping* (Rome: G. Pastina, 1965). See also General Agreement on Tariffs and Trade, *Anti-Dumping and Countervailing Duties* (Geneva: GATT, 1958).

3. *Dumping*: Pricing practices of a predatory nature specifically designed to disrupt foreign markets, whether or not engaged in with overt or covert government support.

4. *State trading*: Subsidization of exports under the guise of state trading, as practiced by government export monopolies.

5. *Quantitative export restrictions*: Designed to impede exports of certain commodities in order to increase domestic value added, preserve domestic resources, avoid disruption of foreign markets, prevent the export of defense-related technology, or for related reasons. Restriction may take the form of quotas or discretionary licensing.

6. *Export charges*: Purpose similar to that of quantitative export restrictions. Normally applied to exports of primary commodities only.

Type II Restrictions

More numerous than those NTB's specifically aimed at affecting imports or exports are measures employed as trade barriers collaterally with their primary intent of dealing with other economic, social or political problems. Such measures can operate either on the import or export side; they often affect both imports and exports simultaneously.

1. *Customs valuation*: Discriminatory or arbitrary procedures designed to raise the dutiable value of imported commodities in order to increase the real tariff burden borne by these commodities. Valuation procedures may or may not be intentionally protective. U.S. application of " American Selling Price " valuation to imports of benzenoid chemicals, and variations in valuation of bulk and bottled spirits, are examples in this category (10).

2. *Customs classification*: Discrimination by customs authorities in classifying imports in terms of low-tariff and high-tariff categories. This factor may be especially important when significant discretion is allowed the individual customs agents in the classification process.

(10) See, for instance, H. Grubel and H. G. Johnson, " National Tariff Rates and United States Valuation Practices ", *Review of Economics and Statistics*, August, 1967.

3. *Border tax adjustments*: Applied in connection with national indirect tax systems. Rebates on exports granted by a country may be overcompensated by countervailing duties levied by the importing nation. Neutral border tax adjustments may be turned into implicit export subsidies by means of increased rebates, or into implicit import surcharges by means of increased countervailing duties.

4. *Mark-of-origin regulations*: May be imposed in a discriminatory manner on imports, thereby increasing costs. Variability in such regulations may additionally serve to increase uncertainty on the part of importers and hence retard trade.

Mark-of-origin regulations may be used as a protectionist device if they require that the country of origin be noted on the imported commodity in a particularly striking or obtrusive manner. Under certain conditions, the importer, wholesaler or retailer may simply find the goods unsaleable and will terminate his purchases. In the U.S., the Federal Trade Commission is charged with preventing deceptive practices with respect to origin markings, and there certainly are differences among those involved as to what is " obtrusive " — and hence trade-retarding — and what is not.

5. *Marketing standards*: Advertising and marketing regulations that are used to discriminate against imports (11). For example, a product may not be advertised and sold as " beer " in Germany unless it is of a stipulated composition of ingredients, and certain countries forbid the inclusion of corn oil in food products sold under commonly-accepted generic names.

6. *Safety requirements*: Application of legitimate safety requirements in such a way as to be discriminatory against imports. Especially vulnerable to such restrictions are imports of transportation services on public carriers, automotive vehicles, gas cylinders and other pressure vessels, and industrial machinery. Safety regulations

(11) An interesting case in point is the marketing standard applied to imported tomatoes by the U.S. Department of Agriculture in January of 1969. At the request of import-competing Florida suppliers, USDA ruled that green tomatoes sold in the U.S. must be at least 2 9/32'' and ripe tomatoes at least 2 17/32'' in diameter. Although they apply to both U.S.-grown and imported tomatoes, only about 15% of the American crop is affected while the regulations affect over half of the Mexican crop — Mexico is the chief supplier of tomato imports. The resulting rise in U.S. retail tomato prices is estimated to be well over 50%. See *The Wall Street Journal*, March 4, 1969.

may require inspection and approval by agencies which only operate within the importing country, thereby in effect excluding foreign-made products.

7. *Health requirements*: Regulations concerning the sanitary characteristics of imports of food and non-food items when applied in a manner clearly discriminatory against imports. Such restrictions impose costs on importers through service fees, additional processing required before sale, or long inspection delays. They may also result in substantial uncertainty on the part of importers.

8. *Internal transport charges*: Discriminatory charges on transportation of commodities within countries, with preferences granted to selected export or import-competing industries by nationalized, government regulated, or government-influenced common carriers.

9. *Customs procedures*: Cost-imposing border-clearance procedures, especially those — such as appraisal and duty-determination — applied at the customs frontier itself. This includes customs-clearance practices aimed at imposing costs and increasing uncertainty through harassment and undue delay.

10. *Use taxes*: Imposed on imported commodities in a discriminatory manner. This restriction may be important when applied to automotive motor vehicles based on horsepower, weight, or piston-displacement. Generally, such taxes are levied on a highly progressive basis, with most import-competing products falling at the low end and imported goods falling at the high end of the tax-rate scale.

11. *Advance deposits*: Cash deposits required in advance of importation for duties, variable levies or other import charges anticipated to be incurred by the imported product. Advance deposits may also be based on the value of the imports themselves. Such restrictions impose an interest cost which falls on the importer. They are especially significant when the required deposits exceed substantially the amount of the charges payable or are fixed at a high percentage of the value of imports.

12. *Exchange restrictions*: These may be applied primarily for balance-of-payments reasons, but may be used specifically to protect import-competing industries or, in the case of multiple exchange rates, to stimulate exports.

13. *Media restrictions*: Limitations on the amount of foreign content permitted in imported and locally-published newspapers, books and magazines, or in motion-picture films and television and radio programs. Such policies restrict international sales or rentals in the affected communications media.

14. *Government entrepreneurship*: Production of import-competing and export goods that would not be supplied without government initiative. This may hold special significance if it involves the formation of government-sponsored consortia and is applied in connection with " buy domestic " programs in procurement by the government or government-influenced business firms.

15. *Government financing*: Low-cost financing provided or guaranteed by the government of investments in physical plant and equipment or research and development, to be employed in the production of import-competing or export goods.

16. *Trade agreements*: Bilateral or multilateral in nature, which operate to the complete or partial exclusion of competitive suppliers in certain countries. These include long-term delivery contracts, bulk-purchase agreements, buffer stocks, and bilateral or multilateral commodity agreements.

Type III Restrictions

Most of the NTB's falling under the third classification may be considered ancillary effects of policies and measures applied substantially without regard to their probable impact on imports or exports. Nevertheless, some of these may have an important bearing on trade flows, even if the protective intent is absent.

1. *Variation in tariff classification and valuation*: The existence of different tariff classification systems (e.g., TSUS versus BTN) or valuation systems (e.g., c.i.f. versus f.o.b.), may have an effect on costs by reducing efficiency in trade below what it would be in the event of uniform practices. There may also be some trade- retarding effect attributable to increased uncertainty.

2. *Variation in indirect tax systems*: If not fully compensated by border tax adjustments — compensation which may under certain

conditions be extremely difficult — such variations may serve to distort trade without intent to do so on the part of the responsible authorities (12).

3. *Variation in direct tax systems*: If it can be shown that variations of direct taxes imposed on business firms bear on their ability to reinvest earnings, and that this affects price and quality of tradeable goods, such variations may affect trade to some degree. This may be especially true if such variations have an impact on *future* international competitiveness, via their effect on current business investment in physical plant and research and development. So far, there is no conclusive evidence of this, although it cannot be dismissed out of hand — nor can similar variations in direct taxes falling on individuals (13).

4. *Variation in depreciation methods*: There are significant inter-country differences in permissible methods of depreciation. These affect the cash-flow of business firms, and may influence the quality and productivity of capital equipment employed in production. In this way, there may be some connection between this and the long-term price and quality competitiveness of export and import-competing suppliers (14).

5. *Variation in weights and measures*: International differences in electrical standards, measuring systems, driving practices, and so forth, affect production costs, product quality, and international

(12) See STANLEY S. SURREY, "The Wonderful World of Taxes", *Columbia Journal of World Business*, May-June, 1968; and his "Implications of Tax Harmonization in the European Common Market", statement to the National Industrial Conference Board as reprinted in Committee on Ways and Means, U.S. House of Representatives, 90th Congress, 2nd Session, *Foreign Trade and Tariff Proposals* (Washington, D.C.: GPO, 1968), pp. 56-66. See also DOUGLAS DOSSER, "Fiscal and Social Barriers to Economic Integration in the Atlantic Area", in BELA BALASSA (Ed.), *Studies in Trade Liberalization* (Baltimore: Johns Hopkins Press, 1967), and CARL S. SHOUP (Ed.), *Fiscal Harmonization in Common Markets*, Vols. I and II (New York: Columbia University Press, 1966). Also of interest is EEC Commission, "Report of the Fiscal and Financial Committee" — the *Neumark Report* — (Brussels: EEC, 1963), and Organization for Economic Cooperation and Development, *Border Tax Adjustments and Tax Structures* (Paris, OECD, 1968).

(13) See M. KRYZANIAK and RICHARD A. MUSGRAVE, *The Shifting of the Corporation Income Tax* (Baltimore: Johns Hopkins Press, 1963), and CHALLIS A. HALL, "Direct Shifting of the Corporation Income Tax in Manufacturing", American Economic Association, *Papers and Proceedings*, May 1964.

(14) See, for example, PIERRE WACK, *Die Anforderungen an ein Unternehmen und Seine Chancen im Gemeinsamen Markt* (Baden-Baden: Lutzeyer, 1961).

competitiveness. Such differences may not be maintained for restrictive purposes, but increased standardization would serve to facilitate both imports and exports of most industrial countries.

6. *Variation in national consumption patterns and related governmental policies*: As influenced by government programs and practices, differences in national cultural, social and dietary patterns affect tastes and the composition of consumer purchases. This category may include a broad range of actions including income-distribution policies, anti-smoking campaigns, and so on. Especially important may be sumptuary laws and regulations designed to affect consumption of certain products, particularly alcoholic beverages, for social, moral, religious or other reasons.

7. *Variation in social charges*: Inter-country differences in social-security systems and health-insurance schemes, in terms of their burden on producers, coverage of programs, and methods of application.

8. *Variation in economic policies*: Imports and exports are influenced by national monetary and fiscal policies in terms of their impact on interest cost and credit availability, tax rates and incidence, and aggregate demand. Also of importance may be regional-development policies affecting export and import-competing industries.

9. *Government-sponsored R & D*: Government-financed subsidized or otherwise materially-supported research and development programs affecting export or import-competing goods. This includes spillovers from R & D expenditures not necessarily related to production of tradeable commodities, particularly with regard to the defense and aerospace areas.

10. *Government-induced scale effects*: Impact of massive government procurement of military or other goods and services on the cost and quality of exports and import-competing commodities. This effect will make itself felt via economies of scale achieved in this manner by the affected industries.

11. *Direct defense spillovers*: Closely related to the two preceding categories — but included here as a separate category — is the cost-reducing impact of government defense-related development contracts and subsequent production of non-defense versions of the same or similar products by export or import-competing industries. Also

included is the use of government owned plant and equipment for other than government-purchased production of tradeable goods and services.

12. *Transfer costs*: Docking and port delays and congestion, pilferage and other security lapses, longshoremen's strikes, dockside bribery, inadequate port and warehousing facilities for imports, high dock-charges, and so forth, as well as "smuggling duties" for the procurement of licenses. All of these affect costs, either directly or indirectly, as in the case of increased insurance charges. They may also affect delivery times, merchandise quality, and other factors influencing competitiveness. All are to some degree subject to government regulation.

13. *International cartels*: International private market-sharing or price-fixing agreements explicitly or implicitly sanctioned by one or more governments with respect to trade in goods and services supplied by participating firms (15). There may also be important secondary effects, as in the case of the International Air Transport Association (IATA) and the various shipping conferences. Such service cartels, with or without government participation, may grant discriminatory shipping rates in the process of maximizing collective profits. Discrimination may be applied randomly, but may nevertheless bear disproportionately on the exports of certain countries (16).

The above classifications of nontariff barriers are meant to be as inclusive as possible. Whereas it obviously is not an exhaustive listing of every conceivable type or variation of nontariff barriers, its categories should encompass all such restrictions in one way or another, and should be useful for analytical purposes. In the following section, we shall consider primarily Type I restrictions.

(15) A good example of this occurred in December of 1968 in the shipbuilding industry. Changing conditions in the competition for the construction of large-size tankships between Europe and Japan were beginning to shift in favor of Europe. In response to this, European and Japanese shipbuilders began to work toward a market-sharing and price-fixing agreement, rather than continue to compete with one another. The following quotation of the president of a major Japanese shipbuilder is illustrative: "We don't deny the principle of free competition, but in the past few years, because of cut-throat competition between Europe and Japan, the price has come down to an *unreasonable* level, so we would like to recover. What we are seeking isn't to fix a price for each contract, but to set a reasonable price level; more or less an *understanding*" (italics supplied). See *The Wall Street Journal*, January 2, 1969, p. 24.

(16) Early in 1969, for example, all of the shipping companies comprising the Atlantic & Gulf Coast — West Coast — South America Conference agreed to raise shipping charges between the U.S. and Latin America by 7 1/2% to 10% due to a longshoremen's strike. This indicates the concerted action such shipping conferences are able to take.

Having defined and surveyed the operation of nontariff restrictions to trade on a conceptual level, and having identified and classified such barriers, it is possible to proceed with a discussion of the use of NTB's by individual countries. It will become evident shortly that national application of NTB's varies widely among the nineteen industrial countries under consideration here. The data used in the study on which this paper is based came from an inventory of NTB's among industrial countries compiled by the author in mid-1968. This inventory consists of some 2,600 individual nontariff barriers applied by the nineteen industrial nations under study, culled from a variety of sources (17).

Each of the NTB's contained in the inventory was identified according to the commodity to which it applies by means of a four-digit Standard International Trade Classification (SITC) breakdown. Whenever a restriction overlapped more than one four-digit commodity group, the relevant three-digit category was used. Consequently, the inventory consists of NTB's by country and by three

(17) Basic sources of information for compilation of the inventory were GATT documents released between 1955 and 1968, correspondence with trade officials of various countries, prior work on this problem by the United States — Japan Trade Council, a search covering the years 1960-67 of various U.S. and foreign trade publications, correspondence with EEC officials, discussions with officials at UNCTAD in Geneva, and the following specific publications: Bela Balassa (Ed.), *Studies in Trade Liberalization* (Baltimore: Johns Hopkins Press, 1967); Hans Liesner, *Atlantic Harmonization: Making Free Trade Work* (London: Atlantic Trade Study, 1968); Lawrence B. Krause, *European Economic Integration and the United States* (Washington, D.C.: The Brookings Institution, 1968); U.S. Office of the Special Representative for Trade Negotiations, "Preliminary Inventory of Nontariff Barriers" submitted for the record to Committee on Ways and Means, U.S. House of Representatives, 90th Congress 2nd Session, *Foreign Trade and Tariff Proposals* (Washington, D.C.: GPO, 1968). Part 1; and Bureau of International Commerce, U.S. Department of Commerce, "Non-Tariff Trade Barrier Inventory by Country", as submitted to the Committee on Ways and Means and printed in *ibid.*, Part. 9. The Special Representative's inventory is a reflection of submissions by U.S. businesses on nontariff restrictions facing them in their efforts to export to other countries, checked for accuracy by the staff of the Office. The Commerce inventory is an up-dating of a similar inventory compiled in 1963 by country and regional specialists, tariff analysts, and complaints received from the business community. In 1968, the GATT compiled a complete inventory of nontariff barriers from submissions by each country regarding the nontariff barriers facing its exporters. This inventory is to be used in future trade negotiations under the auspices of the GATT, and remained confidential and unavailable for analysis and incorporation into this study. However, the major nontariff barriers are included here, and the GATT inventory undoubtedly includes a substantial amount of trivia designed to strengthen the hand of the individual submitting countries in future negotiations.

TABLE

APPLICATION OF BORDER TAXES
(in force as of January, 1969)

Country	Type of Tax	Commodity Coverage	Rate	Base
Australia	none	—	—	—
Austria [a]	Turnover equalization	(a) Food items (b) Intermediates (c) Finished goods	1.8% 3.3% 5.5%	DPCIFVAL DPCIFVAL DPCIFVAL
Canada	none	—	—	—
Denmark	Value-added equalization	Most manufactures	12.5%	DPCIFVAL
Ireland [b]	Turnover equalization	Most imports	0-7.8%	DDPCIFVAL
Japan	none	—	—	—
New Zealand	none	—	—	—
Norway [e]	Turnover equalization	Most manufactures	13.64%	DPCIFVAL
Portugal	Transmission	(a) non-luxuries (b) Luxuries	7% 20%	140% of DPCIFVAL 140% of DPCIFVAL
Sweden	Value-added equalization	All goods	11.1%	DPCIFVAL
Switzerland	Turnover equalization	Most manufactures	5.4%	DPCIFVAL
U.K.	none	—	—	—
U.S.	none	—	—	—
Belgium-Luxembourg [c]	Transmission	All goods	1-15% (Generally 7%)	DPCIFVAL
France	Value-added equalization Customs stamp	Most goods All goods	20% 2%	DPCIFVAL T
Germany	Value-added equalization	All goods	7%	DPCIFVAL
Italy [d]	Turnover equalization Compensatory	All goods Most goods	4% 7.8%	DPCIFVAL DDPCIFVAL
Netherlands	Value-added equalization	All goods	11%	DPCIFVAL

DPCIFVAL - Duty-paid cost, insurance, and freight valuation.
DDPCIFVAL - Discounted duty-paid cost, insurance, and freight valuation.
T - Tariff Charge applicable to the import.

[a] Subsidiaries of foreign firms operating in Austria must pay the 5.5% rate on items to be resold the country, while Austrian importers pay only the 1.8% rate. The Austrian turnover tax system is b replaced by a value-added tax, and this discriminatory treatment will end when the changeover is comp

[b] Border tax has no systematic relation to the domestic turnover tax. The turnover tax will be repl by a value-added tax in 1970.

[c] Certain "luxury" imports are subject to a higher tax rate of 17%, 18%, or 20% in place of lump-sum transmission tax. Most imports pay the transmission tax at the 7% rate.

[d] Compensatory tax designed to equalize the turnover tax rate on manufactures, but no clear rela between the two appeared to exist. An additional "administrative tax" of 0.5% is also imposed. The turno tax is to be replaced by a value-added tax in 1970.

[e] To be replaced by value-added tax.

and four-digit SITC commodity groups. It is perhaps incomplete in the sense that resource constraints and the confidential treatment associated with compilation of a similar inventory by the GATT in 1968 prevented extensive cross-checking and a broader range of sources of information. However, it appears evident that all of the major NTB's are included, and that the inventory is broadly representative of the structure of nontariff barriers applied by the various countries being considered.

Using 1966 trade data according to the same SITC commodity breakdown, it was possible to do a number of analyses indicating the range of application of those NTB's in force in 1966 by individual countries and groups of countries. These data were employed to generate a series of indicative measures of the applicability, pervasiveness, discriminatory implementation and restrictiveness of nontariff barriers among industrial countries. Although a detailed breakdown and analysis of all of the data is well beyond the scope of this brief paper, some preliminary conclusions can be presented here.

As was emphasized in the previous section, most industrial countries employ border tax adjustments in the form of rebates on exports and countervailing charges on imports, in order to compensate for national indirect taxes which generally take the form of value-added or turnover levies. These border tax adjustments thus form the base for the specific nontariff barriers implemented by each of the countries under consideration. Table 1 presents an inventory of these charges, and they should be kept in mind as we proceed.

Application of Nontariff Barriers

Perhaps the simplest way to analyze the use of nontariff barriers by the various countries under examination here is to look at the number of distinct commodity groups to which such restrictions apply. This permits the calculation of unweighted averages which are indicative of the intensity with which NTB's are imposed by each country and apply to each major commodity group.

As noted above, identifiable nontariff barriers were classified for each country according to the SITC commodity group of the products to which they apply, on a 4-digit level whenever this was possible, and a 3-digit level whenever they affect broader commodity groups. Using the SITC breakdown as published in the OECD trade statistics (18), the total number of commodity groups (N) under each 1-digit heading was determined according to the finest possible breakdown. Likewise, the total number of commodity groups under each 1-digit heading to which NTB's applied (R) was determined for each country. An *index of nontariff-barrier use* (W) was calculated for each country and each major commodity group as follows:

$$W = \frac{R}{N} \times 100.$$

The higher the index for any 1-digit commodity group, the wider the range of commodities affected by identifiable NTB's. For each country also, the value of W was calculated for all imports (SITC categories 1 through 9). Finally, using the calculated W's for each 1-digit group as applied to each of the 19 countries under study, a mean value for each major commodity category was computed. These data are presented in Table 2.

Note that the EEC countries' values of W reflect both the national nontariff barriers and those imposed by the Common Market as a whole. The latter are almost entirely attributable to the implementation of the EEC's common agricultural program. Hence the W for common external nontariff barriers (CEN) forms the base for the national values of W: the latter will be higher than the former only if the national NTB's cover import categories other than those covered by the CEN (19). Moreover, the only commodity groups included as being covered by NTB's are those clearly identifiable as subject to nontariff import restrictions, so that such broadly-applied measures as discriminatory government procurement, border taxes, and subsidies granted to all export or import-competing industries are not included. Finally, since our inventory represents an incom-

(18) SITC Revised, United Nations, Secretariat, Statistical Office, *Statistical Papers*, Series M, No. 34 (New York: United Nations, 1961) applied to data in OECD *Commodity Trade: Imports*, Series C (Paris: OECD, 1968) and United Nations, Secretariat, *Statistical Papers*, Series D, Jan.-Dec. 1966 (New York: United Nations, 1968).

(19) Common antidumping policies were adopted in April of 1968. A new procedure for the gradual establishment of a uniform set of quantitative restrictions on EEC imports was adopted at the beginning of 1969. This includes a common liberalization list covering two-thirds of all import categories, common administrative procedures for the application of quantitative barriers and the establishment of a " Committee for the Administration of Quotas ", and common practices in dealing with state-trading countries. A common set of export policies covering subsidies, export credit insurance, and related questions, as well as a united front in the event retaliation is called for, are under discussion.

TABLE 2

PERCENT OF FOUR-DIGIT CATEGORIES SUBJECT TO NONTARIFF BARRIERS, BY COUNTRY

Customs Area	Food and live animals (SITC 0)	Beverages and tobacco (SITC 1)	Crude materials, inedible, except fuels (SITC 2)	Mineral fuels, lubricants, and related materials (SITC 3)	Animal and vegetable oils and fats (SITC 4)	Chemicals (SITC 5)	Manufactured goods classified chiefly by material (SITC 6)	Machinery and transport equipment (SITC 7)	Miscellaneous manufactured articles (SITC 8)	Commodities and transactions not classified according to kind (SITC 9)	Total (SITC 0-9)
Australia	37	11	10	0	0	0	1	4	12	0	9
Austria	55	56	1	6	0	5	3	0	2	0	10
Canada	24	4	3	31	11	0	1	8	2	0	7
Denmark	67	30	2	0	6	0	1	0	0	0	11
EEC (Common External)	55	30	1	0	6	2	0	0	0	0	9
Belg.-Lux. National	12	11	2	69	0	27	12	1	4	20	11
Belg.-Lux. Total	60	56	2	69	6	29	12	1	4	20	19
Germany National	57	44	2	6	6	2	13	3	4	0	14
Germany Total	66	67	2	6	11	3	13	3	4	0	16
France National	31	88	4	63	39	20	1	11	7	0	11
France Total	70	100	4	63	39	20	1	11	7	0	17
Italy National	25	78	4	0	6	6	1	6	4	0	8
Italy Total	61	100	5	0	11	8	1	6	4	0	13
Netherlands National	8	88	14	56	0	38	2	1	0	0	11
Netherlands Total	60	88	14	56	5	40	2	1	0	0	19
Finland	N	88	0	19	0	10	2	3	2	0	N
Ireland	24	33	0	0	0	2	0	3	4	0	11
Japan	75	77	6	75	28	45	20	54	5	0	34
New Zealand	35	11	12	a	a	a	a	a	a	a	a
Norway	69	44	1	0	0	13	4	6	2	0	14
Portugal [b]	38	0	10	0	67	9	11	25	2	0	17
Sweden	60	56	6	0	0	3	6	3	11	0	14
Switzerland	46	33	9	0	11	0	4	3	11	0	12
U.K.	24	22	1	31	0	0	16	1	2	0	10
U.S.	26	11	13	50	6	14	4	6	14	0	12
Mean	44	41	5	23	11	11	6	8	5	1	14

[a] New Zealand applies automatic import licensing to most manufactured goods, with preference accorded to Commonwealth countries.

[b] Specific commodities covered by nontariff barriers. A total of 62% of all dutiable items is subject to bilateral or multilateral quotas.

N Not available at this writing.

Data: See text.

plete cataloging of restrictions, in the sense that some of those imposed in a clandestine manner may not have been included, the data may be biased accordingly.

Nevertheless, within these limitations it is clear that the application of NTB's tends to be centered upon product groups characterized by relative homogeneity and substantial price-competitiveness, and particularly those tied to domestic support programs of various kinds. As expected, the highest degree of NTB-coverage is encountered in agricultural commodities, and extends to both crude and processed food products.

Japan and France show up highest on the scale — although Germany imposes national nontariff restrictions which overlap many of those imposed by the EEC — while the U.S. and the U.K. appear lowest in the rankings. It would appear that the coverage of NTB's is closely tied to the prevailing agricultural support programs, perhaps even more so than the individual countries' basic agricultural competitiveness (20).

The data in Table 2 show that there is a great deal of variability in the application of NTB's, both among commodity groups and among the individual countries. Note that particularly in the area of beverages and tobacco the coverage of NTB's is highly variable, and appears to be related more to differences in national sumptuary regulation than to the desire to protect import-competing producers. Inedible crude materials are generally not subject to broad NTB application; these are easily protected by means of tariffs and are necessary inputs for domestic industry. The widest nontariff-barrier coverage in this commodity group is applied by the U.S., Australia, New Zealand, Portugal, and the Netherlands.

Mineral fuels and lubricants represent a special case. Crude oil is produced in quantity by relatively few of the industrial countries,

(20) In order to test the latter notion using readily available data, the NTB-coverage figures for each country were correlated with a proxy for agricultural competitiveness, the export/import ratio for agricultural commodities. The data generated a correlation coefficient of -0.3239 ($r^2=0.1049$), which is statistically insignificant. Although the overall agricultural competitiveness of a country may be high, in terms of a high export/import ratio, it might still wish to accord its agricultural suppliers a high degree of protection from import competition. This may be because a country's agricultural exports are concentrated in very few commodity groups (e.g., lumber, wheat, fish products, etc.) and it needs to protect non-competitive, import-competing suppliers of a broad range of other agricultural commodities. Or its agricultural support program may be designed to bring about high domestic farm prices combined with subsidized exports and protection against imports.

and the desirability of protection is closely tied to the logistics of international petroleum supply. With the exception of petroleum producers such as the U.S. and Canada, most applications of NTB's on petroleum products seem to be related to prevailing national policy regarding their importation, refining, taxing and sale, particularly when state-trading is involved. Most other NTB's in this product category are related to the desire of countries to sustain uncompetitive coal industries, particularly in Western Europe.

In part, nontariff protection in the edible oils and fats category is related to agricultural protection, since all such commodities are agriculturally-based. France, Japan and Portugal have the broadest NTB coverage. Since such crude materials are important manufacturing inputs, and since many industrial countries may not have a sufficiently large output of the base agricultural commodities to meet their own raw-material needs, the rather limited application of nontariff barriers by most industrial countries may be explained.

Competition in the chemical field is of course severe, although tariff protection is relatively easily accorded import-competing chemical suppliers. Coverage by NTB's is high in the case of Belgium-Luxembourg, France, the Netherlands, Japan, Norway and the U.S. In the latter instance, it is almost entirely attributable to the American Selling Price valuation system.

For manufactured goods (SITC 6 through 9), significant and specific NTB's are applied primarily in the case of Japan which, for example, applies NTB's to over half of all commodity groups in the machinery and transport-equipment category. Generally, automatic licensing is used by Portugal and New Zealand, but most other countries appear to rely more heavily on tariffs for protection of import-competing manufactures.

In terms of overall nontariff-barrier coverage, Japan employs the restrictions on manufactures most heavily — with the possible exception of Portugal and New Zealand. In the remaining countries the percentage of commodity groups covered by NTB's generally hovers around 15 percent of all commodity classes.

Regardless of the intent of any broad-based industrial free-trade area project with respect to nontariff barriers, it is doubtful that all such restrictions can be eliminated. Indeed, it may well be that feasible liberalization of NTB's will be limited to what we have identified as Type I restrictions. Apart from the evident difficulties in defining and identifying the less obvious restrictions, in many cases it is patently impossible to develop defensible estimates of their impact and put forward a sound argument for their elimination. Indeed, the number of more or less subtle NTB's that combine to affect internal commerce in such advanced free-trade areas as the EEC and even the United States testifies to the difficulties involved in producing absolute free trade within any area encompassing different political jurisdictions. States, regions, municipalities and other governmental and quasi-governmental units within a country all apply measures which restrict interregional imports and stimulate the development of regional industries and hence regional exports as well. Within a free-trade area, these political jurisdictions naturally continue to exist. In addition, the *national* political jurisdiction provides another potential source of NTB's that generally does not play a role in interregional trade.

Factors Governing Nontariff Barriers

Whereas the outlook for complete elimination of nontariff barriers within a broad free-trade area may well be bleak, a good argument can be made that such an arrangement provides the best means of reducing nontariff restrictions, particularly those classified earlier at Type I barriers.

In the United States, authority for the reduction of tariffs on a negotiated basis is granted to the executive branch of government by the legislative branch, subject to periodic renewal. This also appears to be true in many of the other industrial countries in Europe and elsewhere. Negotiating authority has been used by the various national executives successfully to reduce tariffs very substantially during the past two decades within the framework of the GATT. However, to a significant extent the ability simultaneously to negotiate the reduction of nontariff barriers has not been included in the powers granted the national executives. Consequently, nontariff restrictions have remained largely outside the realm of past multilateral trade talks. And even when they have been brought in — as in the case of the American Selling Price system of customs valuation in the Kennedy Round — the negotiators did not have the authority to agree to their liberalization. Consequently, because the reduction of many of the most important NTB's is frequently a *legislative* matter, their reduction becomes inordinately difficult.

Closely related is the deflection of the efforts of protectionist interests from tariff to nontariff barriers. The structure of tariff barriers is based on a complex and intricate set of multinational agreements and, even though temporary relief may be provided, tariffs cannot be increased even temporarily without running the risk of significant and adverse reaction on the part of other countries. Consequently, tariffs do not provide import-competing suppliers with a reliable source of short-term or even more permanent relief. In any event, a very substantial case for protection would have to be made before any reaction would be forthcoming. It would appear, therefore, that a much more direct path for protectionist pressure is through (a) the legislative branch of government, or (b) those administrative agencies responsible for implementing a wide variety of regulations and standards that affect the commodities in question (21). Regardless of whether pressure for increased protection is exerted through either of these channels, the vehicle for translating it into action will almost certainly be the nontariff barrier.

Because the *institutional resistance* to increased protection via nontariff restrictions may be less than to increases in tariff levels, it would appear that the activities of import-competing groups designed to obtain relief from import-competition have increasingly been centered there. This has been particularly true in the United States in the period since the Kennedy Round. The import-competitors themselves — notably the chemical, steel, footwear, textile, petroleum and dairy industries — have worked either to raise nontariff barriers or to keep them from being reduced. This movement has been taken up by the communities, regions, and labor groups closely tied to these industries.

An additional element favoring more restrictive NTB's are balance-of-payments considerations, which in the case of U.S. and France have been of substantial importance. Again because of the rigidities and commitments in the case of tariffs, balance-of-payments pressures have likewise been shunted onto nontariff barriers. In the case of the U.S., the proposals have involved import surcharges and

(21) In the U.S., some national agencies possessing real or potential power to impose various kinds of NTB's are the Departments of Defence, Agriculture, Interior, Transportation, State, and Commerce, the Federal Trade Commission, Federal Communications Commission, Federal Maritime Commission, Interstate Commerce Commission, National Aeronautics and Space Administration, Small Business Administration, and Tariff Commission, in addition to direct recourse to the Congress.

export tax rebates — to offset border tax adjustments used abroad and allegedly harmful to U.S. exports and import-competing industries. In the case of France, temporary quotas and subsidies were imposed on a wide variety of commodities after the crisis of May 1968, and even applied to trade with its EEC partners. The subsidies remained in effect long after the immediate crisis had passed.

Finally, there is the danger that the adjudication of disputes involving the imposition of nontariff barriers by certain countries will lead to the construction of still more NTB's. The relief through retaliation permitted injured countries in such instances may well be attained not by means of increased tariffs, but via more restrictive nontariff barriers imposed on imports from the offending countries.

The present state of affairs, then, is that: (a) the declining tariff levels among industrial countries are rendering nontariff barriers *relatively* more important as impediments to trade; (b) at the same time, there are substantial incentives for import-competitors to recoup some of the lost tariff protection by working to raise nontariff barriers, either through the legislative branch of government or through appropriate administrative agencies at the national or state-local level; and (c) the relative rigidity of tariffs renders NTB's a logical alternative for securing increased protection.

There is another aspect to this question that appears to be becoming relatively more important: the use of the threat of increased nontariff barriers or other sanctions to force major suppliers of imports to self-limit their exports or increase their imports from abroad. If a country desires to restrict imports of a given commodity, it may approach the major exporters and request them to cut back on their sales to customers in the home country. This may be done either on a bilateral or multilateral basis. In either case, however, the importing country or group of countries must have sufficient economic, political, or military leverage, relative to that of the exporting country, to force the latter to accede to its wishes. There are of course a wide variety of determinants of such leverage, such as the importance of the importing country to the exporter's market, the vulnerability of the importing country to retaliation, the value of military alliances, the international political climate, and so forth.

Self-limiting export agreements have been applied to trade among industrial countries in steel, cutlery, meat, and other products, and have had a particular impact on Japan. The U.S. has also forced some of its allies to limit trading with Communist countries. For example, under the Trading With the Enemy Act, the Foreign Assets Control Regulations, and the general controls imposed under COCOM, U.S. pressure has been exerted on other countries to limit their exports to the Communist bloc. At the same time, foreign firms using raw material or intermediate-goods imports originating in selected countries are restricted in exporting to the U.S. Closely related are pressures on foreign countries to join or work towards international agreements setting up quantitative barriers to trade, such as the Long-Term Cotton Textile Agreement of 1962.

We have tried to indicate that nontariff barriers are important, and becoming more so as a component of international commercial policy. It has been stated that the existing "commercial policy vacuum" since the end of the Kennedy Round, lacking new moves in the direction of freer trade, represents an environment especially conducive to the success of protectionist interests (22). Should this success materialize, there is little doubt that much of it will manifest itself in the area of nontariff barriers.

Given this dilemma, it is clear that the movement toward trade liberalization must regain its momentum. If the thesis concerning the deflection of protectionist effort from tariffs to nontariff restrictions is correct, then any new moves toward freer trade cannot again be limited primarily to tariffs alone. Rather, they must be applied on a broad front, to tariffs and nontariff barriers alike. The entry of NTB's into the Kennedy Round discussions is ample evidence of this.

The next question quite obviously concerns the optimal way to attack the reduction of nontariff barriers, under conditions of the multiplicity of legislative and administrative agencies involved in their implementation, and their close ties to a wide variety of domestic programs. It would be difficult, and perhaps impossible, for an executive body to negotiate all of the major nontariff barriers. Nevertheless, substantial progress has been made in liberalizing one type of NTB, quantitative restrictions, in this way. Generally the results have been attained through bilateral negotiation inside and outside the GATT, with the aid of Articles XXII and XXIII of the General Agreement. The latter establish a procedure for complaints by the Contracting Parties whenever benefits that should be accru-

(22) Robert G. Hawkins, in Thomas M. Franck and Edward Weisband, Eds., *A Free Trade Association* (New York: New York University Press, 1968), p. 53.

TABLE 3

PERCENTAGE OF LIBERALIZATION OF IMPORTS FROM THE UNITED STATES BY SELECTED EUROPEAN COUNTRIES 1953-61

Country (1)	January 1, 1953	January 1, 1954	January 1, 1955	January 1, 1956	January 1, 1957	January 1, 1958	January 1, 1959	January 1, 1960
Austria	0	0	0	8	40	40	45	91
Belgium-Luxembourg	57	70	86	86	86	86	86	94
Denmark	1	1	38	55	55	55	70	90
France	0	0	0	11	11	0	56	97
Germany	0	24	60	68	90	94	95	(2)
Greece	0	90	90	99	99	99	99	99
Italy	0	10	24	24	39	68	68	92
Netherlands	0	30	86	86	86	86	86	94
Norway	0	0	0	0	84	87	91	94
Sweden	0	0	55	58	68	68	68	91
United Kingdom	7	43	50	56	59	62	75	93

(1) All countries shown participate in the General Agreement on Tariffs and Trade.
(2) De facto liberalization of almost all industrial products.

Data: Ways and Means Committee, U.S. House of Representatives, Hearings, " Foreign Trade and Tariff Proposals ", 90th Congress, July 1968 (Washington, D.C. USGPO, 1968), p. 609.

ing to them under the GATT are being nullified by other countries, for mutual discussion or investigation by outside panels of conciliation (23).

In terms of U.S. exports, the trend of intergovernmental negotiation on certain NTB's, particularly quantitative barriers, seems quite promising. Table 3 shows the percentage liberalization of U.S. exports to various countries that was attained during the 1953-61 period. Industrial countries filing successful complaints under the GATT have included Norway, the U.K., Canada, France, Italy, and the United States, while defendants have included Australia, Germany, France, Belgium, Sweden, and the United States. Particularly in the agricultural area, the GATT itself has taken the initiative in studying the entire problem of nontariff barriers, and has consulted

(23) As an indication of the increasing pervasiveness of NTB's, the number of such restrictions imposed by the 21 member nations and reported to the GATT during 1967 and 68 were about double the number reported during 1965 and 1966.

with the EEC on the impact of the Common Agricultural Program on trade in a variety of farm commodities. The GATT has also attempted to control the use of subsidies (Article XVI), and has recently opened the entire question of nontariff barriers for reconsideration by initiating a wide and comprehensive survey of the use of NTB's by the Contracting Parties and other countries.

Whether a great deal of progress can be made under the auspices of the GATT — given the multiplicity of factors governing nontariff restrictions — remains to be seen. This is particularly true in view of the comparative ease with which barriers that are " illegal " under the GATT provisions may be continued. The experiences of the EEC and EFTA seems to indicate that rapid progress is more likely to occur under a more or less cohesive free-trade area than is possible under broad intergovernmental negotiation and consultation. This would appear to be especially so in the case of the more subtle kinds of NTB's, and those whose economic impact is difficult to quantify or even identify.

The Prospective Role of an Industrial Free-Trade Area (IFTA)

There can be little question that nontariff barriers are important in the trade of an industrial free-trade area composed, for example, of the EFTA countries, Canada, the U.S., Japan, Australia and New Zealand. A total of 14.8 percent of their imports are subject to nontariff barriers identified and classified in this study, while 44 percent of trade is internal to this group of countries (24). If the EEC countries are included in such an industrial free-trade zone, the percentage of imports subject to NTB's rises to 16.7 percent, and 65 percent of total trade is internal. The liberalization of intra-IFTA nontariff barriers would involve over $6 billion in trade if the EEC were not a party, and about $14 billion if it were. From the standpoint of the U.S., such liberalization would affect about 20 percent of its exports to the participating countries if the EEC were not included, and about 23 percent if it were. This involves approximately $2.8 billion and $4.4 billion in exports, respectively.

Given this volume of trade within a prospective IFTA and the strenuous effort made in recent years to eliminate foreign NTB's on

(24) Using 1966 data.

American exports, there should be substantial direct and indirect gains to be derived by the United States and other countries from the nontariff aspect of broad-based regional free trade. It should therefore serve as an additional incentive for the creation of an IFTA as a viable commercial-policy option if, indeed, such an arrangement may be a superior device for bringing about the reduction on nontariff restrictions.

There are a number of arguments in favor of the IFTA in this regard. First, the creation of an IFTA will involve a binding agreement or treaty, the provisions of which are accepted *in advance* by the participating national governments and ratified by their respective legislatures. Such an agreement, containing explicit provisions for the removal of nontariff barriers, would serve as an *ex ante* commitment to the liberalization of NTB's by the contracting nations.

But this would not be sufficient. Hopefully, an IFTA agreement would also contain provisions aimed at bringing about some sort of mutual agreement on agriculture, indirect taxes and in particular border tax adjustments, subsidies granted by national governments, public procurement, the regulation of transport, and other specific controls which are the source of a wide variety of *de facto* nontariff barriers. What is needed, in short, is an agreement which goes beyond the establishment of a mere free-trade zone toward the more advanced stages of economic integration. Whether such integration would rapidly materialize within a group of countries as diverse as the proposed industrial-FTA is subject to doubt. But the mere agreement to move in this direction would provide a vehicle for at least a beginning in the removal of such restrictions.

Third, an industrial-FTA would undoubtedly involve the creation of some sort of governing body assigned the task of implementing the agreed-upon trade liberalization, and with some sort of a mandate from the participating countries. Regardless of the actual authority vested in such a body, it could serve as a steady source of initiative in the elimination of nontariff barriers. The existence of an agency of this kind is of great value, and could subject NTB's of various kinds to continuous analysis and formulate the necessary steps that would lead to their elimination or modification.

Finally, the creation of an IFTA would hopefully represent an expression of strong national interest in the realization of regional free trade and perhaps progress toward integration in other areas as well. This would provide the cohesive force and incentive necessary

for the successful reduction of NTB's — a force which is absent in intergovernmental negotiations except in an ephemeral way.

In short, the free-trade area concept and the commitments it implies, combined with the institutional apparatus connected with it, would seem to render an industrial-FTA a superior vehicle for the liberalization of nontariff trade restrictions. Whereas this consideration alone is surely not *sufficient* reason for the establishment of an industrial free-trade area, it is — as we have tried to show — the source of substantial potential benefit to the participating countries. In terms of the goal of reducing nontariff restrictions among industrial nations, the creation of an industrial free-trade area may well be the optimal route.

Ingo Walter

Saint Louis