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 progressively 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

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industrial nations, and at least a preliminary estimate of their role in trade among those 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 uncertainty 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-

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 (6).

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.

(6) It is, of course, possible to illustrate the operation of nontariff barriers in a more formal way by using econometric 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-claue 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
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 15), 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 distorotive of trade and designed to protect import-competing suppliers.

Type I Restrictions: Export-Directed

There are a smaller number of Type I NTBs 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 subsidies: Actually unsound export credit insurance schemes which have historically operated with deficits covered by the government.

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.

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 unsalable 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

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(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 9/16" and ripe tomatoes at least 2 1/16" 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 30%. 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-rewarding 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 varia-
tions of direct taxes imposed on business firms bear on their ability
to reinvest earnings, and that this affects price and quality of trade-
able 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 dis-
missed 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-compet-
ing 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
competitiveness. Such differences may not be maintained for re-
strictive purposes, but increased standardization would serve to facili-
tate both imports and exports of most industrial countries.

6. Variation in national consumption patterns and related govern-
mental policies: As influenced by government programs and prac-
tices, differences in national cultural, social and dietary patterns
affect tastes and the composition of consumer purchases. This cate-
gory may include a broad range of actions including income-distribu-
tion policies, anti-smoking campaigns, and so on. Especially im-
portant 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 ap-
plication.

8. Variation in economic policies: Imports and exports are in-
fluenced 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-develop-
ment policies affecting export and import-competing industries.

9. Government-sponsored R & D: Government-financed sub-
sidized 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 produc-
tion of tradeable commodities, particularly with regard to the defense
and aerospace areas.

10. Government-induced scale effects: Impact of massive govern-
ment 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 con-
trading 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 tradable 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 ano-

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(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 asking 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. 36.

(16) Early in 1969, for example, all of the shipping companies competing the Atlantic & Gulf Coast — West Coast — South America Conference agreed to raise shipping charges between the U.S. and Latin America by 7 1/4% to 10% due to a longshoremen's strike. This indicates the concerted nature such shipping conferences are able to take.
### Application of Border Taxes

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of Tax</th>
<th>Commodity Coverage</th>
<th>Rate</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>none</td>
<td>Food items</td>
<td>1.6%</td>
<td>DPCFVAP</td>
</tr>
<tr>
<td>Austria</td>
<td>Turnover</td>
<td>(b) Intermediate</td>
<td>3.5%</td>
<td>DPCFVAP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(c) Financed goods</td>
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<td>DPCFVAP</td>
</tr>
<tr>
<td>Canada</td>
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<td>Most manufacturers</td>
<td>12.5%</td>
<td>DPCFVAP</td>
</tr>
<tr>
<td>Denmark</td>
<td>Value-added</td>
<td>Most imports</td>
<td>0.7%</td>
<td>DPCFVAP</td>
</tr>
<tr>
<td>Germany *</td>
<td>Turnover</td>
<td>Most manufacturers</td>
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<td>DPCFVAP</td>
</tr>
<tr>
<td>Japan</td>
<td>none</td>
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<td>11.5%</td>
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<td>New Zealand</td>
<td>Turnover</td>
<td>Most manufacturers</td>
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<td>Norway</td>
<td>Turnover</td>
<td>(b) Non-luxuries</td>
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<td>140% of DPCFVAP</td>
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<td></td>
<td></td>
<td>(c) Luxuries</td>
<td>30%</td>
<td>DPCFVAP</td>
</tr>
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<td>Portugal</td>
<td>Transmission</td>
<td>All goods</td>
<td>11.7%</td>
<td>DPCFVAP</td>
</tr>
<tr>
<td>Sweden</td>
<td>Value-added</td>
<td>Most manufacturers</td>
<td>5.4%</td>
<td>DPCFVAP</td>
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<td>Turnover</td>
<td>All goods</td>
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<td>DPCFVAP</td>
</tr>
<tr>
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<td></td>
<td>12.5%</td>
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</tr>
<tr>
<td>U.S.</td>
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<td>7.7%</td>
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</tr>
<tr>
<td>Belgium-Lux.</td>
<td>Transmission</td>
<td>All goods</td>
<td>4%</td>
<td>DPCFVAP</td>
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<tr>
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<td>Most goods</td>
<td>6%</td>
<td>DPCFVAP</td>
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<td>Netherlands</td>
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<td>All goods</td>
<td>11%</td>
<td>DPCFVAP</td>
</tr>
</tbody>
</table>

DPCFVAP = Duty-paid cost, insurance, and freight valuation.

DPCFVAP = Discussed duty-paid cost, insurance, and freight valuation.

### Tariff Barriers

- Subsidies for foreign items considered in Austria (and in the country itself) must pay the 1.6% rate on items to be used in the country, while Austrian imports pay only the 1.8% rate. The Austrian turnover tax system is composed of a value-added tax, and this discriminatory treatment ends when the chargeover is composed of a value-added tax in 1950.
- Border tax has no systematic relation to the domestic turnover tax. The turnover tax will be replaced by a value-added tax in 1950.

- Certain "luxury" imports are subject to a higher rate of 17%, 15%, or 20% in place of the lump-sum transmission tax. Most imports pay the transmission tax at the 7% rate.
- Compensation tax designed to equalize the turnover tax rate on manufactures, but no clear cut between the two appears to exist. An additional "administrative tax" of 0.5% is also imposed. The turnover tax is to be replaced by a value-added tax in 1950.

### 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 NTP'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...
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 non-tariff 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 non-tariff 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 commodity 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 non-tariff 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-

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(19) Common anti-dumping 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.

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### Table 2

**Percent of Four-Digit Categories Subject to Non-Tariff Barriers, by Country**

<table>
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<tr>
<th>Country</th>
<th>W (measured Imports, SITC categories 1 through 9)</th>
<th>W (measured Exports, SITC categories 1 through 9)</th>
<th>W (measured Imports, SITC categories 1 through 9)</th>
<th>W (measured Exports, SITC categories 1 through 9)</th>
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<td>0.19</td>
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<td>0.11</td>
</tr>
<tr>
<td>EEC (Common External)</td>
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<td>0.03</td>
<td>0.10</td>
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<td>0.04</td>
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</tr>
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<td>0.04</td>
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<tr>
<td>Switzerland</td>
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<td>0.02</td>
<td>0.05</td>
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<tr>
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<td>0.01</td>
<td>0.04</td>
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<tr>
<td>U.S.</td>
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<td>0.11</td>
<td>0.01</td>
<td>0.04</td>
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</tbody>
</table>

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

* Specific commodities covered by non-tariff barriers. A total of 60% of all dutiable items is subject to bilateral or multilateral quotas.

* Not available in 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 supply 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, 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 legislatively 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 harnessed 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 Defense, 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 access to the Congress.
export tax rebates—to offset border tax adjustments used abroad and allegedly harmful to U.S. exports and import-competitive 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 wherever benefits that should be accru-

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(1) All countries shown participate in the General Agreement on Tariffs and Trade.
(2) Data on tariffs and restrictions is based on the GATT provisions.

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

There can be little question that non-tariff 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 non-tariff barriers identified and classified in this study, while 54 percent of total trade is internal. The liberalization of intra-IFTA non-tariff barriers would involve over $6 billion in trade if the EEC were 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 $3.8 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
American exports, there should be substantial direct and indirect gains to be derived by the United States and other countries from the non-tariff 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 non-tariff 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 non-tariff 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 non-tariff 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 agreement 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 non-tariff 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 non-tariff 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 non-tariff restrictions among industrial nations, the creation of an industrial free-trade area may well be the optimal route.

Saint Louis

Ingo Walter