

boycott of the EEC's operations paralyzed negotiations. More recently, private interest in free-trade arrangements and critical response to this approach⁴ no longer view it as an alternative to an unpromising Kennedy Round, but rather as the next logical step for U.S. trade policy regardless of the outcome at Geneva.⁵

Almost without exception, these proposals for free-trade arrangements have been unconcerned, or at least unclear, about the nature of the basic agreement. Therefore, it would be useful to describe the general outlines of the kind of free-trade arrangement that would be appropriate for U.S. participation.

The starting point is the GATT rule permitting a group of members to form a new free-trade arrangement that discriminates against other GATT members in violation of its basic principle of nondiscrimination. Annex A describes in greater detail how the GATT reconciles this apparent conflict. Suffice it to say here, the GATT does sanction discriminatory arrangements but only if they meet strict requirements aimed at preventing them from becoming loose preference systems or protectionist trade blocs. Specifically, it allows its members to form either a free trade area or a customs union that meets four standards:

Complete, not partial, elimination of "duties and other restrictive regulations" among its members.

Commodity coverage accounting for "substantially all the trade" among participants.

No increase in restrictiveness of trade barriers against non-members; and

Full development "within a reasonable length of time."

As defined by the GATT, a free trade area is formed when two or more countries agree to abolish tariffs and other barriers to trade among themselves. Unlike the alternative customs union (a traditional arrangement with a long history in Europe), the free trade area does not require its participants to form a common external tariff affecting imports from nonmember countries.

This simple distinction between the two types of free-trade arrangement permitted by the GATT holds important implications for their applicability to the United States. Members of a customs union must, and members of a free trade area need not, develop a common commercial policy toward nonmembers.⁶ In the context of possible U.S. participation, the need for concerting commercial policy appears to preclude the customs union, for this requirement would clearly pre-

⁴ For recent assessments of the free-trade arrangement as a policy option for the United States that do not find it preferable to a continuation of multilateral approaches see: John Evans, "U.S. Trade Policy: New Legislation for the Next Round" (New York: Harper & Row for the Council on Foreign Relations, 1967) especially ch. VIII, "Atlantic Partnership and Free Trade Areas"; Bela Balassa, "Trade Liberalization Among Industrialized Countries: Objectives and Alternatives" (New York: McGraw-Hill Book Co. for the Council on Foreign Relations, 1967) especially ch. VII, "A Trade Policy for the Atlantic Area."

⁵ It is worth noting the rise of private interest in Canada, and later in the United Kingdom, in some form of free-trade area which would encompass them and the United States as a nucleus. As we shall discuss in greater detail below, the U.S. view as to the eventual scope of such an arrangement is wider than the Atlantic free trade area that Canadian and British supporters usually have in mind.

⁶ A subsidiary, technical implication of retaining individual tariffs toward non-members is the need for a free trade area to prevent goods from outside the area entering a high-tariff country via diversion through a lower-tariff member. This "origin problem" has apparently been solved by the European Free Trade Association.