

EUROPEAN COMMUNITY

BACKGROUND INFORMATION

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BACKGROUND NOTE

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EUROPEAN COMMUNITY COMPLETES MANDATE FOR GATT NEGOTIATIONS

The European Community is ready for the forthcoming negotiations within the General Agreement on Tariffs and Trade (GATT), now that the Council of Ministers has enacted the Commission's negotiating mandate, the equivalent of a trade bill in the United States.

A summary of the decisions comprising the mandate, made in Luxembourg June 25-26, is attached.

The negotiations, which may begin this year, will be the third round of GATT talks since the Community began operating in 1958. The first test of the Community's liberal trade orientation was established in the "Dillon Round" of 1960-61 and confirmed in the "Kennedy Round" of 1964-67 which resulted in an average industrial tariff reduction of 35-40 per cent, the biggest tariff cut in history. In the new round of negotiations, the Community will be negotiating for nine member countries, instead of six, as previously, since the admission last January of the United Kingdom, Ireland and Denmark.

ANNEX I

EXPLANATORY MEMORANDUM

(1) At the Summit Conference held in October 1972, the Heads of State or of Government of the nine Member States accompanied their program for strengthening the Community with precise declarations concerning the latter's responsibilities and tasks in the field of external relations. Thus, in Paragraph 5 of the Preamble to the Paris Communiqué the Community's resolve to promote the development of international trade is reaffirmed: "This determination applies to all countries without exception. The Community is ready to participate, as soon as possible, in the open-minded spirit that it has already shown, and according to the procedures laid down by the IMF and the GATT in negotiations based on the principle of reciprocity. These should make it possible to establish, in the monetary and commercial fields, stable and balanced economic relations, in which the interests of the developing countries must be taken fully into account."

This declaration confirmed the political resolve demonstrated by the Community before enlargement, to undertake wide-ranging trade negotiations with its partners. It will

be recalled in this connection that the Council declared in December 1971: "The Community is ready... to take part in overall negotiations on the basis of mutual advantage and reciprocity and requiring an effort from all the participants". Similarly, in their "Joint Declaration" of February 1972, the Community and the United States confirmed that it was their intention "to begin, and give active support to, wide-ranging trade negotiations in GATT... conducted on the basis of mutual advantage and a mutual commitment involving overall reciprocity."

(2) The Community is aware that, by the very fact of its institution and development, it has promoted the balanced expansion of international trade.

The GATT system, which was a fundamental improvement as compared with the confrontation of purely national policies, had its means of action limited by the contrast between the de jure equality and the de facto inequality of partners, many of which found themselves confronted by a much stronger trading power.

The introduction of customs unions and free trade areas, laid down by the General Agreement itself, tends to offset this imbalance. Thus the Community, through the elimination of barriers to trade between the Member States, the constitution of a unified market and the resulting economic expansion, has had the effect of creating trade in a way which has been beneficial at international level.

It is convinced that its enlargement and the agreements it has concluded with neighboring West European States and other States linked to it by geographical and historical factors will have similar effects. It is this same desire for the balanced expansion of international trade which led it to introduce a system of generalized preferences for developing countries in 1971 and which inspires its trade policy in relations with all third countries.

(3) With regard to multilateral negotiations, the Community has taken an active part in these since its creation and its contribution has been a decisive factor in their success. Within modest limits in the Dillon Round, but on an unprecedented scale after the United States Congress passed the Trade Expansion Act (Kennedy Round), the chief trading partners agreed to mutual reductions in trade barriers. At the end of these negotiations, the Community had the lowest customs tariff of any of the major trading powers -- approximately half the average of the original tariffs of the Member States -- and it also had the most uniform profile.

(4) These vast movements of liberalization, going hand-in-hand with almost uninterrupted economic expansion within the Community and with the progressive strengthening of its

cohesion and internal solidarity have made possible an unprecedented expansion of its international trade. This development has provided a basis for a constant rise in the standard of living and a high and stable level of employment.

The Community is therefore convinced that international trade is a vital and increasingly important factor in its development. It hopes that the policy of liberalizing trade will be continued and it intends to assume its responsibilities at international level towards both industrialized and developing countries.

Moreover, at a time when it is preparing to take part in new negotiations which aim to ensure the increased expansion of international trade, the Community is aware of having made a very substantial contribution to the development of world trade. It therefore expects its partners to approach the negotiations in the liberal spirit of which the Community has already given ample proof and with the same desire to establish stable and balanced economic relations.

(5) Quite obviously, the policy of liberalizing world trade cannot be carried out successfully unless parallel efforts are made to set up a monetary system which shields the world economy from the shocks and imbalances which have recently occurred.

The trade negotiations therefore imply that prospects exist for the establishment of a fair and durable monetary system, based on the principles listed in Paragraph 4 of the Paris Communiqué (1).

This consideration should be borne in mind by the Contracting Parties both at the beginning of and during the negotiations. The Community, for its part, will assess the progress of these negotiations in the light of the progress made in the monetary field. It will take such progress into account when taking a decision on the results of the negotiations.

Furthermore, the trade negotiations cannot be taken as an appropriate way of correcting discrepancies in the balance of payments of any of the Parties.

(6) Faithful to the guidelines laid down for its own development and aware of its own special responsibilities,

(1) namely:

- Fixed but adjustable parities,
- The general convertibility of currencies,
- Effective international regulation of the world supply of liquidities,
- A reduction in the role of national currencies as reserve instruments,
- The effective and equitable functioning of the adjustment process,
- Equal rights and duties for all participants in the system,
- The need to lessen the unstabilizing effects of short-term capital movements,
- The taking into account of the interests of the developing countries.

the Community, while respecting its heritage, is therefore resolved that, in order to ensure the harmonious development of world trade, it will take part in the forthcoming negotiations with an open mind. It must, however, be understood from the outset that neither those elements basic to its unity nor the fundamental objectives of its future development may be called into question.

These basic elements include the customs union, the common agricultural policy, and the common commercial policy. Amongst the fundamental objectives, mention should be made inter alia of the establishment of economic and monetary union, which is the guarantee of stability and growth, the foundation for solidarity amongst the Member States and the essential basis for social progress, and of the rectification of regional imbalances.

Chapter I: General Objectives of the Negotiations

(1) In its Resolution dated December 13, 1971, the Council expressed itself as follows:

"The changes in economic relations necessitate an overall examination of the world economic structure and the conditions for a new international balance, which would enable the standard of living to be improved by expanding international economic relations and liberalizing world trade to an even wider extent."

Starting from these general considerations, and bearing in mind the fact that the development of trade is not an end in itself but a means for achieving wider economic and social objectives, the objectives of the negotiations can be listed as follows:

- A. to consolidate and continue the liberalization of international trade, on the basis of mutual advantage and a mutual commitment involving overall reciprocity
- B. to improve the opportunities for the developing countries to participate in the expansion of world trade and to ensure a better balance between the industrialized and developing countries as regards the advantages of this expansion.

(2) The Community considers observance of the concept of reciprocity to be a fundamental principle of the negotiations which will call for a fair distribution of effort from all the industrialized countries taking part.

It considers that the reciprocity of concessions will have to be assessed in terms of their real effectiveness with regard to the removal of tariff and nontariff barriers and the growth of trade.

(3) The Community is also anxious to confirm its support of the disciplines laid down by the General Agreement.

It expresses its reservations on any reform of the rules of the GATT which may lead to the introduction of new restrictive provisions likely to run counter to the objective of liberalizing trade.

(4) With regard to the beneficial effects which developing countries are entitled to expect from the expansion of world trade, the Community intends to contribute actively to any efforts agreed in this connection by the industrialized States as a whole, without any prejudice to the advantages which must accrue to the countries with which it has special relations.

(5) The Community will continue its policy of developing its trade with all countries, including those not taking part in the negotiations. With the development of the multilateral negotiations in mind, appropriate solutions should be sought for this purpose, based on the concept of reciprocity.

Chapter II: Industrial Customs Tariffs

(1) As far as tariffs are concerned, the trade negotiations must lead to a significant lowering of customs tariffs, by means of reductions in duty graduated in relation to its current level, thus

leading to a harmonization of tariffs.

(2) The procedures for lowering customs tariffs on industrial products must be simple and applicable in the most general way possible.

(3) While recognizing that mutual advantage and reciprocity must be sought in the overall outcome of the whole range of the negotiations, the aim should be to seek, so far as possible, reciprocity in each individual field, in particular as far as tariffs are concerned.

(4) The rules for lowering tariffs must necessarily take into account the considerable differences which exist between the customs tariffs applied by the developed countries. Quite apart from the question of the general level of tariffs, some countries apply tariffs of a roughly homogeneous level to all products while others apply very high tariffs to some products and much lower ones to others.

The rules adopted should aim, within the overall objective indicated in Paragraph 1, at levelling off the differences caused by these peaks and troughs.

This would have the effect of creating more equitable conditions for trade and diminishing the present inequalities in the tariff protection of the

various developed countries.

This is the only approach which would make it possible to avoid a situation in which, following further reductions of customs tariffs, some would be so low that certain countries would have little hope of subsequently obtaining reductions in the higher customs duties which some of their partners would have been able to maintain.

The procedures should take account of the fact that the actual level of protection should be calculated on the basis of the added value.

(5) The procedures for lowering tariffs should therefore be based on the principle of the higher the tariff the greater the reduction of customs duty.

A threshold or floor should be set below which no reduction would be required, which would prevent those countries with low duties or diversified tariffs being obliged to lower them to such an extent that it would be difficult to achieve reciprocity.

(6) The further lowering of customs tariffs envisaged inevitably involves a reduction in the preference margin from which developing countries benefit in those developed countries which have introduced the Generalized Preference Plan. In anticipation of the implementation of the Generalized Preference Plan by all developed countries, the Community should take

steps to improve its own plan in accordance with the directives given by the Conference of Heads of State or Government in October 1972. (See Chapter V).

(7) This general approach should not exclude the possibility of achieving in the negotiations certain special formulas for a limited number of products.

(8) The possibility of negotiating, in certain sectors, on a basis covering both tariffs and nontariff barriers with the aim of achieving a balanced result should also be envisaged.

Chapter III: Nontariff Barriers

(1) The diversity of nontariff barriers makes it unrealistic to seek a solution of a general character; there must therefore be a case by case approach while still bearing in mind that in some cases certain measures are interdependent.

(2) The existence of so many types of nontariff barriers (classified by GATT under nearly thirty chapter headings each subdivided into a number of more or less similar individual measures applied by different countries) seems to preclude finding solutions for all the measures listed. It is therefore desirable that certain types of measures be selected

on which negotiation would take place but without excluding the possibility that other barriers may be added to the list in the course of the negotiations should this prove necessary.

(3) The forthcoming negotiations on the nontariff barriers to be retained will take account as much as possible of the work already done on the matter within GATT and the OECD.

In the opinion of the Community the examination should be directed, initially, at the measures which appear to be the greatest obstacles to international trade.

Other specific measures with more limited scope will have to be selected from among those which are mentioned most frequently in the notifications made to GATT, and be grouped together according to their nature or their effects with a view to balanced concessions; the list adopted for negotiation could then be added to at any moment on the initiative of any of the participants.

(4) Reciprocity is harder to assess over nontariff barriers than over customs duties, so a broad spread of solutions will be needed to make up a worthwhile and well balanced package.

(5) Many similar measures are applied by a large number

of countries and therefore lend themselves to multilateral solutions, whether by abolition or amendment or by agreement on greater harmony or discipline. These solutions may involve constraints of varying degrees, and may take the form in some cases of interpretative notes to the existing provisions of the General Agreement, and in others, of general principles or codes of behavior. Although it is clearly desirable to aim at the maximum degree of balance between commitments in each subject negotiated, it should be recognized that in certain subjects there are from the outset some built-in imbalances.

(6) For certain measures which are applied by only one or two countries the solution may be specific (abolition or adaptation), without there being any need to lay down general rules.

(7) The Community will specify the nontariff barriers of its trading partners which it wishes to see dealt with in the negotiations.

For their own part the Community and its Member States will declare their readiness to negotiate on some of the measures they themselves apply towards finding a multilateral or specific solution permitting an adequate reciprocity for their partners.

(8) The solutions arrived at should be accepted by as

many countries as possible, failing which the existing imbalance between the various Contracting Parties is likely to become worse. It will not be possible to apply these solutions unless they are effectively adopted by the principal trading partners concerned.

The advantages which might derive from solutions comprising obligations which go beyond the GATT provisions, should be reserved for countries which in practice abide by these solutions.

(9) With this same need for balance in mind, all the Contracting Parties should cease to benefit from the exemption provided by the Protocol of Provisional Application.

(10) The agreements reached on nontariff barriers should include appropriate mechanisms for consultation and the settlement of disputes. These arrangements would both deal with differences in interpretation of the agreement and with any difficulties likely to arise in the implementation of these agreements.

Chapter IV: The Agricultural Sector

(1) The objectives of the negotiations in the agricultural

sector should be in keeping with the above mentioned general objectives but at the same time should also take into account the special characteristics of agriculture and conform with the objectives laid down in Articles 39 and 110 of the Treaty of Rome.

With a view to meeting world food needs, the Community is also prepared to examine jointly with the other partners in the negotiations measures dealing with this matter.

(2) For political, economic and social reasons, the agricultural sector in all countries is especially characterized by the general existence of support policies. The common agricultural policy corresponds to special conditions of agriculture within the Community. Its principles and mechanisms should not be called into question and therefore do not constitute a matter for negotiation.

(3) The specific objective of the agricultural negotiations should therefore be the expansion of trade in stable world markets, in accordance with existing agricultural policies.

(4) The conditions for the expansion of trade would be more favorable if the stability of world markets were better assured. The best way of achieving that objective

would be to organize orderly world markets by means of appropriate international arrangements.

For products such as cereals (wheat, flour and feed grains), rice, sugar and the most homogeneous milk products, the Community will propose the negotiation of a price mechanism (minimum and maximum prices), accompanied by storage measures in order to arrange the offer, all of which would moreover, facilitate the implementation of the food aid programs. The Community feels that the best way of fulfilling such commitments would be to conclude international agreements for each product.

In the case of other products which are not suited to such Agreements the Community could agree to negotiate joint disciplines. A system of voluntary restraints which would ensure that the operations of the exporting countries on world markets run smoothly.

Application of the import mechanisms will be adapted to this new situation to the extent that stability on world markets has been achieved as a result of implementing the international arrangements which have been agreed.

(5) The overall objective of these measures would be to encourage the regular expansion of trade, within the framework of the actual agricultural policies pursued by the partners. The Community, for its part, would ensure that such undertakings were respected when practicing the

principles of its common agricultural policy.

(6) The problems caused by the harmonization of legislation covering both human and plant health and of the various rules on the use and treatment of products should also be covered in the negotiations.

(7) Although the measures set out above are improving world markets, which will also benefit developing countries, additional action should also be taken on products which are of particular interest to the developing countries. This action could take the form of measures of a preferential character, for example, enabling these countries to improve their export revenue.

Chapter V

(1) The Developing Countries

The developed countries have agreed to take particular account of these negotiations of the interests of developing countries. That is to say, the developed countries will not only try to ensure that the developing countries do not suffer indirect disadvantages, but will also help to expand the developing countries' trade and improve their export revenue. This was emphasized in

the declaration of intent made by the Community on December 13, 1971; in the Joint Declaration by the United States and the Community in 1972, and again in the Communiqué of the Summit Conference in October 1972, which states that, without detriment to the advantages enjoyed by those countries with which it has special relations, the Community should respond even more than in the past to the expectations of the developing countries. In this respect, the Community attaches the greatest importance to the policy of association as confirmed in the Accession Treaty.

The Community's objective as regards the developing countries in general should be to achieve a consistent body of measures and a balanced contribution by industrialized countries. There are, however, great differences between the levels and the opportunities for development in the various developing countries, so the Community would wish to reserve for itself the possibility of varying its action to meet the levels of development and the particular needs of these countries. Such variation might well concern the nature of the concessions made to the various developing countries, the choice of products, and the degree of reciprocity which might be asked of the most advanced of the developing countries.

(2) Tariffs

In the field of generalized preferences the Community is prepared to improve the plan which it established unilaterally nearly two years ago. But the Community expects other industrialized countries, and particularly the United States, to introduce a plan designed to assist the developing countries as a whole, and comparable in its efforts to the Community plan.

The provision laid down in Chapter II, namely that no tariff reduction should be envisaged below a certain level, would result in the maintenance of a margin of preferences in favor of the developing countries.

Finally, during the negotiations, the Community reserves the right to propose to the other developed countries that exceptions could be introduced by mutual agreement to the application of the general procedures for tariff reduction for a small number of products included in the system of generalized preferences which are of particular interest to less-developed countries.

The system of generalized preferences could be improved by means such as raising the quantitative ceilings, making the detailed rules of application more flexible, including, after examination of individual cases, a larger number of processed agricultural products in the list of products which benefit from preferences and increasing the margin of preference for those

already included.

(3) Nontariff Barriers

In the field of nontariff barriers, the developed countries should endeavor to take particular account of the interests of developing countries by adapting import arrangements in order to favor exports from developing countries.

In return the developing countries could make a contribution which would be in their own interest by simplifying their administrative systems for imports.

(4) Agricultural Products

(a) When implementing any international arrangements to regulate the markets for certain agricultural products, the interests of the developing countries and in particular the least-advanced amongst them should be taken into account.

(b) Food aid commitments can be envisaged in this context.

(c) Moreover, as stated in Chapter IV, "additional action should also be taken on those products of particular interest to the developing countries. This would take the form of measures of a preferential character, which would give these

countries a chance to increase their export earnings."

Chapter VI: Application of the Safeguard Clause Provided for
in Article XIX of the GATT

(1) In confirming its respect for the disciplines of the General Agreement, the Community wishes to emphasize that the current provisions of Article XIX of the General Agreement should be maintained as they are.

(2) The object of this safeguard clause is to enable purely transitory difficulties to be overcome or to give the branches of activity concerned the period of adaptation which they need in order to adjust themselves to the requirements of international competition.

(3) It must, however, be recognized that this Article has proved difficult to operate effectively. The Community says that it is prepared to take part in any deliberations aimed at trying to establish a better practical application of the safeguard clause.

(4) Any new procedures of application should neither result in new restrictive measures nor have the effect

of merely making the system more feasible in particular by restricting entitlement to compensation or redress unless the conditions governing their applications are at the same time clearly laid down and control of their operation made stricter.

ANNEX II

Statements to be Written Into the Minutes of the 248th
Council Meeting of 25-26 June 1973

Statement No 1

Re: Chapter II Paragraph 8:

"The Council agrees that during the negotiations the Community will draw up an overall statement of the measures provided for each sector in order to ascertain whether a satisfactory balance has been achieved."

Statement No 2

Re: Chapter III, Paragraph 10:

"The Council agrees that should new nontariff barriers appear after the conclusion of the negotiations, these would also be covered by the mechanisms provided for in this paragraph."

Statement No 3

Re: Chapter IV:

"The Council notes that since structural problems are the basic cause of many difficulties in agriculture, it is in the Partners' interest, in attaining their objective, to intensify

structural reforms in order that market and price policies are, economically, more soundly orientated."

Statement No 4

Re: Chapter IV:

"The Council notes that none of the measures in the chapter on agriculture implies the right to negotiate the level of agricultural production in the Community."

Statement No 5

Re: Chapter IV, Paragraph 4, Subparagraph 2:

"The Council agrees that the Commission should also examine with its negotiating partners the possibilities of concluding international agreements on certain oil seeds."

Statement No 6

Re: Chapter IV, Paragraph 4, Subparagraphs 2 and 3:

"The Council notes that the Commission will receive Directives in respect of the products referred to in the second Subparagraph of Paragraph 4 with a view to negotiating international agreements product by product. It it were to

appear that this objective could not be attained for one or more of the products in question, the Commission would report to the Council which would then have to take a decision as to whether this product or these products should be excluded from the negotiations, or whether voluntary restraints, as referred to in the third Subparagraph, should be negotiated."

Statement No 7

Re: Chapter IV, Paragraph 4, Last Subparagraph:

"The Council notes that the variable levies system and mechanisms themselves remain unchanged but the application of import mechanisms would be adapted to the new situation referred to in the fourth Subparagraph of Chapter IV, Paragraph 4."
