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BACKGROUND NOTE:
EC PERSPECTIVES ON THE GATT MINISTERIAL

Trade Ministers from the 88 nations participating in the General Agreement on Tariffs and Trade (GATT) will meet in Geneva on November 24-26 against a backdrop of economic ills that will severely test their commitment to the goal of liberalized world trade. The greatest challenge facing the ministers will be that of confronting the surge in trade protectionism triggered by the present worldwide recession. A decision by the ministers to shun protectionist solutions to their domestic economic problems would breathe new life into the open world trading system embodied by the GATT. But failure to take such an initiative would deal a severe blow to that system and could spell the beginning of its end.

For this reason, the European Community is eager to do all it can to see that the ministerial raises a rallying cry against the wave of protectionism that threatens to erode the international trading framework the EC and its GATT partners have worked so diligently to construct.

Both the EC and the US have affirmed their desire to make the ministerial a success. But, if the ministerial is to succeed in terms of recommitting the world's trading nations to the rule of law in international trade, all parties must be willing to approach it with realistic expectations. The task of forging often divergent positions into a rational framework for the conduct of trade in the 1980s will demand patience, discipline and a spirit of cooperation from all the meeting's participants.

The ministers' meeting, the first under the auspices of GATT since 1973 at the launching of the Tokyo Round of Multilateral Trade Negotiations, will bring attention to bear on five key topics that have become the focus of interest or concern in the realm of international commerce: agriculture, north-south trade, safeguards, dispute settlement and trade in services.

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Agriculture

At present, only three years after the conclusion of the Tokyo Round, the EC does not see the need for any major new negotiation on agricultural trade. The Community does not share the US view that GATT rules should apply to agriculture in the same way they apply to trade in manufactured goods. Agriculture is a special case - a fact recognized in the Tokyo Round. Unlike other industries, virtually all industrialized nations subsidize their agriculture because of the enormous political and economic importance governments place on the goals of agricultural self-sufficiency, food security and on protecting the living standards of their farmers.

The US administration, beset by large grain surpluses and correspondingly low farm product prices, has repeatedly sought to blame its domestic farm problems on the EC's Common Agricultural Policy (CAP). US officials have assailed the subsidies provided European farmers under the CAP for "disrupting trading patterns and challenging market shares of traditional exporters, including the US". In fact, the US has pursued several trade complaints against the EC in which it has called the legitimacy of EC subsidies into question.

The American implication that the CAP is somehow contrary to GATT trading rules is simply untrue. The GATT specifically permits the use of export refunds for primary products, provided that such subsidies do not lead to any GATT member obtaining more than an equitable share of the world market.

The EC, with its common policy, remains the world's largest importer of farm products. As world agricultural trade increased between 1971 and 1980 by 451 percent, the EC increased its agricultural exports by 513 percent, but the US increased its agricultural exports at an even steeper rate, 536 percent.

US criticism of the CAP is particularly ironic given the fact that since 1955 the US, unlike the EC, has benefitted from a special GATT waiver that allows it to ignore certain GATT rules on agricultural trade. Under this waiver the US is free to impose whatever import restrictions it likes on cotton, sugar, peanuts and dairy products.

North-South Trade

On this issue, the EC and the US are in general agreement that the more advanced developing countries should do more to open their borders to imported goods, particularly those from other developing countries. In the past, the industrialized trading nations have pursued a policy of non-reciprocal trade concessions towards their developing counterparts. This policy recognized the pressing need of the developing countries to build their own national industries. Thus, under GATT, developing countries, as a group, enjoy many special benefits while remaining exempt from obligations incumbent on other GATT members.

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The Community feels that this pattern of non-reciprocal concession is unlikely to remain a viable basis for future negotiations with the developing countries, particularly in the context of a worldwide recession wherein the industrialized countries face declining productivity and rising unemployment. Moreover, the EC questions whether some of the more advanced Third World nations can still justify the need to protect their fledgling domestic industries by imposing high customs duties and other barriers to imported goods.

However, the EC, realizing the poor state of many developing countries, does not intend to embark straightaway on tariff negotiations. Instead, the Community would prefer a feasibility study to determine what could be done on both sides to address North-South trade problems.

Safeguards

In essence, safeguard clauses give governments the right to impose import controls or other temporary trade restrictions to prevent serious injury to a domestic industry. Safeguards traditionally have been applied on a non-selective, non-discriminatory basis. GATT rules require that the affected parties be notified and consulted before safeguards are invoked and in some cases provide for retaliation by countries against whose exports safeguard actions are taken.

However, experience has shown that countries are reluctant to apply safeguards on a non-discriminatory basis when exports from only one or a few countries are causing a domestic problem. This reluctance has contributed to a proliferation of so-called "voluntary restraint agreements" negotiated outside of the GATT.

The Community favors revision of the safeguard clause to permit safeguards to be applied more selectively - that is, applied to products from a selected country or countries, rather than applied across-the-board - under very limited and specific circumstances. This would cut down on the number of voluntary or informal restraint agreements not subject to GATT rules.

For example, if car imports from Japan were damaging the Community's domestic automobile industry, the Community could invoke the safeguards clause to limit those imports. However, under current GATT rules, the EC would also be forced to limit its imports from other foreign producers such as the US, Sweden, Brazil and Canada, regardless of whether these imports were causing the Community's auto industry harm. To prevent such a dilemma, the EC would like to see GATT rules updated to permit selective safeguard actions with an appropriate system of checks and balances to ensure that such selective actions were not overused.

Services

The US has shown a strong interest in extending GATT rules into the realms of services such as banking, transportation and insurance.

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These rules presently apply only to material products. The EC, together with the US, believes that the best way to approach the question would be to initiate a comprehensive study of the potential benefits and problems that could arise from bringing trade in services under GATT's jurisdiction. The EC acknowledges that a number of developing countries have expressed reservations about extending GATT into the service sector.

Complaints Procedures

Certain countries believe that the current procedure within GATT for dealing with trade disputes among its members is unsatisfactory. They point to the current procedure's inability to settle disputes quickly as a major failing that risks compromising the procedure's integrity.

The EC does not share this view. Instead, the Community believes that most of the problems associated with the GATT's dispute settlement process arise from members being too hasty to take recourse to the GATT without first exploring the avenues for a bilateral settlement.

The large number of cases brought before the GATT by US producers of wheat flour, sugar, poultry, pasta, canned fruit and citrus illustrates this point. The US has made clear that it expects the EC to change its policies if the GATT finds the EC Commission in the wrong in these cases. By contrast, US officials have implied that they would seek changes in GATT trading rules if the GATT fails to uphold the US view in these cases. This US attitude towards the dispute settlement process could be succinctly characterized as "heads I win, tails you lose".

The GATT has no police force and no jail. It is simply a contract between sovereign nations. Therefore, its role in settling trade disputes between its members should not be viewed as that of issuing Supreme Court-type decisions, but rather as that of facilitating negotiations and conciliation.

An Overview of the GATT

The GATT is a multilateral agreement subscribed to by over 80 nations that together account by far for the bulk of international trade. The GATT's purpose is to promote trade by establishing rules governing the conduct of international commerce. The agreement is based on the recognition that liberal and secure trade across national borders contributes to the economic growth and development of all trading partners.

Since its implementation in 1948, the GATT has served as the principal international body concerned with trade relations, the resolution of trade disputes and with negotiations of trade barrier reductions.

The most recent of these negotiations, the Tokyo Round of Multilateral Trade Negotiations, concluded in 1979, was by far the most

comprehensive ever undertaken under the auspices of GATT. The Tokyo Round made great progress in achieving reductions in tariffs on imported goods. It also established various "codes" designed to discourage governments from using non-tariff devices such as discriminatory government procurement policies, subsidies, product health and safety standards or import licensing procedures as barriers to foreign trade. The Tokyo Round, more than any round of trade negotiations that preceded it, focused attention on the special trade problems of developing countries, thus recognizing their increasing political and economic importance on the international scene.

The multilateral trading system has stood up to the successive crises it has undergone. Thanks to that system, customs duties are now lower than they were 10 years ago. In general, the opening up of national economies and their interdependence are far more complete today than at the end of the 1960s.

Since the last GATT ministerial meeting, international trade has grown twice as much as world production, despite protectionist threats that have accompanied times of economic downturn.
