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Report

drawn up on behalf of the Committee on External Economic Relations

on the ~~multilateral~~ negotiations in GATT

Rapporteur: Mr P.-B. COUSTE

12.1

PE 49.532/fin.

By letter of 23 February 1977, the Committee on External Economic Relations requested authorization to draw up a report on the progress made in the GATT multilateral negotiations.

By letter of 5 April 1977, the President of the European Parliament authorized the Committee on External Economic Relations to draw up a report on the subject. The Committee on Agriculture and the Committee on Development and Cooperation were asked for their opinions.

On 26 April 1977 the Committee on External Economic Relations appointed Mr Cousté rapporteur.

It considered the draft report at its meetings of 25 May 1977, 22 June 1977, 24 January 1978 and 22 March 1978 and unanimously adopted the motion for a resolution and the explanatory statement at its meeting of 18 April 1978.

Present: Mr Kasperiet, chairman; Mr Schmidt, vice-chairman; Mr Martinelli, vice-chairman; Mr Cousté, rapporteur; Mr van Aerssen, Mr Baas, Mr Bersani, Lord Brimelow, Mr Brugha, Mr Fitch, Mr Galuzzi, Mr Luster, Mr Mont, Mr Pintat, Mr Sandri and Mr Spicer.

The opinions of the Committee on Agriculture and the Committee on Development and Cooperation are attached.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the multilateral negotiations in GATT

The European Parliament,

- having regard to the Commission memorandum on an overall approach to the multilateral negotiations in GATT (COM(73) 556 and 556/2),
 - having regard to the declaration on the GATT negotiations made by seven of the major industrialized countries at the summit conference held in London on 8 May 1977,
 - having regard to the conclusions of the meeting of 6 January 1978 between Mr Jimmy Carter, President of the United States, and the Commission of the European Communities under its President, Mr Roy Jenkins,
 - having regard to the outcome of the visit to Japan by Mr Haferkamp, Vice-President of the Commission of the European Communities, from 22 to 24 March 1978,
 - having regard to its resolution on the Community's position in the GATT negotiations¹,
 - having regard to the report of the Committee on External Economic Relations and the opinions of the Committee on Agriculture and the Committee on Development and Cooperation (Doc. 86/78),
1. Notes that after four years the so-called 'Tokyo Round' of the GATT negotiations has moved beyond the stage of technical preparation and embarked on real negotiations on the basis of offers and requests submitted by the member countries of GATT;
 2. Is concerned about the threat to world trade from increasing protectionist measures in the various countries and is convinced that overt and latent forms of protectionism hamper the expansion of international trade;
 3. Points out that the shortcomings in the present international monetary system could jeopardize even the most favourable outcome of the current multilateral negotiations in GATT;

¹ OJ No. C 157, 14.7.1975, p.26

4. Draws attention to the far-reaching changes which have taken place in the international division of labour and patterns of trade, which require greater international economic discipline to allow an orderly expansion of trade, not only in the overall supply of raw materials and energy but also in key sectors of manufacturing industries currently affected by serious disturbances of the market;
5. Believes that - in the interests of the consumer and world trade - the changes in the world economy and the threat to the Community's economy from massive, cheap imports must be taken into account in the final phase of the current GATT negotiations, and hopes that a 'social clause' will be drawn up, fixing as the minimum requirements the ILO rules for the protection of workers;
6. Considers it urgent in view of the increase in restrictive practices by various trading nations to consolidate and gradually extend the agreements which have proved their worth in GATT and are designed to promote the international division of labour and free market economy, particularly those on tariff and non-tariff measures;
7. Urges that any concessions which the Community might grant should be brought more closely into line with those granted by the other industrialized nations in view of the predominantly open nature of the Community market and the problems this causes for the economies of the Member States;
8. Emphasizes the importance of trade with the developing countries and calls for the drafting of fair rules for such trade, the key-note of which should be improved market organization, in order to achieve the structural adjustments necessary within the Community in the light of social requirements and to prevent or at least keep within reasonable limits, any disturbance of the market;
9. Considers - while reaffirming the need for the GATT negotiations to result in further advantages for the developing countries as advocated in the Tokyo Declaration of 12 September 1973 - that, on the question of trade with those countries
 - the EEC's system of generalized preferences should be reviewed in collaboration with the appropriate UNCTAD bodies;
 - access to the Community market for exports from the poorest developing countries should be facilitated;
 - the system of generalized preferences of other industrialized countries should be brought into line with the most generous concessions already granted to developing countries under the EEC's system of generalized preferences;

10. Calls for stricter observance of the principle of reciprocity - except in the case of the state-trading nations which are members of the 'Group of 77' or benefit from the system of generalized preferences and the abolition of dumping practices in trade in commodities and services with the state-trading nations;
11. Considers it necessary, given the increasing number of nations involved in world trade and the varying interpretations and methods of application of the existing rules to make full use of the procedures for settling disputes in GATT and, where appropriate, to improve them;
12. Notes the offers submitted by the Community to GATT in January 1978, particularly in the tariff, non-tariff and agricultural fields and emphasizes the importance of updating the safeguard clause (Article XIX of GATT);
13. Supports the Community's efforts
- to create a customs assessment code laying down a simple and precise universal system;
 - to create a code of conduct to suppress technical obstacles to trade and prevent protectionism shifting to spheres other than customs;
 - to create a code for government procurement;
 - to provide more precise legal provisions regarding the admissibility and limits of the safeguard clause;
 - to lay down precise rules of conduct, without special rights, governing subsidies and resulting countervailing duties;
- calls on the Commission to take into consideration in the current negotiations the essential points mentioned above;
14. Stresses, moreover, that the Community will be unable to maintain its position in world trade unless it implements a common industrial policy and immediately makes the structural adjustments needed in order to safeguard jobs and stay competitive;
15. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities

EXPLANATORY STATEMENTI. Introduction

1. The rise in the price of crude oil coupled with the effects of the worst recession since the Second World War have caused extremely serious problems and brought about far-reaching changes in national economies throughout the world. The scene is dominated by inflation, unemployment, balance of payments deficits and shifts in the international division of labour which are causing changes in patterns of trade and national production structures. These factors are affecting the western industrialized nations, the developing countries and also the Eastern bloc states. They have prompted countries to adopt various protectionist measures which represent an increased threat to world trade.

Against this rather gloomy background the GATT negotiations known as the Tokyo round, which began in 1973, have made slow progress. The technical preparations for negotiations were completed in January 1978 and negotiations proper on the offers and requests of the participant countries can now begin. As the bases of GATT have changed radically since its creation, the industrialized nations concerned are reluctant to make the necessary adjustments. This fact, coupled with internal political difficulties, in the case of certain major participants in the negotiations, has affected the progress of current work.

2. When GATT was set up in 1947 its first members¹ were mainly industrialized countries whose aims were to expand and liberalize world trade on the basis of a relatively stable international monetary system, fixed exchange rates and reciprocal concessions; at that time there were no real problems as regards the supply of energy and raw materials.

Since then the monetary order established at Bretton Woods has disintegrated and freely fluctuating exchange rates have a greater impact on external trade than changes in customs tariffs. The policy of the oil-producing countries and closer international cooperation between the other developing countries have created uncertainty as regards energy and raw materials supplies. Furthermore, about two-thirds of the negotiating partners in the Tokyo Round are now developing countries.² They are demanding increasingly more generous concessions, from the industrialized countries, if possible, on a non-reciprocal basis (as is already the case in the Convention of Lomé). As a result of these demands, the objective of ensuring additional trade advantages for the developing countries has been added to the original objective of trade liberalization in the current negotiations in GATT.

¹ See Annex I

² See Annex II

3. These introductory remarks show that the objectives of GATT cannot be achieved unless the attempt to establish an international economic and monetary order is also successful. Failing world-wide discipline in these areas, national egoism and lack of understanding will result in reckless measures harmful to world trade. Such measures may possibly provide temporary solutions to national problems but ultimately exacerbate economic problems throughout the world and cause a corresponding fall in living standards.

In their declaration of 8 May 1977 at the summit conference in London the seven major industrialized countries gave fresh hope to the current GATT negotiations by stating: 'we will give a new impetus to the Tokyo Round of multilateral trade negotiations. Our objective is to make substantive progress in key areas in 1977. In this field, structural changes in the world economy must be taken into consideration'. With this in mind, the Commission and United States reached an agreement in principle on 11 July 1977 on the subsequent course of the negotiations which was confirmed by the two chief negotiators (end of November 1977 in Washington).

The primary objective of this report, therefore, is to examine these changes more closely and, after a brief account of the progress of negotiations, to indicate the features of particular importance to the Community.

II. General comments on the GATT negotiations in progress

4. As suggested earlier, the subject matter of the GATT negotiations is extremely complex; it consists of a mass of technically complicated detail. It is also highly political and closely linked to the international discussions - such as the North-South dialogue temporarily suspended on 3 June 1977 in Paris - on a world economic order and the creation of a world monetary system.

5. In order to situate these problems more clearly a few figures are given below showing the spread of world trade and total world output.

According to the statistics of the secretariat of GATT total world exports in 1976 (1975) were worth US \$ 992,000 (879,000) million, broken down as follows:

	1976	<u>US \$</u> (thousand millions) (1975)	1976	<u>%</u> (1975)
- industrialized regions	625	(56)	63.0	(63.8)
- developing countries (of which oil-importing developing countries)	252 (120)	(212) (99)	25.4 12.1	(24.2) (11.2)
- Eastern bloc countries	95	(87)	9.6	(9.9)

Despite the rise in the world's population to about 4,200 million total world output increased, according to figures provided by the US Department of State, by 5% in 1976 - after the fall in 1975 caused by the recession - to almost US \$7,000,000 million. The trend in per capita output is as follows:

Per capita output; in US \$ (1975 prices)

Region	1950	1960	1970	1976
- Western industrialized countries	2626	3444	4952	5467
(Western European countries)	1944	2847	3840	4339
- Developing countries	223	302	416	543
- Eastern bloc countries	473	683	915	1007

6. With a view to stimulating discussion of the overall international economic aspects, illustrated by the above figures, of the current GATT negotiations in the light of major economic changes and their political implications, six propositions are set out and introduced below.

Proposition No. 1

'Owing to wider recourse throughout the world to non-tariff barriers to trade and protectionist measures, priority must be given to safeguarding existing GATT agreements, before any further liberalization.'

Consider, for example, the attitude of just two of the industrialized countries taking part in the GATT negotiations i.e., Japan and the USA. Complaints are repeatedly being made about Japan, which protects its domestic market by a variety of non-tariff barriers to trade and at the same time places certain industries in other countries throughout the world in difficulties by its hard-sell policy. The Committee on External Economic Relations considers these problems, especially in relation to Europe's ship-building and steel industries etc., in its report on economic and trade relations between the European Economic Community and Japan.¹

The same applies to the USA which has introduced a series of measures to promote exports - such as the DISC (Domestic International Sales Corporation)² system currently being discussed within the GATT Council - and to curb imports, such as the American Selling Price, into its battery of external trade regulations, which are at variance with the rules of GATT.

¹ see BAAS report - Doc. 570/76

² in force since 1 January 1972 - provides for substantial tax relief for exporting firms

These difficulties are now being aggravated by the increased use of the facilities provided under the United States Trade Act according to which any undertaking or trade union may bring legal proceedings if they consider that imports are disturbing the market.

In April 1977 the New York customs tribunal allowed a claim by the American Zenith Corporation and decided that VAT refunded in third countries would be offset by countervailing charges on imports into the USA. This decision alarmed the industrialized countries and led the EEC authorities to issue threats of retaliatory measures.

7. Subsequently, however, a Washington appeal court ruled in favour of the US Treasury, which had decided to suspend application of the decision of the customs tribunal. As Zenith may still appeal to the Supreme Court despite that ruling, the danger that countervailing charges may be imposed on European exports has not yet been finally disposed of.

Proposition No. 2

'The reluctance of other industrialized countries participating in the GATT negotiations to grant concessions places the economy of the Community countries at a disadvantage.'

8. This proposition is closely bound up with the first one. It is true that the liberal external trade policy of the Community has made a crucial contribution to the development of the national economies of the member countries. The Community has created a comprehensive network of agreements, e.g., with the EFTA countries, the associated Mediterranean countries, the Maghreb and Mashreq countries and the ACP countries - to name only the most important. Concessions have been granted to these groups of countries and, in addition, other third countries benefit from the generalized system of preferences.

The other industrialized countries, however, have not gone as far as the Community in granting concessions. At the end of the 'Kennedy Round' the Community already had, on average, the lowest tariffs of all the major trading nations. Furthermore, almost all Community products are bound in GATT, in other words the duties on them may not be raised unless further negotiations take place and compensatory arrangements are made. To quote just one example, in the textile industry the Community's tariffs amount to less than half the American tariffs for similar products!

As a result of this opening of the Community market to third countries, our trade balance has deteriorated in recent years. In 1976¹ Community imports rose 19% to 140,400 m EUA, while exports increased by only 9% to 124,200 m EUA. Thus the trade balance deficit was about 16,000 m EUA, the

¹ disregarding intra-Community trade

deficit vis-à-vis the USA alone accounting for about 8,000 m EUA and vis-à-vis Japan 3,200 m EUA.

9. In view of this trend the Community must persuade the other industrialized nations to bring their concessions into line with those granted by the Community and to open their markets to the same extent. Otherwise the Community economy will be even more severely handicapped, jobs will be lost and it will not be possible to implement the necessary structural changes in an orderly manner. This would be certain to lead to a change of direction in Community external trade policy.

Proposition No 3

'In view of the close interdependence of the world's economies the Community's external trade policy towards developing countries cannot be successful in the long term unless it improves the framework of trade by guaranteeing a minimum amount of security for the Community economy from major upheavals in the market and also for Community supplies of energy and raw materials;'

10. In view of its wealth and its large share in world trade, the Community - like the other industrialized countries - bears a proportionate share of responsibility for economic progress in the developing countries. This responsibility extends not only to humanitarian aid for these countries and the development of economic relations on a footing of equality but, more particularly, to the guarantee of peace and security for future generations. President CARTER referred to this crucial point on 22 May 1977 in his speech at the Notre-Dame University in Indiana (USA) when he declared: 'we know that a peaceful world cannot long exist one-third rich and two-thirds hungry.'

In this connection the figures showing the varying rates of growth of the world's population and the distribution of world output given above speak for themselves.

11. However, the repercussions of the economic development of the Third World on the Community and the other industrialized countries must also be taken into consideration. In the Lima declaration of March 1975 the UNIDO asked that the developing countries should become owners of 25% of the world's industrial production capacity by the year 2,000¹. The forecasts made at the international trade and development conference in July 1976 in Nairobi (UNCTAD IV) indicated that exports from developing countries would be twenty times higher by the year 2,000 while the developed countries' exports would increase only five-fold.

¹ See Lima Declaration on industrial development and cooperation adopted by the second General Conference of the United Nations Industrial Development Organization (UNIDO) at Lima on 26 March 1975; point 28 of part A of final document - Europa Archives - 14/1975

If these far-reaching changes in the international division of labour and patterns of trade are to take place reasonably smoothly, care must be taken to ensure that security of supply of raw materials and energy is guaranteed in another North-South dialogue and in the basic rules of UNCTAD. The Community must also make sure that its market is not permanently disturbed by a flood of cheap imports from the developing countries.

12. This is not to say that the Community must now adopt a restrictive policy towards these countries. It must, in the interests of all concerned, further expand its generalized system of preferences, its development aid and external trade policy towards these countries. During the current GATT negotiations, however, it should seek to improve the framework of trade with these countries. The selective application of the GATT safeguard clause¹ will allow it to adapt its internal economic structures while making due allowance for social requirements and avoiding disturbances of the market.

Proposition No. 4

'The industrialized nations of the Eastern bloc do not take sufficient account of the rules and responsibilities of international trade.'

13. Of the industrialized Eastern bloc nations² the following countries are members of GATT or are taking part in the current negotiations:

- Bulgaria
- Poland
- Rumania
- Czechoslovakia
- Hungary

Thus certain major countries are absent, such as the USSR, the German Democratic Republic and also China. Their trade with the western industrialized nations and the developing countries is based on bilateral agreements. Now that trade policy has become the responsibility of the Community a vacuum will arise when the bilateral agreements with these countries expire.

14. As a result of their membership of GATT or of agreements with other industrialized countries, the most-favoured-nation clause applies to some of the Eastern bloc countries, thus enabling them to enjoy the concessions which the western states grant each other. The achievement of a degree of reciprocity in this area was an important point in the Community's revised negotiating position in 1975.

¹ See Annex III

² Other state-trading countries taking part are Cuba and Vietnam.

According to the information available, the Community will shortly be submitting requests concerning this matter to the countries concerned. Since the state-trading nations - except Hungary - do not have a customs system of the western kind, no further time should be lost in seeking better compensation as regards quantities, as the Committee on External Economic Relations has repeatedly stressed¹.

15. The Eastern bloc countries' share in world trade is about 10% of total world exports. These countries are not, however, willing to comply satisfactorily with the rules of international trade. They attempt to secure as many advantages as possible from the commodities and finance markets and the services sectors of the West but at the same time provoke disturbances on these markets by re-exporting goods on which subsidies have been paid in western countries or dumping their products and services at arbitrary export prices.

Since such important countries as the USSR and the German Democratic Republic are not represented in GATT, there is an urgent need for the western nations negotiating in GATT to coordinate their measures in order to ensure that the internationally agreed rules are applied at least bilaterally and in accordance with the principle of reciprocity.

Proposition No. 5

'Unless there is more effective application of the rules of GATT, international trade will be increasingly disturbed.'

16. The rules of GATT were applied with varying degrees of success by the small group of original participating countries with similar market and trading systems, although even among these the more powerful trading partner in each case usually allowed itself greater freedom in interpreting the rules.

As pointed out above, the world economy and world trade, and consequently also GATT itself, is now in a phase of rebuilding. Trade patterns are shifting. The volume of world trade is steadily increasing. More and more trading countries with different economic systems are appearing on the market. The increasing number of nations participating in world trade is accompanied by a proliferation of interpretations and modes of application of existing and also future rules.

¹ See KLEPSCH report (Doc. 425/74)
and KASPEREIT report (Doc. 106/75)

17. It is therefore necessary to make full use of - and where appropriate, improve - the procedures for settling disputes in GATT, to ensure tighter discipline among the signatory countries of the Agreement¹.

Proposition No. 6

'The objectives pursued in the GATT negotiations can be achieved only if the efforts to establish a world economic and monetary order meet with success in the near future.'

18. As far as an international monetary order is concerned, the above assertion was already made by the committee in its last report on the GATT negotiations² and was clearly endorsed in the declaration made at the ministerial meeting in Tokyo opening the current round of GATT negotiations. International efforts to achieve this aim have not, however, been very successful in the last four years.

The need to establish an international economic order has long been realized but was not fully brought home to the various nations until the energy crisis broke out. The Sixth Special Session of the United Nations General Assembly (from 9 April to 2 May 1974) accordingly adopted a programme of action but no action worth mentioning has so far been taken. The North-South dialogue which was temporarily suspended in Paris on 3 June 1977 also gave evidence of the worldwide struggle over the distribution of the world's resources. This dialogue, the aim of which was to establish an international economic order and which, according to one's point of view, was a semi-failure or a semi-success, again reminded all the participants of their growing interdependence.

19. Unless, therefore, international regulative principles are agreed in the near future in the matter of the distribution and use of

- raw materials
- energy sources
- development aid and the transfer of technology
- capital

¹Reference might usefully be made to Resolution 31/98, adopted by the General Assembly of the UN on 15 December 1976 - See: UNCITRAL, Arbitration Rules, United Nations, New York 1977.

²See KASPEREIT report - Doc. 106/75 p.6

there will be no guarantee of peace in the future, national protectionist and repressive measures will disturb international trade and living standards throughout the world will fall.

III. The progress of negotiations and the Community's position

20. After a lengthy preparatory stage following the opening of the Tokyo Round in September 1973, the negotiations proper are getting under way now that the principal participants have submitted offers. These offers and the 'working hypotheses' on new trade regulations to be introduced or perfected represent the basis for the negotiations, which must be completed by the end of 1978 (when the special powers granted to the President of the United States by Congress will expire).

Below is an overall view of the state of work as at the end of January 1978.

Customs tariffs

The lowering of customs tariffs remains an important aspect of the current negotiations, despite the substantial progress achieved in previous negotiations (particularly in the Dillon Round and the Kennedy Round). Although the average level of customs duties is generally reasonable, duties in some countries continue to represent serious obstacles to free trade, inasmuch as they afford certain products selective and differentiated protection.

The Community is prepared to enter into negotiations on the basis of a tariff reduction formula (known as the Swiss formula) which involve both a reduction and a harmonization of duties. In theory, the application of a coefficient of 16 would give an average weighted reduction of customs duties of 40%, but in practice - in view of requests that some exceptions be made - this reduction ought not to exceed 35%.

The Community's position is that the decisions emerging from the tariff negotiations should be applied under two timetables:

- the first made up of five annual stages
- followed, where appropriate, by a second made up of three annual stages

The Community would examine the general economic situation to determine whether conditions for transition to the second timetable had been fulfilled.

Non-tariff obstacles to trade

Previous GATT negotiations were primarily concerned with reducing customs duties¹.

¹ In addition to tariff reductions, the Kennedy Round (1963-1967) produced two agreements of limited scope on non-tariff measures:

- the Anti-Dumping Code, setting out GATT rules as laid down in its Article VI, which, in the opinion of the EEC and some of its partners, has not been fully applied by certain signatories;
- the abolition of the American Selling Price, which has never been ratified by the US Congress.

However, as tariff barriers have been lowered, the relative importance of existing non-tariff measures has grown. In addition, increasing State intervention has given rise to more new measures (such as health and environmental requirements) likely to constitute indirect obstacles to world trade.

In a catalogue drawn up on the basis of notifications, GATT has listed over 800 non-tariff measures of various kinds applied by the member countries.

The parties to the multilateral trade negotiations have decided to concentrate their efforts on the most objectionable of such measures: quantitative restrictions on imports, technical obstacles, various customs questions, government purchasing, subsidies and countervailing duties. It has been seen that some of these measures are fairly widely applied and involve a large number of countries. The participants have thus sought general solutions.

Draft codes have been drawn up to deal with technical obstacles, customs assessment, government purchasing, subsidies and countervailing duties.

Certain other measures, however, have been taken in only a few countries and are the subject of specific requests and offers.

A number of participant countries have submitted requests to the Community, which is willing to pursue negotiations with a view to reaching mutually acceptable solutions on the basis of reciprocity¹.

Agriculture

The Community is represented in three sub-groups, which were created to conduct negotiations that would produce international agreements in the cereals, dairy products and meat sectors.

At the end of January the Community submitted its proposals for the other agricultural products. These consist of reductions and new binding tariffs on about a hundred products, including horsemeat, edible meat offals, fruit and vegetables, animal fats, jams and marmalades, preserved fruit, sauces and Bourbon whisky. All together, these proposals cover imports amounting to approximately 1,000 m EUA. If we also take into account the EEC's participation in the multilateral negotiations on cereals, dairy products and meat (and those on rice), its offer in the agricultural sector represents approximately 5,000 m EUA on the basis of 1976 imports. Its proposal in respect of tropical products represents 2,400 m EUA (and has been applied without reciprocity since January 1977). In addition, the EEC takes an active part in the

¹ In view of the extremely technical nature of this section, extracts from the Commission press release of 20 January 1978 summarizing the main points are given in Annex IV.

drafting of multilateral codes imposing tighter discipline on agricultural trade (codes on standards, health measures etc.).

In earlier negotiations the EEC had accepted binding tariffs for agricultural products imports of which totalled approximately 16,000 m EUA, 4,400 m coming from products with nil-duty classification (a rate classified in GATT cannot be increased without compensation being offered to the partners concerned).

Safeguard clause¹

The Tokyo Declaration provides that the negotiations shall include an examination of the effectiveness of the multilateral safeguard system² so as to facilitate the liberalization of trade and preserve the results derived therefrom.

Several countries, together with the European Community consider that in the difficult economic situation facing the majority of countries, improvement of the international safeguard system constitutes a precondition for furthergoing liberalization of trade.

This argument is further supported by the fact that the present safeguard system, based on Article XIX of GATT, has not been wholly satisfactory up to now.

The safeguard clause in Article XIX authorizes the Contracting Parties in GATT to take emergency action for the purpose of limiting imports of particular products when such imports cause or threaten serious injury to domestic producers. Though apparently promoting liberalization, Article XIX limits governments' freedom of action in two ways:

- firstly, by stipulating that, as a general rule, safeguard measures should be applied in respect of all suppliers, without distinction between those responsible for the injury and any others;
- secondly, by providing for the right to compensation of suppliers who are affected, even where all the conditions of Article XIX are fulfilled.

The existing safeguard clause is thus a non-selective and cumbersome instrument.

¹ This section summarizes the relevant passages in the Commission press release of January 1978

² The international safeguard system (based on Article XIX of GATT) authorizes parties to derogate from the GATT rules on free trade under certain exceptional conditions

It is not surprising that many countries have been reluctant to invoke Article XIX to justify emergency action and have instead resorted to other less restrictive methods or have sought to solve their problems by means not provided for in GATT. Hence the development of voluntary restraint arrangements concluded between supplier and client countries/companies. Some of these agreements are also known as 'orderly marketing agreements' (OMAs).

Two different proposals have been made. One (from the EEC) supports a selective application of safeguard measures, while proposing to counterbalance this easing of the rules through the creation of an international control body responsible for preventing improper recourse to selective measures. The other proposal is in favour of maintaining the present safeguard system, particularly as regards the general application of safeguard measures; an international control body would have to be set up to ensure that GATT rules were applied equitably.

Sectoral negotiations

According to the Tokyo Declaration, the negotiations should be complemented by an examination of opportunities for the coordinated reduction or elimination of all obstacles to trade in given sectors.

Canada is one of the main advocates of the sectoral approach, and favours liberalization at all stages of production throughout sectors in which it considers itself particularly competitive (such as wood and derived products, certain ores and metals).

The GATT secretariat has prepared a series of studies on products of particular relevance to the various partners.

In due course those taking part in the negotiations will be able to consider the opportunities afforded by this sectoral approach technique for furthergoing liberalization in certain sectors.

IV. Final comments

21. The absence of an international monetary order and the spread of bilateral agreements tend to diminish the significance of the multilateral GATT negotiations. Similarly, the increase in protectionism in all its various forms and the growing pressure from goods produced and exported at low cost from the Third World, calls for some rethinking on the whole concept of free trade.

In view of the leading role it plays in world trade, the Community must take account of these developments, particularly the economic and social implications, and push for tighter discipline in the world economy and an ordered expansion of trade in order to prevent, in particular, a repeat of the recent upheavals on the market. Those GATT arrangements which have proved their worth would then provide the essential basis for this discipline. The Community should also seek closer coordination with the other industrialized countries with regard to the concessions it grants to its traditional trading partners. A policy better geared to the aspirations and needs of the developing countries and of the Community, especially as regards the protection and creation of markets and guaranteed supplies of raw materials and energy, remains a matter of central importance. The Eastern bloc countries must be persuaded to observe the principle of reciprocity and discipline in international trade.

Unless satisfactory results are achieved in all these areas in the Tokyo Round of negotiations, the multilateral GATT agreements will again be replaced by a multitude of bilateral agreements which, as views on free trade are bound to vary, will hardly promote transparency and world trade. However, the Community cannot continue to support orderly free trade unless it comes out strongly, as part of an overall approach, in favour of structural measures designed to guarantee its own survival in the face of international competition while safeguarding jobs, and unless it implements without delay a common industrial policy.

LIST OF GATT SIGNATORY COUNTRIES IN 1947

South Africa
Australia
Belgium
Burma
Brazil
Canada
Ceylon (Sri Lanka)
Chile
Republic of China¹
Cuba
United States of America
France
India
Lebanon¹
Norway
New Zealand
Pakistan
Netherlands
Southern Rhodesia
United Kingdom
Syria¹
Czechoslovakia

¹ Subsequently left GATT

COUNTRIES TAKING PART IN THE MULTILATERAL TRADE NEGOTIATIONS¹

(Represented on Trade Negotiations Committee, January 1978)

South Africa	Costa Rica ²
Algeria ²	Ivory Coast
Federal Republic of Germany	Cuba
Argentina	Dahomey (Benin)
Australia	Denmark
Austria	Egypt
Bangladesh	El Salvador ²
Belgium	Ecuador ²
Burma	Spain
Bolivia ²	United States of America
Botswana ²	Ethiopia ²
Brazil	Finland
Bulgaria ²	France
Burundi	Gabon
Cameroon	Ghana
Canada	Greece
Chile	Guatemala ²
Columbia ³	Haiti
Congo	Honduras ²
Korea	Hungary
India	Peru
Indonesia	Philippines ³
Iraq ²	Poland
Iran ²	Portugal
Ireland	Dominican Republic
Iceland	Romania
Israel	United Kingdom
Italy	Senegal
Jamaica	Singapore
Japan	Somalia ²
Kenya	Swaziland ²
Luxembourg	Sudan ²
Madagascar	Sri Lanka (Ceylon)
Malaysia	Sweden
Malawi	Switzerland
Mali ²	Tanzania
Mauritius	Czechoslovakia
Mexico ²	Thailand ²

.../...

Nicaragua	Togo
Nigeria	Tonga ²
Norway	Trinidad and Tobago
New Guinea ²	Tunisia ³
New Zealand	Turkey
Uganda	Uruguay
Pakistan	Venezuela ²
Panama ²	Vietnam ²
Paraguay ²	Yugoslavia
Netherlands	People's Democratic Republic of Yemen ²
	Zaire
	Zambia ²

¹ Ref: GATT secretariat Geneva - Communication GATT/1154
- as of 26.1.1978

² Not contracting party to the General Agreement

³ Provisional signatory to General Agreement

TEXT OF ARTICLE XIX OF GATT (safeguard clause)¹

Emergency Action on Imports of Particular Products

1. (a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(b) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph I of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph I of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

¹ See 'Basic Instruments and Selected Documents - Volume IV - Text of the General Agreement 1969', pp. 41-42

3. (a) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph I(b) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Extracts from Commission press release of 20 January 1978 on progress reached in the multilateral GATT negotiations on non-tariff measures hampering trade

A - DRAFT CODES

(1) Customs assessment

Assessment of goods for duty is the main customs question being dealt with in the current negotiations¹.

Multiplicity of existing systems

At present some hundred countries employ customs assessment systems based to a greater or lesser extent on the system of the Brussels Convention on Valuation².

However, some leading trading nations (the USA, Canada, South Africa and New Zealand) have their own systems, completely different from that of their partners. In particular, the United States has an extremely complex valuation system³, which generates uncertainty and constitutes an obstacle to trade.

Some assessment methods used under this system, in particular the American Selling Price (ASP)⁴, conflict with the GATT common law rules⁵.

During the Kennedy Round the United States partners requested the abolition of this system, but Congress has so far refused to give its agreement and the ASP remains in force.

The Canadian system, partly based on the 'fair commercial value', is also open to criticism.

¹ Other customs questions (such as requirements as regards import documents) concern a limited number of countries; for this reason, they come under the request and offer procedure applicable to non-tariff measures.

² Drawn up in 1950 by the Customs Cooperation Council which is based in Brussels, the Convention on Valuation fixes a series of criteria for assessing value. Some 30 countries (including the EEC countries) are members of the Convention and a further 70 use it as a basis.

³ Methods for assessing value vary according to the type of goods. There are 9 possible ways in which value may be calculated.

⁴ The ASP applies in particular to certain organic chemistry products.

⁵

The Community has proposed a draft code for the implementation and definition of Article VII of GATT, which contains a series of guiding principles on customs valuation. This code seeks to establish a uniform international system based on a 'positive' definition of value⁶ and which would make assessment a much less arbitrary process. It would be a completely new system, and the code has been accepted as a basis for negotiation by some of the Community's trading partners.

(2) Government procurement

Purchases by governments and the public sector represent an increasingly large proportion of trade in all countries.

The aim of the GATT multilateral trade negotiations is to lay down the principle of non-discrimination between national and foreign supplies and to give it practical effect by introducing suitable procedures. To this end, the participants have drawn up an 'integrated draft text' synthesizing the work carried out within the OECD on this question and the discussions held within the GATT 'Government procurement' sub-group.

The draft is largely based on joint proposals from the Nordic countries and Canada and proposals from the EEC.

It recommends the introduction of international procedures for notification, consultation, control and the settling of disputes, so as to ensure greater market transparency¹ and equal treatment as between suppliers and products, whether foreign or national.

In particular, it lays down the criteria for the qualification of would-be suppliers, the conditions for participation by suppliers and tender invitation and acceptance procedures. It also reduces the likelihood of arbitrary decisions.

Some important problems still have to be solved:

- the draft code does not specify which purchasing bodies are to be subject to these rules or the respective degree of responsibility of centralized and federal States;
- the desired degree of transparency is still to be determined (either detailed publication of procurement decisions or mere provision of information to governments in the event of disputes).

⁶ A 'positive' definition is based on objective criteria for the determination of value.

¹ In particular, the draft aims at improving understanding of the various national laws, regulations, procedures and practices concerning government procurement, among, inter alia, national procurement institutions by ensuring adequate publicity before, during and after the conclusion of transactions.

(3) Subsidies and countervailing duties

This is one of the most difficult problems in the negotiations as it has been the cause of several trading disputes.

The question facing the MTNs is that of defining subsidies and the conditions for applying countervailing duties. GATT does not ban subsidies outright²; it simply provides for their control through notification and, where necessary, consultation.

However, in the case of countries which accepted it, the 1960 Declaration implies an obligation, under certain conditions, not to apply export subsidies.

Further, if the subsidy causes or threatens serious injury to the producers of the importing country, a countervailing duty equivalent to the amount of the subsidy may be levied by the importing country. The main problem lies in the fact that American legislation on countervailing duties does not comply with Article VI of GATT: the payment of any export subsidy, even if it does not cause or threaten any serious injury to domestic producers, entitles the opposite party to impose countervailing duties.

The United States' partners insist that American legislation on countervailing duties be brought into line with GATT rules.

The United States, for its part, would like certain subsidies to be banned forthwith, and the list of subsidies governed by GATT rules extended to include internal subsidies, among which regional and other domestic aid (e.g. measures to promote the replacement of imports by national production).

The United States and the Community have held searching talks in order to minimize their differences.

The negotiation documents include an 'outline approach' on subsidies and countervailing duties, whereby the parties may, on the basis of present GATT rules and procedures, attempt to improve their effectiveness.

This document recognizes that, even if certain subsidies may facilitate the attainment of national policy objectives, they may also cause or threaten serious injury to the trading interests of the other contracting parties. An attempt should therefore be made to avoid using subsidies in such a way as to cause or threaten serious injury to other parties.

² Subsidies are governed by Article XVI of GATT

As for countervailing duties, the criteria for injury should be defined and a thorough study made of their application.

(4) Technical obstacles to trade

Producers must comply with an increasing number of technical rules, specifications and quality controls which vary from country to country and may seriously hamper international trade.

Various organizations¹ have set themselves the task of harmonizing national standards and establishing international standards. However, each country is free to adopt or ignore these standards, with the result that substantial differences still persist between countries' standards and technical specifications.

The MTNs have two main objectives in this area:

- to promote the harmonization of existing national standards by recommending the participant countries to adopt, wherever possible, standards established by international organizations;
- to prevent the creation of obstacles to trade through new regulations.

The draft Standards Code drawn up to this end, is mainly concerned with introducing a procedure for international cooperation; it lays down procedures for notification and consultation, recognition of certification and the settling of disputes.

Nevertheless, certain basic questions remain unsettled:

- the degree of responsibility to be assumed by federal governments on behalf of regional authorities or states. The Community takes very seriously the risk of an imbalance in the responsibilities undertaken by the signatories of the Code;
- the possibility of applying this Code to agricultural products, given the special nature of technical rules in this field².

¹ In particular, the International Organization for Standardization (ISO) and the European Standardization Committee

² In particular, health and plant health specifications

(5) Import licence systems

There are two types of import licence :

- licences required in cases of quantitative restrictions¹, the granting of which depends on the volume of imports authorized;
- 'automatic' licences which, in principle, are a simple administrative formality having no restrictive effect.

The existence of these two types of licence may give rise to arbitrary decisions (the importer is not told the criteria for the granting of a licence or the reasons for refusal, or even of the administrative decision) and may cause long delays and additional expense in import transactions.

On the basis of discussions held in the Sub-group on Quantitative Restrictions, which also deals with import licences, the GATT Secretariat has drawn up two preliminary draft texts designed to eliminate the elements of arbitrariness or administrative delay in the administration of the two import licensing systems mentioned above. These drafts also aim at ensuring a degree of transparency in the administrative procedures.

B - NON-TARIFF MEASURES SUBJECT TO SPECIFIC REQUESTS

(1) Quantitative restrictions on imports

In accordance with Article XI of GATT providing for the general abolition of quantitative restrictions, a substantial number of these restrictions, mainly introduced owing to balance-of-payments difficulties, have been gradually done away with.

The restrictions which are still in force mainly concern a small number of countries. In the case of the European Community, some Member States still apply a limited number of quantitative restrictions in respect of certain countries.

In this area, the aim of the MTNs is to abolish these restrictions or increase the remaining import quotas on the basis of specific requests and offers.

(2) Other non-tariff measures

Certain customs issues other than customs valuation have also been the subject of specific requests. They concern problems of tariff classification, the harmonization and simplification of requirements in the field of import documents (particularly consular formalities) and the elimination of certain petty requirements and delays in the treatment of specific cases.

¹ See point B(1) below on the subject of quantitative restrictions

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr M.W. Hughes

On 23 May 1977 the Committee on Agriculture appointed Mr Hughes draftsman.

It considered the draft opinion at its meetings of 20/21 September 1977, 17/18 April 1978 and 27/28 April 1978, and adopted it by eleven votes to none with two abstentions.

Present: Mr Kofoed, Chairman; Mr Ligios, Vice-Chairman; Mr Hughes, Vice-Chairman and draftsman; Mr Albertini, Mr Brugger, Mrs Dunwoody, Mr Herbert, Mr Howell, Mr Humault, Mr Klinker, Mrs Krouwel-Vlam, Mr Pisoni and Mr Scott-Hopkins.

INTRODUCTION

1. Since 1947, the General Agreement on **Tariffs and Trade** (GATT) has been the principal forum for negotiations for the mutual reduction of tariffs and other obstacles to trade.
2. Agriculture, given geographical variations, dependence on climate and the ensuing need for support mechanisms, falls into a different category to the industrial sector, and cannot be considered merely in terms of tariff reduction.
3. Previous GATT negotiations have achieved little in the agricultural sector. Agricultural questions are essential, however, to a successful conclusion to the Tokyo round of negotiations ;
 - due to the insistence of the U.S. that success in the agricultural and industrial negotiations must be linked;
 - and in view of the demand of the developing countries, whose exports consist largely of agricultural produce, that a more equitable international system be established.

THE ECONOMIC CLIMATE AND NEW DIRECTIONS IN TRADE POLICY

4. The world recession, which has affected industrial and developing countries in the last decade, has led to increasing demands for protection of employment, particularly in the industrialized countries. This demand for protection has often been disguised in soothing phrases and, in particular, by the call for ordered liberty. Faced with the seemingly structural and high levels of unemployment, one can question the limits of the liberal philosophy which has guided international trade negotiations since the end of the second world war. There are two conclusions to be drawn.

Firstly, official thinking is generally agreed that the move to free trade has created the prosperity of the post war period and that any move to protectionism will inevitably lead to overall increase in unemployment, even though jobs may be saved in particular sectors. Protection leads to retaliation and a decrease in world trade.

At the same time a liberal philosophy, if interpreted as seeking a mere decrease in **tariffs** offers an overly limited approach. A more dynamic effort must be made to create new international structures which will enable international trade to develop without creating the political pressures and renewed demands for protection that mere tariff reduction engenders.

5. Such new international structures may be the only way out of the conflicts of principle and interests which control nations on trade questions both in the industrial and agricultural sectors. For example, the conflict between the EEC and the U.S. on agricultural trade policy has brought about a standstill in GATT negotiations, for which the only solution may be a series of international agreements to regulate trade in particular agricultural products, such as cereals, beef and milk products.

6. Moves to create a new international trade framework are currently centred in three areas:

- greater participation by developing countries in world trade;
- international agreements to create greater stability in commodity markets, including the agricultural sector;
- reform of the international monetary system whose defects limit the chances of success and even the significance of any future agreement in the GATT negotiations.

THE DEVELOPING V. THE DEVELOPED COUNTRIES

7. The demand of the developing countries for a greater role in trade policy and a preferential position in world trade, forms the leitmotif of the Tokyo round. This is in part a reflection of the increasing political will of these countries but also of the increasingly serious economic position they face, particularly since the onset of the oil crisis: for example, the deficit of the oil importing developing countries has sharply increased since 1973 (1973 - \$13,000 m., 1974 - \$34,000 m., 1975 - \$43,000 m.).

8. The Community, in examining the demands of the developing countries need not be motivated by concepts of charity alone. One can draw a parallel between the economic recession which faced the industrialized countries in the 1920s and 1930s. The prosperity of the post war period was largely based on the increased purchasing power of the working population providing the stimulus to economic recovery. Similarly, the industrialized world is faced by an economic crisis which it cannot escape by itself. A new stimulus is needed for the world economy to provide employment in the industrialized countries; this can only be obtained through increasing the purchasing power of the developing countries.

TROPICAL PRODUCTS

9. The demands of the developing countries are partly included within the aims of the Group on the International Framework for the Conduct of World Trade, created at the request of Brazil to examine the means to establishing preferential treatment for developing countries, and which include:

- safeguards for the balance of payments;
- settlement of disputes;
- reciprocity in the commercial relations between developing and developed countries;
- greater participation on the part of developing countries and the modification of GATT rules, and
- the examination of rules affecting developing countries.

These questions are largely outside the agricultural sphere, although interwoven with agricultural questions, and can be left on one side.

10. It has been agreed, however, that questions concerning tropical products will proceed separately from all the other elements contained in the general GATT negotiations: 44 developing countries have requested the 11 developed countries that a list of tariff and non-tariff concessions to be brought into effect before the conclusions of the Tokyo round.

Of the developed countries, in addition to the EEC, Australia, Canada and Japan alone have given effect to the list of concessions requested. The United States, Austria, Finland, New Zealand, Norway, Sweden and Switzerland have given partial effect to the request of have made acceptance dependent on the Most Favoured Nation clause.

11. The EEC on 1 January 1977, gave effect to the request, part of which shall be made erga omnes and part through inclusion in the generalized preferences, 58 new products are included and 69 improvements made for products already listed. The products include a quota of 60,000 tonnes at a reduced tariff for tobacco, coffee, spices, refined vegetable oils, flowers, crustaceans and honey.

The offer, in greater detail, is as follows :

1. In the Tropical Products Group, the EEC has made offers on the agricultural products in chapters 1 to 24.

(a) Tariff reduction on most-favoured-nation basis: 1,800 million EUR
from non-associated
developing countries

Tariff reductions have been granted for 22 headings
or subheadings.

The main reductions are:

tea, consolidated duty reduced from 9% to 0	
coffee, " " " " 7% to 5%	
cocoa, " " " " 5% to 3%	

(b) Tariff reduction under GSP: 800 million EUR
from non-associated
developing countries

(c) The offer on tropical products therefore
represents an import volume of 2,600 million EUR
from non associated
developing countries

The tariff reduction granted, under MTN and GSP,
therefore represents 44.6%

2. The tariff offer made in the Agriculture Group
covers a volume of imports from the non-associated
developing countries of 300 million EUR

These reductions are on most-favoured-nation basis.

The rate of reduction is 24.6%

Since the EEC offer on dried leguminous vegetables
on the most-favoured-nation basis is the same as the
GSP rate offered in the Tropical Products Group, the
new tariff offers to the non-associated developing
countries represent 275 million EUR

3. The offer on tropical agricultural products
therefore represents a volume of imports of 2,875 million EUR
from the non-associated developing countries. in 1976

It should be noted that total imports from these
countries are 6,400 million EUR of which 1,400
million EUR are consolidated at zero duty and an
import volume of 760 million EUR falls within a
levy system.

12. The Community has also undertaken to encourage action to bring about a standstill on internal taxes on these products which will lead naturally to a decrease in their significance. and to bring about the elimination of quantitative restrictions on imports.

There are problems facing the Community in further improving the list: Italy and Greece (under the Athens Agreement) accepted the enlarged quota for tobacco with great reluctance; and the U.S. initially indicated that it might implement countervailing duties. Furthermore, there was considerable opposition from the ACP countries to any watering down of the preferences included under the Lomé Agreement.

13 The Community has examined, and should continue to examine, with the greatest understanding the requests made by developing countries for these tropical products which constitute the major source of exports for the number of the least developed countries, while providing only minimal competition to the agricultural product of European producers.

14. To prevent an increase in protectionism in the agricultural sector is of primary interest to the Community, after the U.S. the principal exporter of agricultural produce. Furthermore the agricultural questions provide the key to the present round of negotiations. The U.S. has clearly linked progress in the agricultural sector with progress in the industrial sector. In the past. progress has been largely blocked as the U.S. waited for reform of the CAP and the EEC waited for the new U.S. administration.

15. The two sides remain firmly entrenched behind positions which, while representing clearly their individual interests, have taken on an almost theological aspect in which defence of principles has prevented any real progress on details.

There are, however, some indications that a change has come about once the principles have been left on one side and specific questions given priority.

MAIN POINTS AT ISSUE

16. Countervailing duties and subsidies

The United States is practically the only country not applying fully the provisions of Article VI.3 of GATT, so that American legislation does not restrict the imposition of a countervailing duty only to those cases where an injury has been proved.

The Community, together with numerous other countries, urgently requests a change in the American position.

The United States has indicated its willingness to modify its present legislation, but only in the case that progress is made in improving international rules regulating export refunds. This, of course, brings the United States once more into conflict with the Community's system of export refunds, a question on which the Community has very few allies.

17. Non-tariff barriers

Non-tariff barriers present a bewildering complexity of forms (of which the GATT has recorded 900), ranging from expensive and time-consuming administrative procedures, production standards, subsidies, public contracts, to differences in health requirements. According to a number of experts, they present a greater obstacle to trade than tariffs themselves. They are also the most difficult obstacles to trade to remove.

Priority must be given to progress in this area, and in particular to those goods imported from developing countries, who often do not have the administrative facilities or marketing expertise to surmount such barriers to their exports.

The work in the negotiations on non-tariff barriers has centred on the elaboration of a 'code of practice to prevent the establishment of technical obstacles to trade'. The Community has insisted that efforts in this field be directed towards prevention as well as the correction of existing obstacles to trade.

18. Tariff nomenclature and customs valuation

The Community has placed great emphasis on the necessity for greater harmonization of tariff nomenclature and customs valuation, together with the creation of new tariff headings and a universally applied uniform international code of practice. In effect, the present situation, which allows for the calculation of duties and for the tariff descriptions according to arbitrary national decisions, can lead to a partial cancelling of tariff reductions agreed upon.

19. Developing countries

The Community has placed great emphasis on the necessity to contribute to developing a special treatment for the less advanced of the developing countries and, in particular, to improving the system of generalized preferences according to the provisions of paragraph 5 of the Tokyo Declaration.

For the least advanced developing countries the Community would not insist upon reciprocity of tariff offers; this, however, would not be true in the case of the more advanced. The Community requests that other developed countries and, in particular, the United States adopt a similar favourable attitude to the requests of developing countries.

20. Tariff reductions

These can be divided into two groups :

- (a) The principal agricultural products which are subject to multilateral negotiations for international agreements on grains, dairy produce, meat and rice. When these products are included, the Community's offer amounts to around 5,000 million u.a.
- (b) Other products which are subject to tariff and non-tariff offers. The Community's offer consists of new tariff reductions and tariff bindings, including horse meat, edible offals, certain vegetables, certain fruits, certain preserved fruit, sauces and Bourbon whisky. The offer covers imports amounting to about 1.500 million EUA.

In May 1975 the GATT Agricultural Group set up three sub-groups to deal with these products. In each sub-group the Commission has tabled proposals which have been discussed.

Cereals

The EEC proposals include the fixing of a band of safeguard prices with floor and ceiling prices to govern preferential sales and purchases; automatic consultation for stocking when a threshold price is reached; and aid to developing countries through the re-organization of food aid. The EEC has requested that fodder grains be included within an agreement.

Milk products

The Commission has proposed one or more international agreements to be negotiated for the more homogeneous dairy products, butter, buttermilk and butteroil and an import and export regime for cheese and, as a first step, improved information instruments. The EEC and its partners are now undertaking bilateral discussions for skimmed milk powder and cheese.

Cattle and beef

The Committee has proposed a system of concerted discipline by the exporting and importing countries to bring about more orderly marketing.

Soya

It is stated frequently that the free entry granted to soya from the United States is at the root of the Community's present milk surplus and that, therefore, soya should be included in discussions on product agreements. The Commission considers, however, that this would be to the eventual disadvantage of the Community since, given the importance to the U.S. of soya exports, the concessions demanded of the Community would be very considerable.¹

MULTILATERAL NEGOTIATIONS ON THE PRINCIPAL PRODUCTS

21. The negotiations on international agreements on cereals, meat and dairy produce are clearly the key to the success of the agricultural aspects of the GATT discussions.

There remain, however, considerable divergencies as to the purpose and nature of the proposed international agreements. For the Community's partners, such as the United States, Australia, Canada, New Zealand and Argentina, the agreements are intended to ensure freer trade, with a limitation on recourse to safeguard measures and restrictions on national export subsidy measures having adverse effects on international markets. These countries are determined to secure improved access to world markets and to prevent disruption of those markets by subsidized exports.

The Community, on the other hand, wishes to see established minimum and maximum prices for international trade which would provide exporters with better prices, limit the cost of the Community's surplus disposal operations, and, by limiting the use of export refunds, give the United States less opportunity to impose countervailing duties.

22. There is no possibility in a short opinion of going into the details of the different proposals for each sector. There are a number of political points which can be made, however.

¹ The Commission's statement that there has been no consideration of the soya question will certainly be welcomed by the American Government. In the paper presented by the American delegation in discussions between the European Parliament and Congress, March 1978, it states: 'Some negotiating stances suggested by the Carter Administration have also raised Congressional objections. Ambassador Strauss' proposal to open the United States to imports of dairy products from the EEC probably will not be accepted by Congress. The Ambassador's apparent willingness to allow the EEC to impose restrictions on the entry of U.S. soyabeans and soyabean meal into the EEC - in contradiction of the GATT pledge of zero tariff restrictions - may well prompt similar Congressional opposition.'

23. The wider range of issues introduced into negotiations on international commodity agreements, including market stabilization, access for exports, food security, food aid, etc., has blunted the edge of the confrontation which had previously developed on the single stark issue of market access. This development provides for much greater optimism as to the final outcome of the negotiations.

24. Moreover, it would be foolish to believe that international commodity agreements, designed to achieve more ordered international marketing, can solve internal market disequilibrium. They may relieve certain of the costs of exporting internal problems on to the world market.

25. Consequently, international commodity agreements can only be seen as a complement rather than an alternative, to improvements in market organization and structure.

Indeed a declared dedication by the Community to the principles of international cooperation will only appear credible to negotiating partners if efforts are made to solve those internal market problems which underlie the Community's present export problems.

26. Clearly, the Community cannot abandon principles which underlie its very personality; nor can it undertake policy modifications in the hope that international agreements will follow. But a continuous effort to improve the problems of surplus production is essential if the Community is to be in a position to present to its partners in GATT proposals for commodity agreements which eventually will be acceptable and workable.

THE CHANGING NATURE OF THE COMMUNITY'S AGRICULTURAL POLICY

27. Efforts to reduce the Community's dependence on the export market would not require a radical departure from present policies, but merely a reinforcing of present trends.

Firstly, the Community has maintained a very prudent price policy in recent years, with price increases in the range of 3% to 5% and a Commission proposal for 2% in the coming marketing year. This prudent price policy has resulted in the difference between Community prices and world prices, together with levies and export refunds, being considerably reduced. A few examples are :

EEC entry price as % of world price

	<u>1968/69</u>	<u>1976/77</u>
Durum wheat	214	145
Barley	197	147
Maize	178	163
Sugar	355	163
Vegetable oils and fats	203	127

At the same time, the Community is making considerable efforts to increase the consumption of surplus products within the Community rather than employing export refunds.

This can be illustrated by trends of subsidized sales within the Community and the world market :

Butter benefiting from special marketing measures

	(1,000 tonnes)		
	<u>1970</u>	<u>1973</u>	<u>1976</u>
Internal market	112	110	107
Exports	138	310	94

In addition, the Community has adopted or is considering a number of modification of internal market organizations of major products, such as beef, dairy products, fruit and vegetables, olive oil, etc., aimed at limiting over-production and to increase consumption within the Community. These will result inevitably in a decrease in the amounts available for export on the world market.

THE ADVANTAGES OF A WIDER APPROACH

28. Efforts by the Community to reduce its agricultural surplus problems and so provide the basis of effective and acceptable international commodity agreements would bring clear advantages to the Community in terms of savings to the Community Budget. And greater specialization of production internationally can only result in an increase in the overall prosperity of agricultural producers.

29. More specifically, as a major exporter of dairy products, the Community has a clear interest in seeking improved access to the North American and Japanese markets. But it is difficult to see how the United States and Canada could agree to a request for European suppliers to be included in any expanded import quotas as long as the Community's exports are so heavily subsidized.

30. However, given the changing emphasis in the Community's agricultural policies, there exists a basis for negotiation. The advantages are considerable and, at the same time, the United States' agricultural policy is undergoing changes itself.

CHANGING U.S. AGRICULTURAL POLICIES

31. Until recently the United States was deeply involved, as were other countries, in policies to support farm incomes, partly through tariffs, formal import embargoes and quotas and informal arrangements with suppliers to limit shipments. Policy was directed towards domestic farm prices rather than trade expansion. In the course of the 1960s official thinking became directed more towards the trade benefits that could derive from liberalization of farm trade policy. A number of studies indicated the trade gains that could be made through liberalization, particularly from the exports of animal products, grains, oil seeds, tobacco and cotton. Vigorous export policies for agricultural produce resulted in the expansion of valuable earnings from overseas sales. This strengthened the resolve of the U.S. Government to ensure that the Tokyo round of the GATT negotiations led to the significant liberalization of trade in agricultural produce. This late conversion to trade liberalization was highly selective in those products in which the U.S. had a clear competitive advantage. On the other hand, for those commodities such as dairy products, in which the U.S. is clearly incompetent, there is very strong resistance on the part of producers and their representatives in Congress to any liberalization.

32. Even in the dairy sector, which is the most protected sector of U.S. agriculture, it has appeared that there are no insurmountable economic objections to the removal of quotas. The impact on EEC exports would be considerable. If the U.S. had already lifted import restrictions in 1975, some 12 billion pounds of milk equivalent may have entered that year, i.e. more than 10% of U.S. production. At the moment only 1.5 of U.S. needs are imported. The U.S. has calculated that initially incomes of U.S. dairy farms under free trade conditions would drop by 20 - 30% but that by 1980 the farms remaining in activity would obtain somewhat higher incomes than in the case of continuing import restrictions.

33. At the same time, the U.S. position on trade liberalization leads it into direct conflict with the EEC. For the U.S., though tariff reductions constitute an important part in negotiations, they can only be accepted by the elimination of non-tariff barriers and export subsidies. Consequently, the U.S. will only abandon its dairy quotas in exchange for the modification of export subsidies. Clearly, any agreement on these lines would seriously reduce the Community's competitive position on the U.S. market.

34. Clearly, it is of vital interest to the Community to encourage the Americans along the road to a more open agricultural market. In milk products, wine, alcohol and processed meats a partial solution to some of the surplus problems facing the Community could be found.

This can only come about with a greater flexibility on the part of the Community. There can be no question of the Community abandoning the basic principles of the CAP; but a greater flexibility in negotiating might bring about considerable progress, making it easier for both the Community and the U.S. to leave their entrenched positions and take a more positive negotiating rôle. Indeed, the Community's position in negotiations for product agreements has consequences for export refunds (one of the principal U.S. objections to the CAP) since minimum export prices would have to be respected.

CONCLUSIONS

35. The success of the Tokyo Round is important to prevent an increase of disguised protectionism threatening world trade and employment in all countries.

The Tokyo Round negotiations have proceeded on a wider front than in previous rounds, including the removal of restrictions on agricultural exports, the problems of non-tariff barriers and with priority being given to the greater role demanded by the developing countries.

The concept of a rigid timetable has now been agreed upon, with the object of seeking, by mid-1978, an overall view of the basic questions. The GATT Agricultural Group finally, in July 1977, agreed on a working programme. Within the dairy and cereals sub-groups, work is progressing on the basis of bilateral discussions. For other agricultural products, requests for tariff and non-tariff concessions have been presented before 1 November 1977 and offers by January/March 1978.

Special arrangements are envisaged for developing countries, who will have a chance to present demands for products on which they have not yet received satisfaction. The industrialized countries have presented requests to the developing countries of an indicative nature; the contributions of developing countries will only be implemented according to the extent of advantages gained from the multilateral negotiations as a whole.

The Community's requests, made to 22 of the more advanced developing countries or groups of developing countries, cover an export volume of 190 m.u.a. in relation to a total export volume of those countries of 777 m.u.a. The response to the Community has been negative, the developing countries believing that their claims have been given insufficient recognition and that, therefore, there was no reason to offer a degree of reciprocity.

36. Much greater attention in the negotiations must be given to the developing countries in order that they can contribute to the expansion of world trade and so contribute to pulling the industrialised nations out of the present recession. The Community has shown itself to be more flexible in meeting the demands of the developed countries, with very specific attention and special treatment accorded to the less developed countries, a group of countries which obtains very little benefit generally from agreements on tariff reductions. Other industrialized countries must also contribute.

37. The agricultural question is the key to the success of the Tokyo Round, given the insistence of the U.S. that agricultural questions cannot be separated from industrial questions. Talks on agricultural trade have been held up by the longstanding differences between the EEC and the U.S. on the CAP. With the entry into office of the Carter administration, progress towards reaching a compromise has been made, with a more open approach and less insistence upon questioning the principles of the CAP.

38. Moreover, since 1973, there have been indications that the U.S. is more aware of the advantages of greater liberalisation, even at the expense of dismantling the protective wall surrounding the U.S. dairy industry.

39. The Community must encourage this possibility, which will provide one solution to the market imbalances facing a number of sectors in the Community, while realising that such a reassessment of policy will require a more far reaching structural policy within the Community.

Clearly the Community cannot envisage abandoning the basic principles of the CAP, but greater flexibility particularly in respect of export refunds within the framework of international agreements on cereals, dairy products and beef may lead to reciprocal flexibility on the part of the Americans.

One factor to be remembered by the Community, in the context of the multilateral trade negotiations, is that the U.S. duty concessions on imports from the EEC of cheese and canned hams are only conditional. The U.S. concessions, it seems, in not applying countervailing duties despite the use by the Community of subsidies (even if moderated) on exports to the U.S., only last to 3 January 1979. If there has not been a satisfactory outcome in the multilateral trade negotiations by this time which the President can bring before Congress, then the concessions may be revoked and countervailing duties applied.

40. A new impetus is required to prevent deadlock in the agricultural talks, and in the GATT negotiations as a whole. An end to the sterile ideological disputes between the EEC and the U.S. on principles of agricultural policy has been made possible by the emphasis on international product agreements which are capable of bringing greater discipline and stability to the international markets and a greater role for the developing countries.

41. The Community has a vocation to export high quality agricultural produce, particularly dairy products, processed meats, wine and alcohol. The benefits accruing to the Community of an opening of the quota restrictions on imports to the United States, Canada and Japan would be great. The Community also has a considerable interest in enlarging the range of commodities covered by international commodity discussions to include fodder grains.

For any hope of success in negotiations on these issues, the Community and its partners in GATT must continue to enlarge the scope of negotiations away from the narrow issue of market access, which has led to confrontation in the past, to the broader questions of market stabilization and export policies.

The present trend in the Community's agricultural policies, with greater access placed on internal measures to solve surplus production, particularly by increasing consumption, will make it increasingly easier for the Community to play a more positive role. And the Community's negotiating partners in GATT should be made aware of the Community's efforts in this direction.

At the same time, the Community itself must be aware that international negotiations offer no panacea to internal problems; indeed, if the Community finds itself unable to fulfil the requirements of the proposed International Commodity Agreement, due to internal pressures, it will find that its international markets will shrink. The Community's dedication to a more stable international trade in agricultural produce will only appear credible to the extent that the Community seeks effective solutions to its market problems. Consequently, the internal and the international aspects of policy must proceed together if either is to have lasting success.

42. The Committee on Agriculture requests the Committee on External Economic Relations to include the following sub-title and paragraphs in the motion for a resolution of its report drawn up by Mr Cousté :

Agricultural negotiations

12A

- Stresses the importance of negotiations in the agricultural sector to the reaching of a final agreement in the current round of multi-lateral trade negotiations and the political importance of trade between the USA and the Community;

12B

- Points out the efforts made by the Community to take into account the demand by developing countries to participate more equitably in world trade in the framework of the GATT and UNCTAD negotiations;
- Notes that the Community has not requested reciprocity from the least developed countries and urges that the other industrialized countries must also contribute to recognizing the special needs of the least developed countries;
- Considers that it is essential to conclude a series of international commodity agreements covering the major products;

12C

- Points out the increasing trade imbalance in favour of the United States in the agricultural sector;
- Recognizes, however, the serious deterioration in the American trade balance following increases in oil prices; but insists, however, that there should be greater reciprocity in agricultural trade between the major industrialized countries and in particular that the United States should import greater quantities of processed products from the Community.

12D

- Believes it essential that there be concluded multi-lateral and bi-lateral agreements on the major agricultural products, for example, bi-lateral agreements on dairy products and agreements with the United States to liberalize the regime for cheese imports from the Community.

12E

- Notes the problems of deconsolidating the Community's tariff rate on soya and considers that this can only be achieved eventually in the framework of a far-reaching review of EEC-US agricultural trade relations.

12F

- Notes that the Commission believes that an initial agreement in the agricultural sector can be achieved by July 1978; and

12G

- Considers that much greater attention must be paid in the multi-lateral trade negotiations in the agricultural sector to trade with the Eastern Bloc countries.

I. US TRADE WITH THE EEC NINE (EUA billion)

	US Exports	US Imports	US Balance with EEC
1958	3.952	2.622	+ 1.330
1969	10.473	8.524	+ 1.949
1970	12.300	9.306	+ 2.994
1971	12.149	10.758	+ 1.391
1972	11.783	11.594	+ .189
1973	14.433	12.592	+ 1.841
1974	19.430	15.205	+ 4.225
1975	19.333	12.416	+ 6.918
1976	22.288	14.296	+ 7.992

Source: ECSO (European Community Statistical Office)

II. US/EEC (Nine) AGRICULTURAL TRADE (EXCLUDING COTTON)
(\$ billion)

	US Exports	US Imports	US Balance
1968	1.8	0.4	+ 1.4
1972	2.7	0.8	+ 1.9
1973	4.4	1.1	+ 3.3
1974	5.4	1.2	+ 4.2
1975	5.5	2.2	+ 4.5
1976	6.4	1.2	+ 5.2

Source: FATUS - Foreign Agricultural Trade of the United States

III. TOTAL US AGRICULTURAL TRADE
(\$ billion)

	Exports	Imports	US Balance
1968	6.2	5.0	+ 1.2
1972	9.4	6.5	+ 3.0
1973	17.7	8.5	+ 9.3
1974	22.0	10.2	+11.7
1975	21.9	9.3	+12.6
1976	23.0	11.0	+12.0

Source: Foreign Agricultural Trade of the United States (FATUS)

EXPORTS FROM THE EUROPEAN COMMUNITY TO USA
(1975 1,000 EUA)

<u>Products</u>	
Total exports	12478585
Food products	508272
Live animals	10372
Meat:	195633
Fresh and frozen	4461
Dried, salted and smoked	172
Prepared and preserved	191000
Dairy products:	55311
Cheese	54328
Fish	47462
Cereals	21133
Patisserie products	14359
Fruit and vegetables:	35719
Fresh fruit and nuts	4283
Dried fruit	156
Prepared and preserved fruit	4183
Vegetables and plants	16946
Prepared and preserved vegetables	10151

Source: EUROSTAT

IMPORTS TO THE EUROPEAN COMMUNITY FROM USA
(1975 1,000 EUA)

Products

Total imports	19557353
Food products	3215143
Live animals	11500
Meat	140934
Dairy products	5901
Fish	75307
Cereals:	2209602
Wheat	577765
Maize	1407465
Fruit and vegetables:	269949
Fresh fruit and nuts:	136410
Oranges, clementines and mandarines	30230
Other citrus fruits	28414
Nuts	65698
Dried fruit	30248
Prepared and preserved fruit	38219
Vegetables and plants:	55353
Dried vegetables	46678
Prepared and preserved vegetables	9719

Source: EUROSTAT

BALANCE OF TRADE EEC AND USA IN BASIC AND PROCESSED PRODUCTS
(1975 1,000 EUA)

	<u>EEC Balance</u>	<u>USA Balance</u>
I. Basic products :		
Cereals		+ 1964097
Fruit and vegetables		+ 234230
Fresh meat		+ 128885
II. Processed products :		
Prepared meat	+ 183655	
Dairy produce	+ 49410	

EXPORTS FROM THE EUROPEAN COMMUNITY

ANNEX IV

(1975 1,000 EUA)

PRODUCTS	WORLD	OF WHICH :				
		EUA - 9	EFTA	USA	Developing countries	ACP
Total exports	227229125	111147196	25279474	12478585	41578441	7491330
Food products	21007673	15121265	1209179	508272	2937082	586193
Live animals	1338202	1232802	8551	10372	42069	2889
Meat :	4226077	3546301	109932	195633	218607	23467
Fresh and frozen	3975563	2714565	84542	4461	142089	12901
Dried, salted and smoked	459218	441138	5998	172	8481	1638
Prepared and preserved	691296	390598	19392	191000	68037	8928
Dairy products :	3510277	2565830	82106	55311	646996	151893
Cream cheese	1120826	880756	58508	54328	68268	6787
Fish	774268	540203	83003	47462	30675	11566
Cereals :	4056688	2347848	222484	21133	1205023	179237
Barley	587633	410487	63478	.	24390	311
Maize	667722	629575	14931	2826	14825	10376
Semolina and wheat flour	428665	31488	1600	11	391281	39254
Prepared cereals, flours and starches	822026	398035	83938	17740	220922	79466
Patisserie products	328748	221564	36350	14359	34658	5620
Fruit and vegetables :	3161162	2483945	310023	35719	178306	36326
Fresh fruit and nuts	1078008	850200	133497	4283	32430	2697
Dried fruit	12480	7184	2738	156	1079	216
Prepared and preserved fruit	352225	291398	26288	4183	14440	3293
Vegetables and plants	1241576	934793	129050	16946	97583	14371
Prepared and preserved vegetables	476873	399470	18450	10151	32774	15749

Source : EUROSTAT

IMPORTS TO THE EUROPEAN COMMUNITY

(1975 1,000 EUA)

PRODUCTS	WORLD	OF WHICH :				
		EUA - 9	EFTA	USA	Developing countries	ACP
Total imports	228866815	110029932	17377281	19557353	51485442	7941388
Food products	29292515	14539193	605884	3215143	6639942	1974535
Live animals	1557238	1247418	50193	11500	1843	7
Meat :	4594969	3414754	29465	140934	263551	38216
Fresh and frozen	3602810	2644036	20361	133346	159451	23482
Dried, salted and smoked	415210	380759	6320	245	305	5
Prepared and preserved	576949	389959	2784	7343	103795	14729
Dairy products :	2841753	2532996	128641	5901	3441	5
Butter	962420	837599	3053	25	1574	.
Cheese	1042350	881942	121919	88	487	5
Fish	1352183	546724	177361	75307	224446	55785
Cereals :	5286655	1857788	48201	2209602	357853	3580
Wheat	1632463	503846	2149	577765	34420	19
Maize	2066719	328813	370	1407465	198264	7
Fruit and vegetables :	6219286	2497946	55385	269949	1744475	207510
Fresh fruit and nuts	2690477	817511	6828	136410	887806	120090
Dried fruit	160001	6796	311	30248	16416	49
Prepared and preserved fruit	812740	296330	9012	38219	178165	41588
Vegetables and plants	1860333	982804	19238	55353	541832	42432
Prepared and preserved vegetables	695735	394505	19996	9719	120256	3351

Source : EUROSTAT

IMPORTS TO THE EUROPEAN COMMUNITY OF

SOYA AND OIL CAKE

(1000 EUA)

	<u>World</u>	<u>USA</u>
1975	1133746	433344
1974	974122	462370
1975	859716	307434
1976	1221118	375909
Average 1973-4-5	989195	401049
1974-5-6	1018319	381004

Source: ECSC (European Community Statistical Office)

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman: Mr SANDRI

On 24 May 1977 the Committee on Development and Cooperation appointed Mr Sandri draftsman.

It considered the draft opinion at its meetings of 20 June, 28 September and 19 October 1977 and unanimously adopted it at the latter meeting.

Present: Miss Flesch, chairman; Mr Sandri, rapporteur; Lord Castle, Mr Deschamps, Mr Glinne, Mr Lemp (deputizing for Mr Broeksz), Mr Martinelli, Mr Pucci (deputizing for Mr Vernaschi) and Mr Spenale.

INTRODUCTION

The European Community has traditionally followed an open and liberal trading policy. The EEC's policy is extremely significant, firstly because the Community is the world's largest trading group, and secondly because the success of the Tokyo round, whose objectives remain the continuing liberalisation of world trade, depends very largely upon agreement amongst the world's most important trading partners, namely the United States, the Community and Japan. The recent meeting between the American special trade representative and the Commission in Brussels seemed to produce new hope that the negotiations which have been virtually stalemated in Geneva would be more successful, but regrettably, it does not appear as though this enthusiasm is shared by all members of the Council.

For this reason, the following opinion is concerned with the issues which lie at the base of the problems under discussion, rather than with, for example, the precise state of negotiations on tropical products, or other matters which are extremely technical.

GROWTH OF PROTECTIONIST TENDENCIES

The basic cause of the tendency towards protectionism is, of course, the crisis in the world economy which was first felt in extreme form in 1973. Until that time, the world economy had expanded uninterruptedly, if unevenly, and succeeding tariff conferences were able to negotiate considerable reductions in tariffs. Since 1973, the growth in the world economy has faltered, and the key problems facing the developed countries have been the need for security of supplies of raw materials, and the problem of growing unemployment. Protectionist measures have been taken by the Community, the United States and Japan, although these measures were in some cases ones which could only be described as hidden protectionism. The Community has availed itself of trade policy instruments which have enabled it to introduce restrictions on the imports of textiles, ball bearings and steel. The United States has induced certain suppliers to voluntarily limit their exports, and recently certain legal actions have also been instrumental in restricting imports into the American market. The Japanese market has been protected by a variety of measures, many of them non-tariff barriers.

A more recent development has been the open advocacy in the Community of protectionism, although this is the tendency which "does not dare speak its name". The phrase that is preferred is "prevention of market disruption". This latter, however, is far removed from the market disruption provisions provided for under Article 19 of GATT.

ARGUMENTS FOR PROTECTIONISM

The arguments for protectionism by the Community seem to run as follows:

1. In certain high technology industries such as, for example, aero space, nuclear power and computers, American firms dominate world markets because they have built up a virtual monopoly on the basis of their huge home market which gives them a cost advantage throughout the rest of the world.
2. Japan has expanded its exports at a phenomenal rate over the last years through trade policy measures and commercial aggressiveness which cannot be matched by Europe.
3. The more developed of the developing countries, such as Brazil and South Korea are able to offer certain relatively high technology goods on terms which Europe cannot match; examples of these are ship building and electronics. Other relatively developed developing countries such as Hong Kong and Taiwan are able to produce low technology goods on unbeatable terms, based on their extremely low wage costs; examples of these are textiles and leather goods.

It does not fall within the competence of this Committee to discuss arguments about protectionism between developed countries, but nevertheless your rapporteur would like to remark that all these arguments are debatable. Quite clearly, the Americans could argue for protectionism against Community goods on the grounds that the Community has an enormous "home market" protected by a common tariff. With regard to Japan, the argument that it is commercially more aggressive is an argument not for protectionism but for increasing the competitive ability of European exporters. With regard to Japan's trade policy, this is surely a matter which should be dealt with by other means. Negotiations with Japan should encourage her to reflate and re-value her currency rather than continue to build up foreign exchange. Thus, neither of these arguments would appear to strengthen the case for protectionism.

THE PROBLEM OF DEVELOPING COUNTRIES

One of the problems in discussing trade negotiations with developing countries is the need to distinguish between trade conducted on humanitarian grounds and trade conducted primarily for mutual benefit. The point in the development of developing countries has now arrived when it is clearly right to place them into categories of development, ranging from the relatively rich to the extremely poor.

The first group of developing countries - the relatively more developed - has itself to be divided into two, since the exports of these are in some cases fairly high technology items. Brazil and South Korea have already been cited as examples of these countries, and ship building and electronics as examples of the exports concerned. The second subgroup is of countries like Hong Kong and Taiwan which produce low technology items such as textiles and shoes.

After these relatively rich developing countries, there is an intermediate range of developing countries such as Pakistan, India and certain Latin American countries which also produce exports which compete with European industry, usually in the low technology areas. Finally, there is a third group of developing countries, the least developed, in which poverty is extreme.

The difficult distinction has to be drawn regarding trade with these countries which is designed primarily to help them to achieve economic take-off and their financial viability - for which end Europe should be, and is, prepared to make sacrifices; and trade which is conducted for the mutual benefit of both parties. It is senseless for Europe to make sacrifices if the gains are made by already relatively developed developing countries.

Unemployment in Europe can be tolerated if it prevents starvation in a developing country; but not necessarily if it simply builds more skyscrapers in Hong Kong.

No doubt this is a complicated and difficult question, since the criteria for drawing the distinctions are various, but it is a distinction which has to be drawn because of the growth of unemployment in Europe.

It should not however be thought that the Third World is simply a burden to the Community. The Community does over 40% of its trade with the developing countries. There is an indissoluble link between the economic health of the Community and the continued development of the Third World. The growing markets of the Third World are perhaps Europe's main source of non-inflationary growth. It should also be remembered that import penetration can never be considered in isolation, but should include import-export linkages. For example, in the case of textiles, the Community achieved in 1975 a trade surplus on textile machinery, which amounted to 258 m u.a., most of it with the Third World.

Moreover, the very size of the Community's trade with the rest of the world, and with the Third World in particular, is not only a source of strength in negotiation, but a source of vulnerability.

The challenge posed by the growth of Third World production is certain to grow. As technology is transferred to these countries, and as their production capacity develops, their competitive ability will advance. At present, over half the population of developing countries is under 20 years of age. Thus, in the next few years, their availability of labour will increase sharply; labour costs are likely to be stable, compared to rapidly increasing labour costs in the developed countries. To attempt to restrain the growth of productivity in these countries by restricting access to developed markets will have catastrophic results. On the one hand, it will lead to continued indebtedness of the poor countries and probably the growth of bad debts. On the other, it will lead to diversion of exports to other markets which thereby will be lost to European exporters. This trend is already beginning. Brazil and India, for example, are producing their own textile machinery, which is competing in world markets with European machinery. The only way to deal with this inevitable problem is for Europe to sharpen its competitive edge, rather than attempt to restrict imports and hide behind tariff walls.

There is a third possibility. As the political identity and economic power of the Third World develops, it may revert to a "barter" system of trade, whereby countries trade only with developed nations which grant them access on favourable terms.¹ The problem of security of supply of raw materials, which the Economic and Social Committee rightly draws attention to (OJ C126) is one which can be used to their advantage by developing countries.

Finally, it should be remembered that imports into the Community of products which are good value are of benefit to consumers.

¹Australia has recently used this argument with regard to supplying the Community with uranium.

PROPOSALS FOR ACTION

It is however not enough to theorize about future developments in trade. The fact is that although in the long run new and dynamic industries may spring up to take the place of those threatened by cheaper imports, in the short run there is the problem of unemployment and its political consequences. It is therefore essential that specific proposals be made, and in this connection it is noteworthy that the Community has not been forward in making proposals for discussion by the international Community. The problem is, of course, extremely complex, and touches upon a whole range of issues outside the immediate problem of tariffs, such as the monetary question about which no agreement has yet been achieved. Yet it is unrealistic to expect concessions in one field, for example, on the tariff question, without progress in others. For this reason, the Committee believes that the GATT multi-lateral trade negotiations are only one of three areas in which action is necessary:

1. THE TRADE AND TARIFF NEGOTIATIONS

The Community must first and foremost speak with one voice. It has already been stated that the Community's role in these negotiations is cardinal; the lack of agreement amongst Member States undermines the Commission's negotiating position, even though its mandate from the Council has survived unchanged.

The Community must unequivocally restate its commitment to a policy of open and free trade. It must state clearly its belief in the indissoluble link between economic prosperity in the developed countries and the development of developing countries.

The Community must take the initiative in producing specific proposals to improve the existing machinery for preventing market disruption. This is not to say that the Community should use the excuse of market disruption as a means of introducing hidden protectionism, but that in those cases where cheap imports are threatening production and employment in a manner specified and agreed internationally, the provisions for restraining imports should be legitimately utilised. On the other side of the same coin, there is merit in making the safeguard clause more selective, so that some of the poorer countries which are attempting to build up their industries should not suffer as a result of the dominating position achieved by relatively more developed countries.

Fourthly, the Community must strive to make progress on the dismantlement of non-tariff barriers, which, given the current levels of tariffs, are a very important impediment to free trade.

One further problem exists which the Community must face in connection with tariff levels on goods from developing countries, and that is the fact that the continued extension of GSP poses a problem for ACP countries who see their advantages being eroded. This is a very difficult problem for the Community, but it should be remembered that under the Lomé Convention, the ACP countries were not granted preferential status over other developing countries, but simply free access. Thus, juridically, the extension of GSP is quite legitimate. The real problem is how to reconcile the differing interests of the ACP countries and other developing countries.

A solution in this respect might be to redefine the list of countries eligible for GSP, since it has been established that very few countries seem to be obtaining most of the benefits, and that these countries are, in many cases, relatively developed. Thus, the main beneficiary of GSP is in fact Yugoslavia, followed by Brazil, South Korea and Hong Kong. It would seem clearly wrong that very poor developing countries which need Community help should find this help eroded in favour of relatively rich producing countries. As has already been stated, it is necessary to grasp the nettle and make a distinction between various degrees of developing countries.

2. RESTRUCTURING

The provisions in the Community's budget for restructuring industries affected by the new trends in world trade are woefully inadequate. The funds available come from a number of different sources, and there is no overall policy on how or with what time scale these developments should be pursued. The Commission has made some initiatives in this sphere in the case of the steel industry, but this can only be described as a small beginning. It is frequently argued that the problem of restructuring is far more complex than it would appear, since the very industries most threatened by low cost imports are those which depend upon a relatively unsophisticated labour input. Thus, it is too simple to argue that the western developed countries should produce high technology goods, since in essence the unemployment that is being created is often amongst workers who cannot be retrained to produce high technology goods. For example, a classic case of this is the labour-intensive Irish textile industry; workers cannot simply be shifted into producing computers, for example. This is clearly true, but is not an answer to the problem.

A number of union representatives have argued for a shorter working week, with increased leisure activities and more flexible working hours. Moreover, the problem should not be looked at simply in terms of national industrial production, but of Community production. Taking the example of textiles again, it should be noted that in 1975, Italian textile production was cut back by less than 8%, which was a much lower figure than in Europe as a whole, but this was achieved by state subsidies to the industry which was thus able to undercut other synthetic fibre producers in European markets. In fact, Italy managed to increase its exports of synthetic fibres in 1975, and there are plans to further increase capacity in synthetic fibres, which would represent a further threat to other EEC textile producers. Incidentally, the losses made in 1975 by Montefibre, part of the Italian Montedison Chemical Company amounted to a sum which was equivalent to half its turnover.

3. TRADE AND INDUSTRIAL POLICY

The last point makes clear the need for a more harmonious development of investment within the Community, in the light of developments in world trade. Developments in one field may have a profound impact on industrial policy in another, yet for the majority of businesses in the Community, the necessary overview of these developments is lacking. The average businessman planning an extension to his factory, or alternatively considering diversification from his present line of business is likely to be unaware of the effect of Community development policy on, for example, the textile industry of Mauritius, or the ship building capacity of India. The Commission could serve a very useful purpose if it were to provide a regular monitoring service on an industry by industry basis. The Commission is well placed and has the necessary resources to provide the necessary information on the effects of interdependent actions in different fields.

Secondly, the Community must be ready to fight in the export markets of the world for its share of trade. As has already been noted, it is only by remaining competitive, and by the development of commercially aggressive marketing, that the Community will be able to beat off the challenge that is posed not only by the other developed countries, but by the newly industrializing nations. One of the main purposes of establishing the EEC was to take advantage of the financial and economic power that exists in the unification of the nine Member States, and a clear coherent trade policy is an essential offshoot of this unification.

On a more general level, the Community must play its part in ensuring that the authorities of the main trading countries of the world take the necessary action to ensure that the world economy does not fall into a vicious spiral downwards. The lessons of the 1930s are there to remind us of these dangers. It should also be remembered that during the 1930s successive international conferences reaffirmed the world's commitment to an open system of trading, even while the tariff walls were being raised higher and higher.

