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Report

drawn up on behalf of the Committee on External Economic Relations

on ~~the~~ effects of the Community's trade policy on the level of economic activity
in the nine Member States

Rapporteur: Mr M. VANDEWIELE

1.24

By letter of 24 June 1977, the Committee on External Economic Relations requested authorization to draw up a report on the effects of the Community's trade policy on the level of economic activity in the nine Member States.

Authorization was given by the President of the European Parliament in his letter of 13 July 1977.

On 20 September 1977, the Committee on External Economic Relations appointed Mr Vandewiele rapporteur.

It considered the draft report at its meetings of 1 March, 19 April and 23 May 1978 and unanimously adopted the motion for a resolution and the explanatory statement on 23 May 1978.

Present: Mr Kaspereit, chairman; Mr Martinelli, vice-chairman; Mr Vandewiele, rapporteur; Mr Amadei, Mr Bersani, Lord Brimelow, Mr Brugha, Mr De Clercq, Mr Mont, Mr E Muller, Mr Spicer and Mr Tolman.

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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 effects of the Community's trade policy on the level of economic activity in the nine Member States

The European Parliament,

- recalling its resolution of 11 April 1978 on the practice of dumping and the threat posed to Europe by uncontrolled competition¹ and the report on the multilateral negotiations in GATT².
- 1. Notes the growing number of difficulties with which more and more sectors of world trade have had to contend for several years, particularly those threatened by increased competition from third countries;
- 2. Considers that this situation is partly due to the inadequacies in international agreements governing world trade and the disappearance of an international monetary system based on stable exchange rates;
- 3. Feels, therefore, that the commercial policy measures should be accompanied by measures to promote the gradual restoration of monetary stability in international economic relations, and in particular the stabilization of relations between the Community currencies and vis-à-vis the dollar;
- 4. Feels that the Community should prevent the collapse of certain important sectors in the nine Member States as a result, in particular, of increased competition from imports from third countries;
- 5. Requests the Commission and the Council to make use of the supervisory and intervention powers conferred on them by the Treaties;
- 6. Trusts that, in future, greater account will be taken of the effects of external agreements concluded by the Community on the level of activity of sectors in difficulty in the nine Member States, and that all appropriate measures will be taken to enable them to overcome disadvantages resulting from such agreements;

¹ OJ No C 108, 8.5.1978, p.21

² Doc. 86/78

7. Believes that temporary unilateral import restrictions should be introduced only as an exceptional measure and in the absence of any other solution;
8. Approves the market organization agreements recently concluded by the Community with a number of third countries, which have enabled the Community temporarily to curtail the losses suffered by producers in the nine Member States and welcomes, in this connection, the beneficial effects of such agreements on the Community's textile and iron and steel industries;
9. Considers, however, that it is only by implementing an industrial policy involving the organized restructuring and redeployment of the activities of the Nine that the Community will be able to adapt to the requirements of the new world economic order now evolving;
10. Draws, moreover, the attention of the Commission and the Council to the need to ensure strict observance of the existing provisions relating to certificates of origin and inward and outward processing and to end the abuses which have come to light in this connection;
11. Reiterates the importance it attaches to ensuring that the current multilateral negotiations in GATT enable the provisions of the safeguard clauses in Article XIX to be applied more flexibly, above all with regard to the principle of the selective application of these clauses;
12. 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. LEVEL OF EMPLOYMENT IN 1978

1. On 1 January 1978 the number of registered unemployed in the Community was slightly in excess of 6 million, that is 5.7% of the working population of the Nine. One year previously the figure was 5,480,000, that is, 5.2% of the working population. In 1973, the last year before the crisis, it was only 2,596,000, or 2.5% of the working population.

At the beginning of this year, the 24 member countries of the OECD (virtually all the industrialized countries with the exception of the Eastern countries) had 16,300,000 job-seekers (5.4% of the civilian working population) including more than 7 million young people. Of these countries, the United States had 6,855,000 unemployed (7.1% of the working population) and Japan 1,110,000 (2.1% of the working population).

2. Although these figures do not take account of the substantial variations in the rates of unemployment as between countries, regions, sectors, age, sex, they underline, if this were necessary, how the prospects of guaranteed full employment, which have been a characteristic of the Western economy since the Second World War, have now faded.

Having doubled compared with the figure before the crisis, the rates of unemployment have reached a level which it was thought had gone forever. In spite of measures taken to revive the economy and specific measures taken by the majority of the Western governments to counteract the continuous deterioration in the employment situation, in most cases - and at a time when inflation is still evident, although the rate is lower - in most cases these have only served to limit the rise in the rate of inactivity but have not had a lasting influence on the underlying causes.

3. In its latest three-monthly report on the economic situation of the Community for 1978, the Commission is now predicting a slight increase in unemployment - which could affect 5.8% of the working population - whereas the rate of growth of the gross domestic product by volume would be 3.3% and the average rate of inflation would be 7.9% (ranging from 3.5% in Germany to 13.5% in Italy).

II. TRENDS IN THE COMMUNITY'S TRADE BALANCE

4. The causes of the major difficulties affecting the Western economy since 1973 are numerous, complex and do not fit in easily to the pre-existing patterns of economic theory.

The measures used by the various governments to bring the national economies out of the crisis and revive activity, without stirring up inflation again, also often appear hesitant, piecemeal and very unsuited to the new world economic situation.

Protectionist measures seem to be playing an increasing role, and this has been recognized by the international institutions concerned. Dr Olivier Long, Director-General of GATT said in Zürich in November 1977 'For some years international trade in various sectors has been meeting with increasingly serious obstacles. Tension has been aggravated to the point that it seriously threatens the very substance of post-war cooperation in the matter of international trade policy..... The institutional changes, the increased cost of energy and the recession in the economy have caused disturbances serious enough to cause some countries in difficulty to impose restrictions on trade, and the measures taken in the course of the last 2 years go far beyond the usual framework of the restrictions imposed for balance of payments purposes. Governments have been subjected to increasing pressure from those who want them to adopt restrictive trade measures to protect a sector of industry, and in several cases have yielded to these pressures'.

5. According to GATT experts, 3-5% of all international trade since 1974 has been affected by import restrictions. Such trade increased by 11% in 1976 and about 6% in 1977 (when it exceeded \$1,000 billion) after falling by 4% in 1975; even though the restrictions are still insignificant, they involved trade movements of about \$30,000 to \$50,000 million).

6. It is not surprising that the rise in and persistly high level of unemployment in the Western economies has in the last few years caused a revival of the protectionist tendencies which were a feature of the world economy between the two wars, when unemployment affected tens of millions of workers. It was in reaction to this situation, which was one of the causes of the last world conflict, that after the war the international economic institutions were set up which, until recent years, allowed a remarkable expansion in the economic activity of the industrialized countries and international trade, as well as a

spectacular rise in the standard of living of the people.

7. This system was able to operate, without serious setbacks, for as long as a minimum number of rules defining monetary and trade behaviour were observed by all the parties concerned. The growing state of disorder, the disappearance of the international monetary system based on the principles set out at Bretton Woods, the appearance of new states playing an increasingly important role in international trade (the Eastern countries and developing countries), decolonization and the progressive takeover by the Third World countries of their raw material resources, all provide an explanation for the upheavals which have taken place during the last few years.

8. With a total foreign trade of \$330,000 million, the European Community constitutes the largest trade block in the world. It could therefore not escape the consequences of the radical changes which we have briefly described. Created to put an end to the obstacles to trade between the Six and then the Nine, the Community made it possible, by strengthening the competition resulting from the enlargement of the market, to ensure rapid development of trade, both between the Member States and with third countries, while ensuring a rapid and steady rise in the purchasing power of the people.

9. The common external tariff clearly reflects this opening up of the Community to the outside world: at an average level of 8.1% (compared with 11.2% for the United States and 6% for Japan), it is in fact lower than that of these two great powers when weighted by the value of imports: 4.2% compared with 7.1% for the United States and 6.3% for Japan.

10. In addition, the structure of the Community CCT has much fewer high duties than the American or Japanese customs tariff. It has no duty higher than 25% (compared with 7.3% in the United States). 7.7% of the tariff lines benefit from total exemption, 37% are less than 10% and 29.3% are between 10 and 25%.

11. It must also be pointed out that even this low tariff is only applied in full to a limited number of countries: the United States, Canada, Australia, New Zealand, South Africa, Japan, Eastern countries, China, Vietnam, North Korea.

12. It does not apply to a whole series of countries which have concluded preferential agreements with the Community and which export mainly free of customs duties to the Nine. The

preferences which have been granted may be reciprocal (reciprocity itself may be either total - EFTA countries - or partial: European Mediterranean countries and Israel) or unilateral (ACP countries, Maghreb and Mashrek countries).

In addition to these preferences, there are those which the Community has granted independently since 1971 to the developing countries benefiting from the Community system of generalized preferences up to a figure which in 1978 is likely to reach 6,400 million EUA (although the concessions offered are in fact only being utilized up to about 60% of this figure). The reduction in customs revenue resulting from the use of this system in 1978 is likely to be of the order of 304 million EUA.

13. This customs tariff - the lowest amongst those of the major industrialized countries - will be lowered again by a substantial percentage on the conclusion, probably during the course of 1978, of the multilateral negotiations at present under way within the framework of GATT, and on which the Committee on External Economic Relations has recently had occasion to deliver an opinion (see Cousté report - PE 49.532).

In the instructions which the Council recently gave to the Commission in January 1978 within the context of the final negotiations of GATT, and relating to the offer of a tariff reduction on industrial products, the Council took as its basic hypothesis a figure of 40% - to be reached in 8 years - on the understanding that the percentage finally adopted will probably be in a range between 25 and 35%.

III. CHANGES IN WORLD TRADE ARRANGEMENTS

14. The Community has taken advantage of this liberalization of world trade over a number of years, during which the Six and then the Nine recorded a substantial trade balance.

The upheavals which have occurred on the world economic scene in the course of the last few years have caused the situation to be reversed.

The trade balance of the Community (for extra-Community trade) has always been in deficit since 1973: - \$4,500 million in 1973, - \$20,500 million in 1974, - \$4,400 million in 1975, and - \$19,400 million in 1976.

1977 showed a substantial reduction in this deficit because of the appreciable improvement of the trade balance of previously deficit countries (Italy, United Kingdom, France).

Although the final figures are not yet available, it would seem that the current balance of payments of the Community, considered as a whole, will show a deficit of about \$2,000 million in 1977 (the trade balance deficit will be about \$10,000 million for 1977).

15. It is obvious that in a Community to which there is very little restriction on access, where imports and exports represent about one quarter of the gross domestic product and where more than one job in four is concerned with products for export, the overall employment level is closely related to the volume of external trade. Being poor in natural resources, the Community derives the major part of its prosperity from the conversion of raw materials, usually imported, into capital and consumer goods. The value added by the skills of its farmers, workers, and engineers constitutes the principal basis of the economic power of the Nine.

The permanent nature of this power seemed to be assured, as long as the Community was able to benefit from guaranteed and cheap supplies of raw materials and assured markets by a virtual monopoly throughout the whole of the world. The deterioration in the terms of trade to the detriment of the developing countries, the enlargement of the internal market by the creation and enlargement of the Community - which allowed some specialization in the member countries on the basis of the old Ricardian theory of 'comparative advantages' - ensured the prosperity of this 'storehouse of the world' formed by the nine Member States for a long time.

16. This situation came irretrievably to an end with the appearance of new competitors on the world scene (Japan, socialist countries, South-East Asian countries and developing countries which had reached the economic take-off level) and the rise in the cost of raw materials, control over which is increasingly escaping from the Western powers.

17. This new competition is being applied primarily on the markets of third countries, until recently the traditional customers of the Community. It is now spreading increasingly from year to year on to the internal markets of the Nine. In both cases the effects are the same for the Community: deterioration in the trade balance, falling employment, sectoral difficulties.

18. This deterioration in the commercial position of the Community has been reflected in the development of substantial deficits with respect to the three groups represented by the principal trading partners of the Nine, namely the United States, Japan and the developing countries.

The United States (see Cousté report on economic and commercial relations between the Community and the United States, Doc. 468/76) constitute a very important trading partner for the Community. They buy about 19% of Community exports (not including intra-Community trade) and sell 21% of their exports to the Nine.

In spite of an enormous deficit of about \$30,000 million in the American trade balance in 1977 (five times the 1976 figure), including \$8,000 million with respect to Japan alone, the United States continued to record a substantial surplus with respect to the Community during the past year (of the order of \$9,000 million in 1976), mainly as a result of the extent of American exports of agricultural products to the Community.

19. With respect to Japan, the Community deficit has continually increased over the past few years and is of course one of the most disturbing problems for the Community (see Baás report on economic relations between the Community and Japan: Doc. 570/76). The trade deficit of the Nine with respect to this country was \$1,900 million in 1974, \$3,200 million in 1975, \$4,100 million in 1976. It reached about \$5,000 million in 1977. In 1977 alone Japan had a total trade surplus of \$17,600 million.

20. Finally, with respect to the developing countries and the raw material and energy-producing countries, which in 1976 represented about 36% of Community exports (including 21% to the non-member states of OPEC), the Community suffered a trade deficit of \$21,000 million, consisting mainly of oil purchases from the OPEC countries. For their part, the signatory countries to the Lomé Convention registered a trade surplus of \$900 million with respect to the Nine.

21. It follows from these figures that in its relations with its three major trading partners, the Community recorded a trade deficit of the order of \$35,000 million in 1976, a sum which by no means offsets the traditional surplus of the Nine in their relations with the Eastern countries, most of the Mediterranean countries and EFTA.

22. In view of the size of this sum, the leaders of the Nine and Community officials set about considering the measures to be taken to make up or at least limit this deficit. Is it due to the consistent application of the principles of free competition governing international trade relations? Is it, on the other hand, the consequence of unfair practices on the part of certain competitors of the Community or misapplication of the principles of Community trade policy?

23. On the more general level, more and more sectors of Community public opinion are asking whether, in the face of the intensified competition, the disorganization in the international monetary system, the persistent unemployment and the new power relationships which have appeared on the world scene, the Community might not benefit from rejecting the free trade policy which it has adopted since the 1950s, and establishing, as certain partners of the Nine already seem to be tending to do, a more restrictive system, where the interests of the sectors in difficulty would be safeguarded by imposing protectionist measures.

24. There is no doubt that a system of generalized free trade can only operate provided minimum rules of organization are observed. The General Agreement on Tariffs and Trade (GATT) defines this minimum structure. These rules include the absence of discrimination, the use of customs duties as the only means of protection allowed, fixed levels of customs duties, a ban - except for certain exceptions strictly limited in time - on quantitative restrictions on imports, the possibility of using safeguard measures under certain defined conditions, the legitimacy of certain trade arrangements of a regional nature, etc.

25. This type of system was able to operate as long as the various parties involved shared roughly the same liberal ideas as regards international trade and, internally, adhered to the principles of the market economy, and as long as there was a real international monetary system.

The appearance on the world scene of the developing countries, the increasing role played by the socialist economy states dealt the first blow to the system. The principle of non-discrimination was changed to satisfy the interests of the developing countries (Article XXVI, paragraph 8 of the Charter). The socialist countries (many of whom, including the USSR, did

not subscribe to the Charter) represent, both for the formation of internal and external prices and for external trade arrangements, an important exception to the basic principles established by GATT.

26. The disorganization of the international monetary system and the resultant generalized floating of currencies have played an even more important part in changing the situation. Customs duties can no longer be the central pivot of the system when the value of the currency on which they are based is subject to frequent and substantial fluctuations compared with those of the competing countries.

As tariff obstacles are therefore ceasing to play a decisive role, countries have an increasing tendency to resort to non-tariff measures to protect their exports and restrict those of their competitors.

27. It was at the time when this deterioration in the machinery of international trade was accelerating, and the principal competitors of the Community were resorting more and more frequently to non-tariff measures to restrict their imports and aid their exports, the time when the industrialized world was settling into a lasting and unprecedented crisis, that the Community increased the trade agreements with third countries. Although they differ amongst themselves in their objective, the extent of the concessions granted by the Community, and granted to it, these agreements tend, in fact, to help imports of products from third countries into the Nine, but without Community exports being helped in return, the tariff preferences being often unilateral.

At the same time, the Community took part in discussions within the framework of numerous multilateral conferences and became, as such, a signatory to international agreements on several basic products.

28. The purpose of the above is not, of course, to call into question the justification for the active policy of the Community in its relations with developing countries, nor to minimise the extent of the guarantees which these various conventions involve for the Community (tariff quotas, safeguard clauses) in the event of abnormal use of the preferences.

It is nonetheless true that the combination of the restrictive measures taken by the Community's competitors, the tariff concessions granted by the latter to an increasing number of developing countries and the economic stagnation - or even recession - resulting from the world crisis, could only have an unfavourable effect on the overall level of Community economic activity.

29. There is no question, of course, of holding the Community's trade policy solely responsible for the difficulties it is encountering in an increasing number of sectors. There are difficulties caused by the massive imports of textiles, footwear, steel, etc. into the Community and we shall return to some of these sectors in more detail below.

It is nevertheless true that in each sector the exports of the Nine are still, in total, equal to or greater than the imports. For instance, the Community's iron and steel imports amounted to \$4,200 million in 1976, whereas exports amounted to \$9,500 million; the figures for footwear are \$695 million and \$985 million, for textiles \$9 million and 7.6 million respectively.

30. We should also like to add that in a number of cases the difficulties are the result not of the agreements themselves but of abuses or frauds committed within the Community: false certificates of origin, products claimed to be manufactured or processed in the Community, whereas they originate in fact in third countries, etc., outward processing traffic...

IV.

SOME EXAMPLES OF SECTORAL DIFFICULTIES

31. In general it seems that foreign competition has principally affected two types of industries:

- the labour-intensive industries, where the wage costs and charges represent a substantial part of the value of the product in the first place;
- those where the productivity of the Community industries is clearly lower than that of the competing countries, which have equipped themselves during the past few years and therefore apply much lower prices.

(a) Textiles

32. Textiles fall within the first group of industries.

Without wishing to enter into the details of this question, on which the European Parliament has recently delivered an opinion (see Normanton report on the crisis in the textile industry, Doc. 438/77), some fundamental data taken from this document will be briefly recalled.

Between 1970 and 1975, the Community's share in total world exports dropped from 27 to 22 %, whereas in the same period of time, its share in total world imports increased from 15 to 24 % (and from 27 to 41 % of the imports of the industrialised countries).

Trade between the Community and the developing countries, which had been in surplus since 1971, went into deficit.

The proportion of imports in the consumption of textiles and clothing is constantly increasing. Between 1974 and 1976 it rose from 17 to 25 % for cotton yarn, 32 to 45 % for cotton cloth, 37 to 50 % for blouses and 47 to 60 % for shirts.

33. This type of increase could not fail to have early repercussions on this branch of industry, which is the major employer in the Community. Employing more than 3,627,000 people in 1972 (13.3 % of the work force in the manufacturing industry, including a great many women), during the last few years it has suffered a substantial fall in employment. One million people were affected by total or partial unemployment in 1975.

For example, in Belgium the number of workers dropped from 144,000 in 1974 to 116,000 at the end of 1977. Unemployment is affecting 35,000 people in this sector. In 1977 the production in this sector was no more than 85 % of its 1974 level.

34. Reference has been made, with some exaggeration, to an invasion of the Community by textiles from countries with low

wage levels. Textiles would represent the typical example of that 'uncontrolled competition' against which a motion for a resolution tabled by Mr Inchauspé on behalf of the group of European Progressive Democrats (Doc. 209/77) invited the Parliament to take up a position. The Committee on External Economic Relations has recently had occasion to deliver an opinion on this document (cf. report by Lord Brimelow, PE 50.277), expressing reservations as to certain arguments contained in it.

Your rapporteur would like to emphasize the importance which he attaches to maintaining a prosperous textile industry within the Community. This being so, it seems to him that, without underestimating the part played by imports from countries with low wage levels in aggravating the crisis in the Community industry, the underlying causes of this crisis are many and varied: loss of colonial markets, failure to assess consumers' requirements and capital investment needs, changes in the distribution system.

35. At the present time a considerable proportion of Community textile imports still come from the developed countries.

The American textile industry, for example, continues to employ the same number of workers as in 1965 (2.3 million). This situation is due, it is true, to the degree of customs protection from which it has benefited, as shown by the pressure exerted in that country to exclude textiles from the GATT negotiations.

36. However, it seems that the moves which preceded the renewal of the Multifibre Agreement, which was considered to be responsible for the problems of the Community industry have borne fruit. The bilateral arrangements or ~~agreements~~ concluded in December 1977 with the principal exporters of low-priced textile products provide initially for stabilization of Community imports at a level slightly higher than that of 1976. They may then increase at variable rates depending on the sensitivity of the products. It can therefore be expected that the Community textile industry, better protected against the abuses of foreign competition, in the course of the next few years will be able to undertake the necessary restructuring, but without the Community closing its doors to exports in this sector from developing countries which, as is known, make up an essential part of the resources of most of them.

(b) Footwear

37. The Community footwear industry also illustrates the

difficulties which certain branches of industry have to face under the effect of competition from countries with low wage levels.

According to Community manufacturers, it is time to consider a thorough review in this sector of the unconditional liberal policy adopted hitherto by the Community. Between 1972 and 1976, production in the Nine dropped by 8 %, and exports by 13 %, whereas imports increased by 30 %. Sixty-six thousand jobs have been lost. According to the trade, these difficulties are due neither to the recession, nor to structural weaknesses, but are mainly explained by the spectacular rise in the production of certain countries, notably Taiwan and South Korea. The production of these two countries, almost exclusively for export, has doubled and quadrupled respectively between 1972 and 1976.

In 1976 their sales of footwear to the EEC rose by 66 % compared with the previous year and, for the first six months of 1977, by 40 %. This spectacular rise in exports from these countries is thought to be due to massive American and Japanese investment, making use of their cheap labour. As the United States has decided, for its part to make a peremptory reduction in imports from Taiwan and South Korea, the Community is being used as an 'overflow'. The Community manufacturers therefore want measures to be taken to limit the annual rise in imports to a rate in line with the rise in consumption within the Community.

38. The footwear sector seems to us to represent a typical example of sectoral difficulties due to excessive laxity in Community trade policy. Community frontiers are open to all competition, with customs duties limited to 8 % for footwear with leather soles (tariff heading 64.02) and to 20 % for the majority of other types of footwear. Japan applies duty of 27 %, Spain 37 %, Taiwan 91 %, South Korea 80 %, and Brazil 170 %.

In 1976 the footwear industry in the Community employed 330,000 people (of whom 57 % were women), spread throughout more than 9,000 firms. In addition, 150,000 people were working in ancillary industries. 93,000 jobs have been abolished in this sector.

There is no international agreement or 'gentleman's agreement' for organizing trade in this area. Under these circumstances one can understand the urgency with which Community manufacturers are asking for measures to be applied to regularize imports and to restructure production in this sector, although

without resorting to measures of a protectionist nature.

Community footwear manufacturers want the Community to take the same measures for them to regularize imports as those which it had to take recently in connection with imports of iron and steel products into the Community, which we shall now consider.

(c) Iron and Steel

39. Within the scope of this report we shall not of course go back to the complex origins of the present iron and steel crisis, a world crisis, but one which has been affecting the Europe of the Nine particularly severely for four years.

The outdated plant in the majority of the Member States (often three to six times as much time is needed to produce one ton of steel in the Community as in Japan or in South Korea), the increasing industrialization of the developing countries, which in a few years have moved from the position of traditional customers of the Community to that of active competitors, constitutes one of the causes of the decline in Community iron and steel production.

40. The prosperity of this industry in the Community has always depended to a great extent on exports. In the first half of 1977 the Community was still exporting about a quarter of its production. The development of production in the new producer countries is closing one of our traditional outlets. In 1957, countries other than the United States, Japan, the USSR, China and the Community of the Nine produced only 16.5 % of world steel production. In 1974 this figure rose to 25.5 % and in 1978 to 27 % and will continue to increase during the next few years.

41. In parallel with this fall-off in its exports, the Community has had to face a progressive invasion of its markets during the last few years by imports from third countries, which made up about 11 % of the production during the first half of 1977. This phenomenon, which is also affecting the United States, is due to a large extent to the substantial price difference between imported iron and steel products and products manufactured in the Community. The prices are often 20 to 30 % lower than those laid down by the Commission.

42. Whether this difference is due to better productivity, low wage costs, dumping, or even a combination of all three, is a question outside the scope of this report. Nevertheless, the consequences of this development soon made their mark on the level of Community employment.

In 1977 alone 20,000 jobs were lost in this branch within the nine Member States, the total number of workers being reduced to 730,000. Of these, 100,000 are partially unemployed or working on short time.

The collapse in Community prices (they dropped 30 % in 1975 alone) constituted the most tangible sign of this slump, in an industry which is only operating at about 60 % of its production capacity.

43. The first anti-crisis plan established by the Commission in December 1976 included a collection of measures for internal coordination of the necessary reduction in production and deliveries. However, faithful to the principle of free trade, it did not include any measure for restricting trade, on the basis that the final objective was to adapt Community policy to the outside world.

In the July 1977 part-session the European Parliament had occasion to discuss all the problems raised by the crisis in the Community iron and steel industry on the basis of a report drawn up by Mr Cousté (Doc. 198/77).

I shall therefore not return to these. It nevertheless appears that the measures taken have not been sufficient to lessen the deterioration in Community undertakings, having regard to the development in imports from third countries, following, in particular, the restrictive measures taken by the United States.

Therefore, in autumn 1977 it was necessary to consider reinforcing the provisions adopted previously.

44. This was the object of the measures adopted on 20 December last by the Council and designed to put an end to the disturbances on the Community market. The Commission's objective is to arrive at bilateral voluntary restraint agreements, in which the exporting countries would undertake to adhere to a certain price level. The volume of imports, according to the Commission, should be calculated on the basis of deliveries made in 1976.

45. Until such agreements are concluded, and from 1 January 1978 (therefore for a period of about 3 months) countervailing duties - based on Article 8 of the GATT Anti-Dumping Code - will be levied on imports of iron and steel products into the Community at excessively low prices. In order to improve the profitability of Community undertakings, the guide prices will be increased in three stages by 15 % for the whole of 1978.

Since these measures came into force, it would appear that the basic prices below which the countervailing duties are applied are still slightly lower than the minimum and guide prices established for the ECSC iron and steel industries, which allows an adequate margin of penetration for exports from third countries. Nevertheless the first effects of these measures seem to be very favourable and the profitability of Community undertakings has improved.

(d) Shipyards

46. The difficulties which the Community iron and steel industry has to face, following the abnormally rapid growth in imports, are exactly the same as those affecting the shipbuilding industry. The European Parliament held a long debate on this subject during the January 1978 part-session (see Oral Question by Mr Nyborg on behalf of the PED Group to the Council on shipping - Doc. 473/77 and report by Mr Prescott on the proposal from the Commission of the European Communities to the Council for a directive concerning aids to shipbuilding). During the past few years the Community's share in world shipbuilding has continually decreased, dropping from 51 % in 1960 to 25.6 % in 1970 and 22.6 % in 1976. 150,000 jobs have now been affected by reductions in production out of the 180,000 employed in shipbuilding in 1975. Having regard to the foreseeable reduction in production between now and 1980 and the needs of restructuring, the Commission has estimated that 75,000 jobs will be affected by these reconversion operations, involving loss of jobs for about 30,000 people.

47. The substantial difference between the production costs of the Community's shipyards and those of Japan and the new shipbuilding countries has played an important part in this deterioration of the Community position in this sector, which was already difficult under normal conditions of competition because of the structural supply surplus following the over-investment of shipyards throughout the world.

48. In this context the Member States of the Community, together with the other shipbuilders of Western Europe and Japan in the OECD, agreed on 'general guidelines for government policies in the shipbuilding industry', laying down as the priority objective the reduction of production capacity in a suitable manner to establish a balance in the medium term between supply and demand and laying down the principle of fair competition. Approaches have also been made by the Nine to Japan, asking the latter to increase its export prices (a rise of 5 % has already occurred) and voluntary

restraint on its exports to the Nine.

V. COMMUNITY EFFORTS TO NORMALIZE TRADE WITHOUT INCREASING PROTECTIONISM

49. We shall now leave these sectoral difficulties, which many other branches are experiencing: electronics, the leather industry, fertilizers, phosphate, etc., because it seems to us that the solutions envisaged by the Community are the same as those just referred to in the sectors described above.

The object of these measures is to normalize trade without increasing protectionism.

50. Rejection of protectionism has been emphasized many times by the leaders of the Nine and by the Community authorities during the past few years. The Heads of State and Government of seven Western countries, and the President of the Commission of the European Communities, declared at the Downing Street Summit in May 1977 'Policies of protectionism foster unemployment, increase inflation and undermine the welfare of our peoples. We are therefore agreed on the need to maintain our political commitment to an open and non-discriminatory world trading system. We will seek both nationally and through the appropriate international institutions to promote solutions that create new jobs and consumer benefits through expanded trade and to avoid approaches which restrict trade.' We have seen that the return to protectionism would be catastrophic for a Community which has made the opening of frontiers one of the reasons for its existence and which constitutes the largest importer and exporter in the world.

Any protectionist measure adopted by the Community would inevitably engender counter-measures on the part of the countries concerned, and the whole of international trade would be affected by reprisals. The chances of survival of the Community itself would be almost zero in such a situation.

51. While protectionism therefore has to be categorically rejected, it is not acceptable, on the other hand, for the Community authorities to stand by powerless as imports flood in from third countries in more and more sectors of economic activity. We saw at the beginning of this report that the economic order prior to 1973, based on the domination by the economies of the industrialized countries, has changed. The new world economic order now in the process of development will involve considerable sacrifices on the part of the European countries, who have no raw materials. The

Community must be prepared for this, while realizing that the new redistribution of labour which is coming into being between industrialized countries and developing countries will give rise to an inevitable and painful restructuring effort, which will mainly affect the declining sectors and the most depressed regions.

52. This effort must be made, however, in an orderly, progressive way and not as a result of the hazards of the international economic situation and decisions taken by leaders and heads of businesses in countries thousands of kilometres away from the Community.

It is true that the liberal system adopted following the Second World War gives the Community authorities a large number of effective instruments for coping with excesses of foreign competition: anti-dumping measures, derogations and safeguard measures. We have seen, however, that these mechanisms, which were adequate within the world economic system constructed at Bretton Woods (stability of currencies, primary importance of customs duties, non-discrimination between parties), are now to a great extent unsuited to the new situation characterized by the emergence of the developing countries, by the share which the Socialist countries have taken in trade, by the virtual disappearance of customs duties and above all by the generalized floating of currencies.

53. The multilateral negotiations within GATT at present under way in Geneva bear witness to these upheavals. Rather than being concerned with customs duties, these negotiations are concerned mainly with the dismantling of non-tariff measures (fixing of quotas, import licences, technical barriers, subsidies and countervailing duties) and with the problem of the safeguard clause, which is of vital importance in the present circumstances.

Under Article XIX of GATT (emergency action on imports of particular products) a country may establish or re-establish temporary measures of import control to prevent serious injury being done to domestic producers under the effect of growing imports. The applicant countries must provide proof of the harm being caused. The control measures thus adopted are applicable erga omnes. Use of the provisions of this Article XIX seems to be a complex and somewhat formal operation.

The universal nature of the limitations no longer seems appropriate to a period when competition often comes from certain

specific countries. The multilateral negotiations at present under way in Geneva give reason to hope that an agreement will be found to define new conditions for using the safeguard clause in Article XIX. Several industrialized countries insist that this must be now more flexible in use, particularly with regard to possible selectivity in respect of countries against which it is invoked. We must, however, await the conclusion of the discussions before giving a final opinion on this subject.

54. Your rapporteur also considers that the anti-dumping clauses laid down in the GATT Charter should also be revised with a view to greater flexibility in application.

According to Article VI of GATT, dumping occurs where "products of one country are introduced into the commerce of another country at less than the normal value" in other words a price "less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country".

According to the same article it is only to be condemned if it "is such as to cause or threaten material injury to an established industry of another contracting party or is such as to retard materially the establishment of a domestic industry".

The Anti-Dumping Code drawn up during the "Kennedy Round", which came into force in July 1968, can only be applied to a limited number of countries. The Anti-Dumping Committee set up by this code does not have any powers of coercion. Community practice in regard to dumping shows that, in fact, complaints lodged by individuals, examined by the Commission and forwarded to the committee are rarely upheld and are usually shelved even before being examined, as an unofficial agreement has been reached in the meantime with the country or firm accused.

55. The requirements of material (or potentially material) injury to an established industry leaves the door open to a great many uncertainties. We think that the concept of dumping should be more fully defined and modernised. What, in fact, does the concept of price mean in the case of the socialist economy countries, where prices are fixed by the authorities without regard for the real cost? We think, on the other hand, that it would be useful if the concept of dumping were not entirely dissociated from the social conditions prevailing in the exporting countries and allowed one to take action against the harmful consequences of what is usually - and wrongly - called "social

dumping".

56. In view of the formality and inflexibility of these various provisions, a set of bilateral or multilateral agreements, laying down limitations on competition between states, has developed pragmatically and outside any preconceived legal system.

These orderly marketing agreements may take various forms, ranging from detailed international agreements (such as the Multifibre Agreement) to simple 'gentlemen's agreements', the details of which often remain unknown.

The objective is therefore to limit competition in order to reserve a certain proportion of national markets for local manufacturers. The agreements are generally concluded for a limited period and provide for an annual increase in imports. They relate mainly to imports of labour-intensive manufactured goods into the industrialized countries.

57. These developments have shown that the effect of the Community's trade policy on the level of economic activity in the nine Member States has been considerable, and that it could be decisive in certain sectors. Your rapporteur considers that the efforts made by the Commission during the past few months to tackle the obvious abuses of competition have borne fruit, without the Community having reverted to protectionism, which is not the answer to the present difficulties and which must be absolutely condemned. The trend towards further orderly marketing agreements constitutes, we think, in the present circumstances the best means of reconciling the needs, which may seem contradictory, of maintaining employment and opening up frontiers. Your rapporteur considers that competition, especially at a time when the persistence of a high rate of inflation is a constant preoccupation of all governments, constitutes an irreplaceable instrument for economic and social progress.

58. This competition must also be healthy and fair. The trading partners of the Community must not oppose the entry onto their territory of the exports of the Nine by putting forward specious arguments. Finally, the Community itself must give proof of the necessary discretion in the extent of the preferences which it grants and these must be really adapted to the level of development of the beneficiary countries. Should it not be pointed out, in this respect, that the Community system of generalized preferences has too great a tendency to benefit the more dynamic developing countries - even the large multinational companies - the effect of

which has been to place certain important activities of the Community in difficulty, while at the same time not helping the more needy countries for whom these sacrifices might have been made?

59. As Vice-President Haferkamp said on 5 July last before the European Parliament, "Anti-dumping measures are no substitute for trade policy. Nor may anti-dumping measures be used as a protective fence for our own lack of competitiveness". The changes which have occurred in the world economic order during the last few years mean that in many sectors the competitive position of the Community has weakened or even disappeared.

60. The next few years will call for a great effort from our nine countries. They must redeploy their activities, look for new fields of activity, adapt to the patterns of trade which have appeared during the last few months, while sharing in the necessary effort towards solidarity with respect to the poorest developing countries. It is not by shutting ourselves off to the outside world, by refusing to face the new realities of a world of which Europe is no longer the centre that our countries will find the solution to the many difficulties assailing them. Community policy must be designed to make this difficult transitional period easier. There are means of supervision and possibilities for intervention available to the Council and the Commission and these may prove decisive if used in time and suited to the variety of local and sectoral situations.

For its part the European Parliament, being aware that protectionism can never be the answer to the present economic difficulties of the Community, but convinced that in certain given situations a temporary limit on exports from third countries may prove essential to facilitate the necessary reorganization and restructuring of Community industries, welcomes the measures which have been taken to this end in the textile and iron and steel sectors. It hopes that, whenever necessary, similar measures can be taken by agreement with the exporting countries concerned, and expects to be kept regularly informed of developments in Community policy in an area which is so vital.

In the face of the new challenges of a world which is undergoing radical change, the Community must apply novel and original solutions. We urge it to make this effort of imagination - which the Community does not lack, as it has proved many times during the last few years - to normalize Community trade, while at the same time not increasing protectionism.