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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