

EMERGING PRIORITIES IN THE INTERNATIONAL TRADE FIELD

ADDRESS BY SIR ROY DENMAN

HEAD OF THE DELEGATION OF THE COMMISSION OF THE

EUROPEAN COMMUNITIES

THE INTERNATIONAL HERALD TRIBUNE CONFERENCE

WASHINGTON, 19 JANUARY, 1984

Mr Chairman, Ladies and Gentlemen, I am very glad to have the opportunity of talking to you today about the emerging priorities in the international trade field. We have sensibly been allotted a limited time each. So I propose to concentrate my remarks on the emerging priorities in the GATT, not just because we have here a distinguished former High Priestess of the OECD in the form of Sylvia Ostry. But because the GATT has been the subject in recent months of a good deal of doubt and attack.

A distinguished member of the U.S. Senate said a few months ago that the GATT was "done, fini, kaput". A lot of people, I find here, think the same way. People wonder whether the GATT is really still alive. If alive, they wonder whether it is dated. Whether it meets the conditions of the 1980's and in possible manner it helps U.S. business, many of whom have heard of it.

I think that before defining priorities in the GATT we need to raise some basic questions about its usefulness. You will not be surprised to find me here on the side of the angels. But for a hard-boiled audience like this I know it is not enough to claim that in the immortal words of Mark Twain, reports of the GATT's death have been greatly exaggerated.

So let me put - and answer - a few questions.

What use is the GATT to American business?

Here are two things the GATT has done over the last 36 years. It has provided through a series of major trade negotiations for a dramatic reduction worldwide in obstacles to trade - tariffs now for industrial goods are a fraction of what they were in the post war years. And it has enabled most of these tariffs to be "bound" - this means that they cannot be increased without compensation being offered on other products. So American exporters have a degree of access, stability and prosperity undreamt of in the 1930's. U.S. exports to its biggest trading partner, the European Community, amounted in 1982 to 48 billion dollars. By far the greater part entered under tariff headings which were bound. That is stability. The one world trading system which the GATT inaugurated thirty seven years ago has brought the biggest increase in prosperity in the recorded history of the West. Between 1929 and 1938 the GNP of the United States in real terms recorded no change. Between 1938 and 1982 it increased - in real terms - by a factor of five. That is what the GATT has been about.

But was not the GATT Ministerial meeting in November 1982 a fiasco?

No. The meeting did what we thought it could do when the idea was launched in 1981. This was a realistic political level declaration against protectionism - not an overblown one - because as recent events have shown governments in these hard times cannot give cast iron guarantees against measures to protect industries in difficulty - they can however plausibly undertake to do their best. And a sensible programme of work

was agreed.

But wasn't there a feeling that the GATT should have got to grips more with agriculture?

The GATT rules do deal with agriculture. On export subsidies - the current bone of contention - the agreement laboriously hammered out in the last major trade negotiation the Tokyo Round - finishing in 1979, recognised that these were widespread and that it would not be politically possible to abolish them or undertake to abolish them over a fixed period. So the rules provide that agricultural export subsidies are permitted provided that they are not used to secure more than an equitable share of world trade. There has been a good deal of argument about how far this rules has been observed and the U.S. and the EEC are now discussing whether the relevant provisions of the Subsidies Code could be clarified. Simultaneously a high level multilateral study is under way in the GATT of the effects on world agricultural trade not only of export subsidies but of all other forms of Government intervention, some of which can be equally effective in distorting competition.

Why does not the GATT do more about industrial subsidies?

That GATT has rules about subsidies to industry. They recognise that "subsidies are used by Governments to promote important objectives in national policy". When it can be shown that such a practice is directly responsible for injury elsewhere the rules provide for the possibility of counter measures. I am surprised these rules are not more widely known. If I were a rising trade lawyer in this town I would consider setting up near the Capitol a large illuminated screen with a band playing underneath and the slogan "IF YOU ARE BOTHERED BY SUBSIDIES TO INDUSTRY ABROAD THESE DO NOT HAVE TO BE SINFUL. SOME OF THE

BEST PEOPLE USE THEM. BUT IF YOU CAN PROVE THAT THE OTHER FELLOW IS HURTING YOU GET IN TOUCH WITH (NAME AND ADDRESS OF LAW FIRM) AND IN DUE COURSE YOU MAY HEAR SOMETHING TO YOUR ADVANTAGE:.

Why hasn't the GATT done more about services?

There was agreement at the November 1982 meeting in Geneva that a start should be made in mapping out this complex field. The difficulty is that a number of developing countries fear that their infant industries could be overwhelmed by the developed countries. So a lot of quiet diplomacy, patience and persistence will be needed. But progress has not been discouraging.

Why can't the GATT settle disputes more expeditiously?

Agreement was reached November 1982 to improve the GATT dispute settlement procedures. But there is a culture gap here. In the United States people are more used to litigation. They want to take the matter to court and get a judgement. Other GATT members are less prone to litigation and usually try to come to some accommodation. But it must be recognised that the GATT has no sheriff and no jail. It is a contract between 90 sovereign states scattered around the world, and there are limits to what sovereignty can take. Dispute settlement procedures can aid a process of conciliation and settlement. They cannot act on as a sheriff in a frontier town. So the GATT is not a court of law; it is a place where you cut a deal.

But hasn't the GATT been undermined for years by a growing jungle of protectionism ?

Look at the figures for U.S. exports. Between 1970 and 1980 U.S. agricultural exports soared from 7 billion to 41 billion dollars, and the U.S. share of world agricultural exports rose

from 25 to 39 percent. The U.S. share of world exports of manufactures rose from 17% in 1978, to 21% in 1981. Some jungle.

So all is fine then in the best of all possible worlds ?

No it is not. We need to remember two things. The first is that in the worst depression for half a century the one world trading system has held. So let us not junk the GATT in a fit of boredom. The second is that standing still is not enough. We have differences across the Atlantic on a range of trade questions. And it is a good thing to explain our points of view. But there is a danger of the needle of argument getting stuck in the groove. We need to move ahead.

How?

Let me suggest four lines of action.

a) What strikes a European is that there is a danger of our all steering our energies in the wrong direction. We have a framework of international trading rules. These have stood the test of time. They need to be improved. They need to be widened. But it is not much use looking at the rules without looking at the economic turbulence underneath. And unless we can make some progress in the direction sketched out at Williamsburg towards improving the international monetary system and bringing about some stabilisation of exchange rates, the trading rules are bound to be under pressure. So let us not fall into the temptation of devoting our efforts to the surface and ignoring the flows underneath which could ravage what is placed on top.

b) We need to fulfil constructively and in good order the programme of work in the GATT laid down in mutual agreement by the GATT Ministerial meeting of November 1982. This covers all

the main subjects from tariffs to safeguards, non-tariff barriers and services which are the subject of general interest. The programme needs to be completed by November this year. Clearly the annual meeting of the Contracting Parties of the GATT in November this year will not for well-known reasons be able to take substantive decisions. But the Contracting Parties could always meet in a special session in say, Spring 1985. And from that it should be possible to form a clearer idea about the advisability of a possible new multilateral round of trade negotiations sometime in the next few years.

c) The clearly we need to exercise the maximum possible restraint when it comes to new measures to protect our producers. Political pressures will always be particularly in a year when on both sides of the Atlantic we have some internal problems. But we must do our best.

d) In the coming year we need to bear in mind - especially across the Atlantic - the need to observe the rules. We all find the rules irritating, just as an individual citizen in any country often finds the law irritating. Unfair trade practices are always what the other fellow does and not what we do. But whether it is a question of specialty steel or the consultations we might ask for with a view to stabilising imports of corn gluten feed, we need on both sides of the Atlantic not to reach for our revolvers but to go through the due processes of the GATT negotiation. We have done this with specialty steel and I am confident that we shall be able to do it with other points of argument throughout the year.

e) Then I suggest that we need to consider whether we could not use more what is in fact the Steering Group of the GATT the Consultative Group of 18. I had some hand in this being

set up in the 1970's. What we had in mind then was the value of not simply formal proceedings but a group of 18 countries with observers getting together in the GATT in Geneva two or three times a year and enabling a whole host of separate meetings to take place in whatever form or gathering desired to talk frankly and informally as policy makers from capitals about constraints and prospects.

So in other words it would be folly to junk the GATT. We need to stand by it, to improve it and where necessary to widen it. And we need to make sure that finance and trade are considered together - as they were in the original U.S. - U.K. discussions in 1944 - and that one is not allowed to distort or undermine the other. That way we can hope to continue in stormy times the one world trading system on which the prosperity of the West has been based for nearly thirty seven momentous years.