

European Community



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BACKGROUND NOTE

NEW WORLD TRADE PACT ENDORSED

SUMMARY OF GATT "TOKYO ROUND RESULTS"

Canada, the EC and their main trading partners initialled in Geneva on 11-12 April a new international trade agreement after nearly six years of multilateral trade negotiations (MTN). The Tokyo Round, so called after the declaration that launched the process in Tokyo in 1973, has been the biggest trade negotiation the world has ever known.

It comprises a major reduction in industrial tariffs and a substantial agricultural settlement. The rule of law in world trade has been reinforced through the strengthening of the General Agreement on Tariffs and Trade (GATT), under whose auspices the negotiations took place. This has been done through a series of new codes on non-tariffs barriers governing areas of real importance to businessmen and traders. Codes agreed so far cover issues such as standards, customs valuation, government purchasing, subsidies and countervailing duties, and antidumping duties.

"Fairer and Freer System" - Jenkins

Commenting on the EC Council of Ministers' approval of the final package in Luxembourg on 4 April 1979, Roy Jenkins, President of the European Commission, said that it offered a real chance of a fairer and freer world trading system in the 1980s. The failure of negotiations, he believed, would have led to a wave of protectionism, resulting in a major recession.

Mr. Jenkins praised the example that the negotiations had given of the way in which the Community could work and act together in a spirit of mutual trust and cooperation. The Commission itself had great reason for satisfaction in that the final settlement was very much on the lines it had proposed and pursued under the leadership of the Commissioner responsible for external relations, Wilhelm Haferkamp.

The Community's achievement in the MTN has been two-fold. First, outlets for Community exporters in world markets will be increased and improved. Second, it has put an end to the two-tier system whereby the United States was not obliged to apply all the GATT rules in the same way as the other partners; for example, the "material injury" criterion for the application of countervailing duties on subsidized goods.

As regards tariff reductions, other than those in the civil aircraft sector, which constitutes a specific agreement, the United States' industrial tariffs will be reduced by about one third, Japan's by about one quarter and the Community's common external tariff from 9.8 per cent to 7.5 per cent (excluding imports that enter the Community at zero duties). Nevertheless, a caveat remains regarding Japan. It has not been possible to strike a satisfactory balance between the Community and Japan within the framework of multilateral negotiations, and bilateral negotiations will continue in an attempt to correct the yawning trade gap between the two sides.

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On agriculture, the acceptance by the various partners in the negotiation of the principles and mechanisms of the Common Agricultural Policy (CAP) has brought an end to what Finn-Olav Gundelach, Commissioner for agriculture, described as the atmosphere of "trench warfare" and "religious wars" that has so often characterized discussions of agriculture in the GATT in the past.

Consultation procedures and mechanisms have been introduced which will serve to limit any technical or concrete problems that may arise. The Community's trading partners have recognized that it can grant export restitutions on its agricultural products, while for its part the Community has reaffirmed its acceptance of the principle contained in GATT that restitutions must not lead to an unfair expansion of its market share. This does not mean that the Community cannot look for new markets. However, it signifies an awareness that no one stands to gain from a "rat-race" which raises subsidies to such a level that resources are squandered.

International agreements on meat and dairy products are included in the agricultural package. But it was not possible to overcome the differences between certain countries on a cereals agreement, despite the mediatory role the Community played during the negotiations.

On individual products, the Community has achieved better access to various important markets, including the United States, Canada and New Zealand, for products such as cheese, cognac, whisky and biscuits. In return, the Community has made concessions on, for example, tobacco, rice, dairy products and meat. However, these do not damage the principles or mechanisms of the CAP, and they are matched by adequate compensations for Community producers.

The special situation of developing countries has been taken into account throughout the negotiations. The Community has already applied tariff cuts on imports of tropical products and no reciprocity will be asked of the developing countries for further reductions.

Negotiations continue on an issue of particular interest to the developing countries, the selective application of the safeguard clause. Here the Community's aim is to get rules that fit into the GATT system. But as Etienne Davignon, Commissioner for industry, has emphasized, a misunderstanding on this issue must be swept aside: the Community does not want a new protectionist instrument. What it desires is that the safeguard clause should be applied in a manner agreed by all.

Principal results

Industrial tariffs and agriculture

In the industrial sector, substantial progress was made in attaining the European Community's main objective: the harmonization of tariffs.

The general extent of the tariff reduction is moderate. The average EC tariff is reduced from 9.8 per cent to 7.5 per cent.

Tariffs will be cut over a period of eight years. The European Community intends to put them into effect in two stages; the first, of five years, being definite, the second stage, of three years, conditional.

Reductions will begin in 1980. For certain "sensitive" products (such as textiles, steel and ceramics) this will not happen until 1982, with reductions taking place over a period of six years.

For agriculture, tariff reductions are more limited. The EC has considerably improved access to its markets for products of particular interest to its partners, and has obtained, in return, the acceptance of the principles of the Common Agricultural Policy.

Non-tariff disciplines

The negotiations resulted in international agreements which further define and clarify the international disciplines that figure in the General Agreement in both the industrial and agricultural fields.

All these agreements include special measures in favour of developing countries and established machinery for consultation and the settlement of disputes.

The agreement on technical barriers to trade calls on its signatories to harmonize their standards and technical regulations as well as their sanitary and phytosanitary rules, so as not to create unjustified barriers to trade. Signatories have the same responsibilities for the attainment of results, whether their countries have centralized or federal structures.

The agreement on subsidies and countervailing duties will ensure the uniform application by its signatories of all relevant GATT provisions. The signatories will seek to avoid the use of subsidies that might either adversely affect or injure the interests of other signatories. In return, the right to countervail is subject to proof of the existence of serious injury clearly resulting from a subsidy.

In line with this, the GATT anti-dumping code will be modified to comply with the agreement on subsidies and countervailing duties.

The agreement on customs valuation puts an end to the differences and complexities of existing systems, notably of the American Selling Price. It establishes a fair, uniform and neutral system for the calculation of the value of goods for customs purposes that precludes the use of arbitrary or fictitious customs values.

The agreement on import licensing procedures simplifies and brings greater transparency to these procedures.

The agreement on governmental procurement is of particular importance for the industrial sector, although it does cover certain agricultural products.

It discourages both legal and other forms of discrimination between foreign and domestic suppliers and ensures greater transparency in the tendering procedures for government purchases. The agreement covers a very significant volume of trade. It applies to contracts of a value of SDR 150,000 (1) or more placed by entities under the direct or substantial control of parties to the agreement. It covers both purchases by public entities of a civilian character and the civil purchases of national defence authorities.

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(1) Special Drawing Rights (SDR) are the unit of account based on the International Monetary Fund's "basket" of currencies. One SDR is approximately equal to one EUA (European unit of account), i.e. about \$1.58.

A "standstill" clause has also been negotiated, according to which developed countries have agreed, through an exchange of letters, to try to avoid any extension of discriminatory and preferential practices concerning government procurement not covered by the agreement.

Sectoral agreement on civil aircraft

This is the first sectoral agreement negotiated under the GATT, covering both tariff and non-tariff aspects. The main aim is to eliminate customs duties on aeroplanes, helicopters, motors, components and parts, and the electronic equipment used in aircraft.

It is of great importance because of:

- the volume of trade involved (in 1976, it was worth US \$2 billion between the US and the EC alone),
- the specific solutions it brings to certain non-tariff barriers,
- the priority accorded to the committee of signatories for the settlement of all disputes related to the aircraft sector which may arise.

Agricultural results

Negotiations took account of the special nature of agriculture: in return for improved access to Community markets (at the level both of tariffs and quantitative restrictions), the Community's partners recognized the principles of the Common Agricultural Policy.

In addition to the tariff reductions and disciplines related to non-tariff barriers already mentioned, international agreements on both meat and dairy products were concluded.

These agreements improve international cooperation in this area. The agreement on dairy products also includes minimum price provisions.

The negotiations furthered the search for active cooperation in the agricultural sector as a whole. The means for doing this must be worked out as soon as possible.

Reform of legal framework for conduct of world trade

The reform of GATT, aimed at adapting it to the evolution of the international economy and trade since it was set up in 1947, is a long-term objective.

Negotiations reached an overall solution on five issues:

- A legal framework was established for differential and more favourable treatment for developing countries.
- Closely linked to this recognition, indeed its logical quid pro quo, is the clause of "gradual return". This means that less developed contracting parties commit themselves to take on their full rights and obligations under the GATT in line with the improvement of their economic and trading situation.

- GATT rules on safeguard measures taken for balance-of-payments or economic development reasons are clarified.
- GATT mechanisms for consultations, dispute settlement and surveillance are improved and refined.
- It has been agreed that when the MTNs are over, GATT rules on export restrictions will be reviewed to take better account of the needs of developing countries.

The international safeguard system

The aim of securing general acceptance of the selective application of the provisions contained in article XIX of the General Agreement has not yet been fulfilled. Negotiations continue.
