



*European Communities
Commission
Background Report*

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NEW EFFORTS TO LIBERALISE TRADE

GATT MULTILATERAL TRADE NEGOTIATIONS

Economic recession and threats to native industries in industrialised countries have raised spectres of protectionism in world trade not envisaged when the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) was launched in 1973.

Arising from the Round, a Trade Negotiating Committee (TNC) was set up in 1975 "to elaborate and put into effect detailed trade negotiating plans, and to establish appropriate negotiating procedures" for achieving the highest degree of trade liberalization. Heads of State and Governments, at the London meeting of the European Council in May 1977, emphasised their desire to see tangible progress made on multilateral trade negotiations (MTN) as soon as possible, and representatives from the USA, Japan and the EC have now agreed to try and complete the negotiations by the end of July, 1978.

Mr. Wilhelm Haferkamp, the Commissioner responsible for the Community negotiations, has said that the consequences of failure were appreciated all round - and so constituted the best guarantee of success.

Meanwhile, on 17 January, 1978, the Council of Ministers approved a Community offer within the GATT, based on the reduction of tariffs for industrial products, in accordance with a formula put forward by the Swiss. The negotiations also cover certain agricultural products.

Background to the negotiations

The GATT was established in 1948 as a multilateral trade treaty embodying reciprocal commercial rights and obligations as a means of expanding and liberalizing world trade. Since then it has become the main forum for multilateral trade negotiations, with its HQ and professional secretariat in Geneva. At present over 100 countries fully participate in the GATT, or are indirectly involved in the negotiations. The basic aim of the GATT is to liberalize world trade through non-discrimination, consultation, and the avoidance of quotas, with the major focus on the reduction of tariff barriers to trade.

Since 1948 there have been a series of 'rounds' or tariff-cutting negotiations, of which one of the most successful - the Kennedy Round - was concluded in 1967.

Enlargement of the Community, however, and a US decision to introduce 10 per cent import charges and to terminate the dollar's convertibility to gold, created a new situation, requiring further negotiation and clarification.

This resulted in the Tokyo Declaration of September 1973, the outcome of which is under discussion in Geneva today.

Objectives of the Tokyo Declaration

The six major objectives of the Tokyo Declaration are :

- To find an appropriate common formula on application of tariffs with as wide a general acceptance as possible;
- To reduce or eliminate non-tariff barriers or, where this is not appropriate, to reduce or eliminate their trade restricting or distorting effects, and to bring such measures under more effective international discipline;
- To examine the possibilities of the co-ordinated reduction or elimination of all barriers to trade in selected sectors;
- To examine the adequacy of the present multilateral safeguard system with a view to furthering trade liberalization;
- To include agriculture in the negotiations, taking account of the special problems in this sector;
- To treat tropical products as a special and priority sector.

The Community Offer

The Community has indicated that it is ready to begin negotiations on the reduction of tariffs for industrial products by the application of the so-called Swiss formula (see Annex) whereby the higher the original duties the greater are the tariff reductions. By agreeing on a co-efficient of 16 in this formula, the Community would be prepared to accept an average weighted reduction in tariffs of about 40 per cent.

The Community has emphasised, however, that in making this initial offer, the final size of the tariff reductions will only be known at the end of the negotiations. Any such tariff cuts must be spread over 8 years with a pause for review after the first five annual reductions to see whether conditions are suitable to continue with the other three.

In addition the Community has indicated that it reserves the right to take into account the offers made by other developed countries and to adjust its own offer in consequence. It has also made clear its determination to seek for a differential and more favourable treatment for the developing countries, with special preferences for the least developed

amongst them. Such preferential treatment could include the staging of tariff reductions and improvements in the General System of Preferences.

The Community has also made an offer concerning agricultural products. Leaving aside grains, rice, meat and dairy products which are dealt with multilaterally under other auspices, the Community proposes that tariff reductions and new tariff bindings⁺ should be applied to about 100 other products, including horse meat, edible offals, plants, vegetables, fruit, animal fats, jams and marmalade, preserved fruit, sauces and Bourbon whisky. If agreed the offer would cover imports of about 1,000 million European units of account (approximately £650m). Taking into account the multi-lateral negotiations on the other products mentioned above, the Community offer on agricultural products would amount to about 5,000 million EUA (£3,250m) on the basis of the 1976 imports.

The Community offer includes further negotiations on non-tariff barriers about which it has received requests from a number of countries. It is prepared, subject to adequate reciprocity, to offer the immediate or progressive liberalization of 33 quantitative restrictions on industrial products and to review tariff classification on technical matters. Regarding other non-tariff measures, it is ready to pursue discussions with other MTN participants to see whether possibilities exist for a negotiation on the basis of reciprocity.

The Community position in the GATT

The tariff positions of the MTN partners participating in Geneva remain very different. Whereas, with the Common External Tariff, on more than half the Community MTN imports there is no duty at all, and on others there are mainly tariffs of between 5 and 10 per cent, (with hardly any duties higher than 20 per cent), in the US, Canada and Australia, tariffs are proportionately higher, in some cases exceeding 50 per cent. The EC and the USA also have a high degree of tariff binding compared with other developed countries.

Further, the US Trade Act creates difficulties in reducing tariff disparities because of certain 'mandatory exceptions' insisted upon by Congress, while the growing intervention of the State in many national economies has introduced a number of non-tariff barriers - such as health and environmental specifications - which indirectly hamper international trade. Here the GATT Secretariat has listed more than 800 such measures and part of the work of the Trade Negotiating Committee (TNC) has been to produce draft codes not only for technical barriers, but for customs valuation, government procurement and countervailing duties and subsidies.

⁺ A bound customs duty is one that has been included in a list annexed to the GATT. An increase is only allowed after negotiation with the countries affected, and usually involves compensation. Conversely, an unbound customs duty can be raised at any time, without notification or compensation.

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Over the years government and public sector purchasing have come to represent an increasingly large proportion of total trade. The MTN has aimed to establish the principle of equality of treatment for foreign and national suppliers, based on an 'integrated draft code' advocated by the Nordic countries, Canada and the Community. This recommends the institution of international procedures of notification, consultation and surveillance and the settlement of disputes, to ensure better equality of opportunity in the award of contracts. In particular, it lays down the criteria as to qualifications and the terms for suppliers and appeal procedures designed to eliminate discrimination. Because of the complexities, however, a number of details have still to be determined.

The problem of export subsidies and countervailing duties has also caused difficulties, largely because US legislation in respect of the latter does not conform to Article VI of the GATT. Other partners of the GATT have insisted that the US alter its legislation in this respect, while resisting US proposals to eliminate certain export subsidies altogether. The Community and the US have had long discussions on this matter and an 'Outline of Discussion' is among the negotiating documents at Geneva.

Other difficulties before the negotiators include both the improvement of the international safeguard system which authorises parties to the GATT to derogate from the rules regarding freedom of trade in certain exceptional conditions and finalization of the international framework governing the trade of developing countries.

The Community has indicated that it believes agreement on the first, in present economic circumstances, is a precondition for an increased liberalization of trade. On the second, it has been in the forefront in upholding the needs of the developing countries.

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