

# EUROPEAN BACKGROUND INFORMATION COMMUNITY

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## BACKGROUND NOTE

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### AIDE-MEMOIRE ON THE MULTILATERAL TRADE NEGOTIATIONS IN GATT

#### Introduction

In October 1973, the EC Commission's Spokesman's Group published an aide-memoire (issued in Brussels as "P-54") on the Multilateral Trade Negotiations (MTN's) in the framework of the General Agreement on Tariffs and Trade (GATT) which had formally been opened in Tokyo on September 12, 1973. This Background Note (issued in Brussels as "P-66") updates the earlier one and attempts to set out the situation reached in the negotiations (often referred to as the "Tokyo Round") in the Fall of 1975 as seen mainly from a Community viewpoint.

#### Tokyo Declaration

The declaration issued at the end of the ministerial meeting in Tokyo was adopted unanimously by the more than 100 developed and developing countries represented. It laid down the two main aims of the negotiations as

- the expansion and ever greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world through, for example, progressive dismantling of obstacles to trade
- securing additional benefits for the international trade of developing countries so as to increase their foreign exchange earnings, diversify their exports, improve conditions of access in foreign markets for their products and attain stable and fair prices for their primary products.

The declaration also stated that the negotiations would be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity while observing the most-favored

nation clause (MFN - which requires, in general, that all GATT members be treated equally). Another important point was that the developed countries said that they did not expect reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries to make contributions which were inconsistent with their economic needs. The importance of maintaining and improving the Generalized System of Preferences was recognized as well as the importance of the application of differential measures to developing countries in ways which would provide special and more favorable treatment for them in areas of the negotiation where this was feasible and appropriate.

A Trade Negotiations Committee was established which was to be responsible for the overall conduct of the negotiations and which would cover initially six broad headings: tariffs, nontariff measures, sectoral approach (studying whether it would be possible, as a complementary technique, to remove or reduce all trade barriers in selected sectors), possible improvement of the multilateral safeguard system in GATT, agriculture and, finally tropical products which according to the declaration were to be treated as "a special and priority sector."

#### Community Approach

While the Community had along with all the other participants adopted the Tokyo Declaration, it had earlier that year worked out a specifically Community approach to the future negotiations on the basis of a memorandum from the Commission.

It was recalled that the Community since its foundation had always taken an active part in multilateral trade negotiations and had made a decisive contribution to their success. Thus, at the end of the last multilateral trade negotiations (the "Kennedy Round") the Community had on average the lowest customs tariff of any of the major trading powers -- approximately half the average of the original tariffs of the member states -- and it also had the most uniform profile i.e. the least fluctuation between high and low tariffs. In addition almost all Community tariff items are bound under the GATT which means that tariffs cannot be increased without renegotiation and compensation. This is not the case with several other developed countries some of which have only bound a small part of their customs tariff.

The Community's "overall approach" to the MTN's endorsed the same objectives as were later incorporated into the Tokyo Declaration, namely, increased liberalization of international trade and improved opportunities for the developing countries to participate in the expansion of world trade. At the same time, the Community pointed out that a policy of liberalizing world trade could not be carried out successfully unless parallel efforts were made to set up a monetary system which "shields the world economy from the shocks and imbalances" which had recently occurred. The trade negotiations, therefore, implied that prospects existed for the establishment of a fair and durable monetary system, and the Community would assess progress in the negotiations in the light of progress made in the monetary field.

The Community also stated that while it would take part in the negotiations with an open mind in order to ensure the harmonious development of world trade, it had to be understood from the outset that "neither those elements basic to its unity nor the fundamental objectives of its future development could be called in question." These basic elements included the customs union, the common agricultural policy (CAP) and the common commercial policy.

The "overall approach" then went on to spell out in some detail the Community's negotiating aims in the various sectors -- tariffs, nontariff measures, agriculture etc. These will be dealt with in more detail below.

The actual conduct of the negotiations as far as the Community is concerned is carried out by the Commission assisted by a standing committee composed of representatives of the member states ("Article 113 Committee"). Christopher Soames, as Vice President of the Commission responsible for External Relations, has the main responsibility for the conduct of the negotiation. At official level the delegation is led by Theodorus Hijzen, Deputy Director-General for External Relations. The Community also has a permanent delegation at Geneva, headed by Paul Luyten, which handles much of the day-to-day work of the negotiations.

#### Pre-Negotiation Stage

The Trade Negotiations Committee (TNC) met for the first time in October 1973 and considered allocating the preparatory work between six specialized groups covering the areas listed earlier -- tariffs, nontariff measures, sectoral approach, safeguard system, agriculture and tropical products. These groups were set up February 1974 to carry out work of an analytical and statistical nature covering about 20 topics. In some cases the group concerned was continuing work which the GATT Committees aided by the Secretariat had been doing since the end of the earlier Kennedy Round negotiations.

Thus, in the area of tariffs, the information now available far exceeds that assembled for any previous tariff negotiations. Data on current tariff levels, for example have been filed on computer tapes for each of the major developed countries, together with corresponding information on trade flows and all this material has been analyzed, with the results portrayed in a series of statistical tables.

In the field of nontariff measures, much preparatory work has been done since 1968 in drawing up and analyzing an inventory of measures which governments have forwarded to GATT as examples of alleged barriers to their trade. About 850 notifications had been listed under five broad headings

- government participation in trade e.g. government procurement, export subsidies, countervailing duties, State trading etc.
- customs procedures e.g. customs documentation and valuation, antidumping duties, consular formalities etc.

- standards for imported and domestic products including packaging and labeling.
- import and export limitations e.g. import quotas, voluntary export restraints.
- import and export limitations through price mechanism e.g. prior deposits, discriminatory taxes etc.

All this material has been discussed in detail and in some cases outline agreement has been reached on the appropriate type of solution to be sought as well as on the best negotiating approach. In some cases where only the measures or practices of one or two countries are being focused upon, solutions are expected to be reached on a bilateral or plurilateral basis between the countries most concerned and in other cases the solutions will be reached through multilateral negotiations.

Concerning agriculture, a special committee had been set up in 1967 to prepare for the next round of multilateral negotiations. The committee assembled the necessary basic documentation, identified the principal problems affecting international trade and considered possible solutions. One of the major results of this work was the establishment of a detailed and very comprehensive inventory of measures affecting the agricultural exports and imports of the major trading countries. This inventory has been continuously kept up to date. In the assessment of various suggested solutions, special attention was given to the specific problems of developing countries.

### The Negotiations Begin

The pre-negotiation stage just described was prolonged more than had been envisaged at the time of the Tokyo Declaration, one of the reasons being the lengthy delay entailed in the passage of the Trade Bill by the Congress. This bill setting out the negotiating powers of the US delegation finally became law early in 1975, thus clearing the way for the opening of substantive negotiations in Geneva. The Community itself, synchronizing its internal preparatory work with the progress of the US Congress in enacting the new legislation, worked out a more detailed position on a number of important issues in January 1975.

At its meeting on February 11-13, the Trade Negotiations Committee set up six groups (with provision for sub-groups where necessary) corresponding to the six specialized groups which had been carrying out the preparatory work since the TNC meeting of October 1974, namely, tariffs, nontariff measures, tropical products, agriculture, safeguard clause, and sectoral approach. With the setting up of these groups, the negotiations could be said to have started in earnest.

In his opening address, the representative of the Community emphasized the significant changes which had taken place in the international economic situation since February 1972 when the Community and the United States made a mutual commitment to open a new round of multilateral trade negotiations in the framework of GATT. The spokesman

cited as examples the continuing uncertainties and fluctuations in the monetary sector, sharp variations in the price of raw materials and especially the steep increase in oil prices, as well as the new preoccupation with assuring supplies of raw materials and energy. In the agricultural sector, the situation had passed from one of over-supply and surpluses to one of shortages of certain products. In view of these changes, the Community spokesman said, it could become necessary to "update" the negotiating framework in a way which did not affect the fundamental aims. In other words, the aim of liberalization and expansion of trade would be more easily reached if the multilateral trade negotiations were carried on within the broader framework of the various international activities being taken to overcome the present economic crisis in the course of 1975.

As regards the developing countries, the Community was determined to seek solutions which could improve their economic situation and their foreign trade. The recently signed Lome Convention was a concrete example of the Community's willingness to propose and implement new policies to promote the interests of developing countries.

The work to date in the various groups and sub-groups will now be briefly outlined.

#### TARIFFS

The lowering of tariffs has, of course, been the main aim of the successive rounds of trade negotiations since 1945 but in spite of the substantial progress achieved and the present comparatively low average levels of tariffs maintained by the industrialized countries these averages conceal the existence of high tariffs on particular products or sectors in certain countries. Moreover, the degree of commitments -- in the form of tariff bindings -- vary considerably from country to country. The Tokyo Round aims at further tariff cuts by means of formulae of as general application as possible.

#### Community Approach

The Community approach in the tariff field consists of seeking a significant reduction through a harmonization of the levels of tariffs so that there will be steeper reduction of high tariffs than of low. In other words, the higher the tariff the greater the reduction of the customs duty. The Community has put forward in Geneva as a working hypothesis a formula which would achieve this objective of a harmonized reduction of tariffs. This formula is of the type  $y$  (rate of reduction) =  $x$  (actual level of tariff) which can be repeated several times. Thus, a tariff of say, 20 per cent, could be reduced either to 16 per cent (1 time), 13.5 per cent (2 times), 12 per cent (3 times), etc.

Certain other delegations would prefer a linear reduction of the type which was applied during the Kennedy Round whereby tariffs are cut by a fixed percentage regardless of how high or low they are. The drawback

of this method for the Community and other countries which have a relatively low average tariff is that it would result in reducing some tariffs to such a low level that they would afford no protection and that there would be little leverage left for subsequently obtaining reductions in the higher customs duties which others would still be maintaining.

The Community approach also favors a threshold or floor being set, below which no reductions would be required for the reason just indicated and also to ensure that the developing countries which benefit from the Generalized System of Preferences can continue to have preferential treatment for their exports to the Community. Moreover, there is the possibility, in cases where an economic interest so justifies, to go beyond the general formula or the threshold.

### Progress of Negotiations

The Group "Tariffs" held four meetings between March and November 1975. It has discussed about 10 different proposals and hypotheses for tariff cutting formulae. These can be grouped into four categories: the harmonization technique favored by the Community; the linear, across the board technique; the item-by-item technique involving bilateral requests and offers; and a combination of the above techniques.

Delegations from the developing countries have contended that any tariff reduction plan should include a term ensuring differentiated treatment for the developing countries in the context of protecting and enhancing the generalized preference system or of compensation for the erosion of the preferential margins.

Possible lines of agreement on the following issues have been discussed. On basic rates, a solution will be sought which would retain the bound GATT rates for tariffs where they exist. On unbound items there remains a divergence: the Community and other countries favoring the rates actually applied while other countries are in favor of statutory rates (which need not necessarily be the rates actually applied). Concerning years of statistical reference, it was agreed that basic statistical material will cover the years 1970-72, with the option of collating more recent data as soon as it comes to hand. Concerning the unit of statistical reference, the Community has proposed that a more stable unit of account be taken than the current US dollar and that this should be the 1971 US dollar.

At the October meeting of the group, the US delegation indicated that it would not be in a position before January 1, 1976, to make any definitive statements about its preferences on a tariff formula or working hypothesis because of the need to review the advice received from the private sector and from Congress.

### NONTARIFF MEASURES

As pointed out in the GATT report on "Activities in 1974," attention in multilateral trade negotiations has shifted from the pre-Tokyo Round

emphasis on tariff reductions to focus increasingly on nontariff distortions of trade, the effects of which have become increasingly significant as the general level of tariff protection has declined. But it is particularly difficult to negotiate on nontariff measures and while some, such as quantitative restrictions, have been discussed in GATT since its earliest days, others have never before been the subject of negotiation. Generally, the purpose of such measures is not to hinder or distort trade but to protect public health and safety or national security. However, it is clear from preparatory work already done in GATT that much can and needs to be done to reduce nontariff distortions of trade.

The Tokyo Declaration calls for the negotiations to reduce or eliminate nontariff measures 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.

The basis for the negotiations is a comprehensive inventory of notifications made by governments of the nontariff measures which they believe have either hampered their exports or provided unfair advantage to their competitors. This inventory is open-ended and can be added to during the negotiations. As mentioned earlier, 850 notifications have been made to date and are classified under five broad headings.

#### Community Approach

In its "Overall Approach," the Community points out that the diversity of nontariff barriers makes it unrealistic to seek a solution of a general character. There must, therefore, be a case by case approach bearing in mind that in some cases certain measures are interdependent. The examination should be concentrated initially on the measures which appear to be the greatest obstacles to international trade.

Where similar measures are applied by a large number of countries, multilateral solutions are clearly the most suitable, whether by abolition or amendment of existing practices or by agreement on greater harmonization of policies and more international discipline. On the other hand, specific solutions can be found where only one or two countries apply the measures complained about. The Community will specify the bilateral nontariff barriers of its trading partners which it wishes to see dealt with in the negotiations.

#### Progress of Negotiations

The Group on Nontariff Measures held three meetings between February and November 1975. Four sub-groups which have been meeting regularly were set up to deal with

- quantitative restrictions, including licensing
- technical barriers to trade (technical regulations and standards including packaging, labeling etc.)

- customs matters (valuation, nomenclature, documentation, other formalities)
- subsidies and countervailing duties.

With regard to quantitative restrictions the Sub-Group Quantitative Restrictions agreed at its meeting in April 1975 that a process of information, examination and dialogue should be undertaken with respect to existing quantitative restrictions.

The Sub-Group also agreed that this process would take place through detailed bilateral or plurilateral consultations between countries notifying a direct trade interest in these restrictions.

By the end of September 1975, 21 countries had notified the GATT Secretariat of their desire to hold consultations. These notifications were made against 42 countries and the EEC (European Economic Community). A number of these consultations have been held and are still being held between participants.

The result of these consultations, which have been reported orally by the countries involved at the meeting of the Sub-Group Quantitative Restrictions on October 28, 1975, are relatively modest so far because there is still divergence of view on how to find a procedure for agricultural products, and for textiles products covered by the Multilateral Textile Fiber Agreement.

In the area of technical barriers to trade, considerable work has already been done in elaborating an international draft code on technical regulations and standards. The Community fully accepts the need for more international discipline with a view to preventing obstacles to trade arising from either the application or the adoption of standards or regulations for example, quality or safety standards or measures taken to protect the environment. However, the Community was obliged to point out that the practical application of such a code would certainly create difficulties. Within the Community a substantial effort is being made to do away with national technical barriers to trade and to introduce, where necessary, Community-wide regulations which could be subject to the future international code. At this stage it is not clear, however, if all the Community's negotiating partners would be in the same position to give country-wide effect to such a code; whether federal states, for example, could make an internationally negotiated discipline binding on their State governments in the same way as the Community could, or, for that matter, as any signatory country with a centralized system of government.

#### AGRICULTURE

The Tokyo Declaration laid down that the negotiations concerning agriculture "while in line with the general objectives of the negotiations should take account of the special characteristics and problems in this sector." Previous rounds of negotiations have faced difficulties in the field of agricultural trade mainly because of the variety and complexity of measures and devices applied by governments to imports and exports. National agricultural policies are, naturally enough, usually designed to protect



the country's farmers and ensure sufficient national supplies. In addition to purely economic factors, there are usually other aspects involved such as social, environmental, political, all of which make negotiations in this area a difficult and complex matter.

### Community Approach

The Community's common agricultural policy (CAP) corresponds to the special conditions of agriculture within the Community. Its principles and mechanisms should not be called into question and therefore do not constitute a matter for negotiation. The Community believes that the specific objective of the agricultural negotiations should, therefore, be the expansion of trade in stable world markets, in accordance with existing agricultural policies. The best way of achieving the necessary stability would be by means of appropriate international arrangements. In its "overall approach" drawn up in June 1973, the Community indicated its intention of proposing for products such as grains, rice, sugar and the most homogenous milk products the negotiation of a price mechanism accompanied where appropriate by storage measures. The carrying out of food aid programs would thus be made easier. In the case of other products which are not suited to such agreements, the Community could agree to negotiate joint disciplines such as a system of mutual restraints which would ensure that the operations of the exporting countries on world markets run smoothly. It was further declared that the application of the Community's import mechanisms would be adapted to this new situation to the extent that stability on world markets has been achieved as a result of implementing such international arrangements. Additional action would be taken on products which are of particular interest to the developing countries which would help them improve their export revenue.

### Progress of Negotiations

The Group "Agriculture" set up negotiation sub-groups for three sectors of products which are widely traded and which, therefore, might lend themselves to multilateral solutions. The three sub-groups set up deal with grains, dairy products and meat and they are dealing with all the elements relevant to trade in these products. Other products can be added later if necessary.

Concerning tariffs and nontariff measures relating to agricultural products, the group agreed that it would treat them. In certain cases of a "global nature" affecting agriculture which would be taken up in a number of contexts within the overall framework of the negotiations, the work of the Agriculture Group would be carried on in conjunction with the work of the "Tariffs" and "Nontariffs" Groups. The precise interpretation of this agreement has given rise to difficulties for which solutions are being sought at the time of writing this note.

### Grains

At the first meeting of the sub-group on May 26, the representatives of the Community proposed that an international agreement be negotiated on

the lines indicated earlier. The essential features of such an agreement would be

- improved exchanges of information on market prospects and production policies
- the setting up of mechanisms aimed at stabilizing the international grains market in terms of price and supply levels and at isolating the market from any destabilizing factors by means of concerted stockpiling policies
- improvement of the situation of developing countries especially by reorganizing food aid structures.

The Community believes that such an international agreement would be a solution covering all the important problems that arise in trade in grains as it offers an answer to the fundamental questions of supplies and outlets as well as the conditions in which trade takes place.

Many governments participating in the MTN's in Geneva are also participating in the work recently begun in the framework of the International Wheat Council in London concerning stocks and food aid. It has been agreed that at the appropriate time, the Grains Sub-group shall consider how best to integrate into its work any results of the work going on in the International Wheat Council.

### Dairy Products

At its first session in June 1975, the sub-group decided to deal with all dairy products, but in the initial stage to deal with anhydrous milk fat and butter, principal cheeses, dried milk (skim milk powder and whole milk powder) and casein. Other dairy products can be introduced into its work at any stage.

The sub-group's work began by carrying out an analysis of the specific characteristics and of the structure and problems of world trade in dairy products, including the direct or indirect impact of trade barriers and trade distorting practices. The next stage will consist of studying all the various proposals which will have been made and assessing their relevance to the problems and the aims of the negotiations.

At the first session of the sub-group, the representative of the Community proposed that for the most homogeneous dairy products one or more international agreements should be negotiated, covering milk powders, butter and butter fats. For these products, a system of minimum and maximum prices, including other conditions of sale, would be brought into operation. The introduction of a maximum price system, which is a novelty in comparison with existing arrangements, would afford guaranteed supply conditions for importing countries parties to the agreement.

In the cheese sector, the Community believes that since a general agreement on prices does not seem feasible because of the various products involved, certain rules could be agreed between importers and exporters so as to permit the regularization and expansion of trade.

As the principal producer, importer and exporter of dairy products, the Community attaches very great importance to the negotiations in this sector.

### Meat

The sub-group decided at its first meeting on June 16-19 that it would initially deal with all the relevant aspects of trade in bovine meat (including live animals). A similar approach to future work as that outlined for the dairy products sub-group was adopted. Thus, the first stage would consist in carrying out an analysis of the structure and problems of the world meat trade, including the direct or indirect impact of trade barriers and trade distorting practices. In the second stage, the sub-group will study the various proposals put forward in view of arriving at suitable multilateral solutions.

The representative of the Community in his declaration emphasized that the main aim of the negotiations should be to ensure that producers and consumers are protected from the harmful effects of the recent swings between situations of over-supply and scarcity. The Community approach which he spelled out in detail has the threefold aim of

- strengthening the existing information and consultation procedures and improving the market forecasting system
- setting up coordinated action or "disciplines" between importers and exporters to ensure the orderly running of the world market
- improving the existing rules and procedures concerning health regulations.

At the October meeting of the sub-group, the representative of the Community submitted a detailed analysis of the main changes which have affected the international meat market over the past decade. One of the main conclusions which he drew from this analysis was that any future rules and disciplines which would be agreed upon with a view to bringing about the orderly running of the world market, should be as flexible as possible.

### TROPICAL PRODUCTS

The Tokyo Declaration calls for the treatment of tropical products "as a special and priority sector." These products provide a large proportion of the export earnings of many developing countries. They include major commodities such as cocoa, coffee, tea and certain vegetable oils as well as a very large number of items which are of less significance in world trade. The GATT Secretariat and participating governments have assembled all the necessary data concerning trade in these products and a request-offer negotiating procedure has been agreed.

### Community Approach

As already indicated, the Community has set as one of the major objectives

of the negotiations the improvement of the opportunities for the developing countries to participate in the expansion of world trade. In the field of tariffs on tropical products, the Community is prepared to consider most-favored-nation concessions, but where developed countries are significant suppliers, it will consider making concessions in the context of its generalized preferences system which it established in 1971 and has been improving each year. Concerning tropical products proper, the Community maintains its support for international agreements where appropriate which aim at increasing the export earnings from tropical products. Likewise, when implementing any international arrangements for certain agricultural products, the Community will urge that the interests of the developing countries and especially the least advanced among them should be taken into account.

### Progress of Negotiations

At its first meeting in March 1975, the Group "Tropical Products" drew up guidelines for the negotiations in this sector. The developing countries concerned were invited to submit lists of initial requests for concessions to other participant countries in whose markets they have an interest as exporters of tropical products. It was agreed that intensive consultations should proceed as rapidly as possible between the countries concerned. These consultations would cover such matters as clarification and discussion of the requests and the preliminary reactions to such requests with a view to the early tabling of offers.

Between May and October, the Community had received about 20 lists of requests for concessions on tropical products from countries in Central and Latin America and Asia. Bilateral contacts between the Community and the countries concerned have been taking place which have clarified the details of the requests some of which have extended to over 150 tariff headings. It was agreed at the October meeting of the group that the target date of March 1, 1976, would be set for the tabling of offers.

### SECTOR APPROACH

The Tokyo Declaration had laid down that one of the aims of the MTN's was "to include an examination of the possibilities for the coordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique." As pointed out in the GATT Secretariat report on "Activities in 1974," the sector approach "is seen by some countries as constituting a particularly effective way of attacking at one time the whole range of obstacles that may be hampering trade in, for example, a particular raw material and in the semifinished and finished products made from it and thus of achieving maximum trade liberalization.

It is also pointed out that experience of sectoral-type negotiations is limited and that the techniques and implications need to be carefully studied. It is emphasized that the aim of any sectoral negotiations should be to extend trade liberalization in the sectors concerned further than would otherwise be achieved through application of the general negotiating formulae to be adopted.

## Community Approach

Community spokesmen have in various declarations emphasized that the sector approach is essentially a "complementary technique" and could not be a substitute for solutions of general application even if in a small number of cases it could supplement such general rules. The eventual use of this complementary technique could only be decided after the negotiations on the general solutions in the tariff and nontariff fields had sufficiently advanced. At the July 1975 meeting of the Trade Negotiations Committee, Hijzen alluding to the difficult problem of reciprocity in such an approach, said that the Community was still waiting to be convinced that the sector approach was in the interests of all the participating countries and not just some.

## Progress of Negotiations

The Group "Sector Approach" held two meetings in April and June. It was agreed that in this area of the negotiations, due account would have to be taken of the specific trade problems of the developing countries and the need to ensure more favorable treatment for them where feasible and appropriate.

The Community supported by some other countries voiced a number of reservations about a Canadian proposal to launch a pilot study in the ores and metals sector but did not block a suggestion that the GATT Secretariat would assemble data on trade, tariffs and nontariff measures and (where available) on production and consumption in this sector. It was understood that the data collected would not be dealt with in the negotiations. The secretariat was also asked to make a detailed examination of the implications of the sector approach for developing countries including identification of possible sectors of interest to them, the question of differentiated treatment and the possible effect on the Generalized System of Preferences.

At its November session, the group was to carry out a detailed study of the documentation provided by the secretariat in the areas mentioned above.

## SAFEGUARD CLAUSE

The Tokyo Declaration says that one of the aims of the negotiations should be "an examination of the adequacy of the multilateral safeguard system" particularly concerning the application of Article XIX of the General Agreement on Tariffs and Trade. This article prescribes when emergency action can be taken against imports injuring domestic producers. It is often referred to as the "safeguard clause" or the "escape clause." However, the freedom of action of the member countries which wish to invoke the safeguard clause is limited in various ways. For example, action has to be taken on a non-discriminatory basis against all supplying countries and the latter can take retaliatory action if consultations do not lead to an agreement.

In its report on "Activities in 1974," the GATT Secretariat points out that the safeguards question is particularly complex and any changes

need to be approached with great caution. It may well be that agreement on changes will only be possible when the participating governments have a clear view of the likely outcome of the rest of the negotiations. Among the questions which have been raised in preliminary discussions are the definition of "material injury" which is the basic justification for introducing safeguard measures, the possibility of applying safeguards on a selective basis, that is, only against the countries whose exports are causing the injury, and the desirability of introducing provisions for multilateral surveillance of any safeguard measures taken.

### Community Approach

The Community considers that the present provisions of Article XIX should be maintained. It must, however, be recognized that this article has proved difficult to operate effectively and the Community is prepared to take part in any efforts to try and establish a better practical application of the safeguard clause. While the Community favors a more flexible application of this clause than hitherto, this should not have as result that there would be excessive recourse to safeguard measures.

### Progress of Negotiations

The Group on Safeguards held meetings in April and June-July and it was agreed that the work would be carried out in two phases

- examination of how the present system works
- if this reveals inadequacies, an examination of what to include in a possible new or revised system. It was agreed that in both phases of work the particular interests and problems of the developing countries would be borne in mind.

A checklist of questions was drawn up which the group will study at its November meeting. It covers such questions as the desirability or otherwise of selective application of the safeguard clause, of multilateral surveillance, burden-sharing among importing countries, the "automatic exemption" of all developing countries etc.

### Conclusion

It is hoped to issue updated versions of this aide-memoire at regular intervals for the benefit of the press for whom it is primarily intended.