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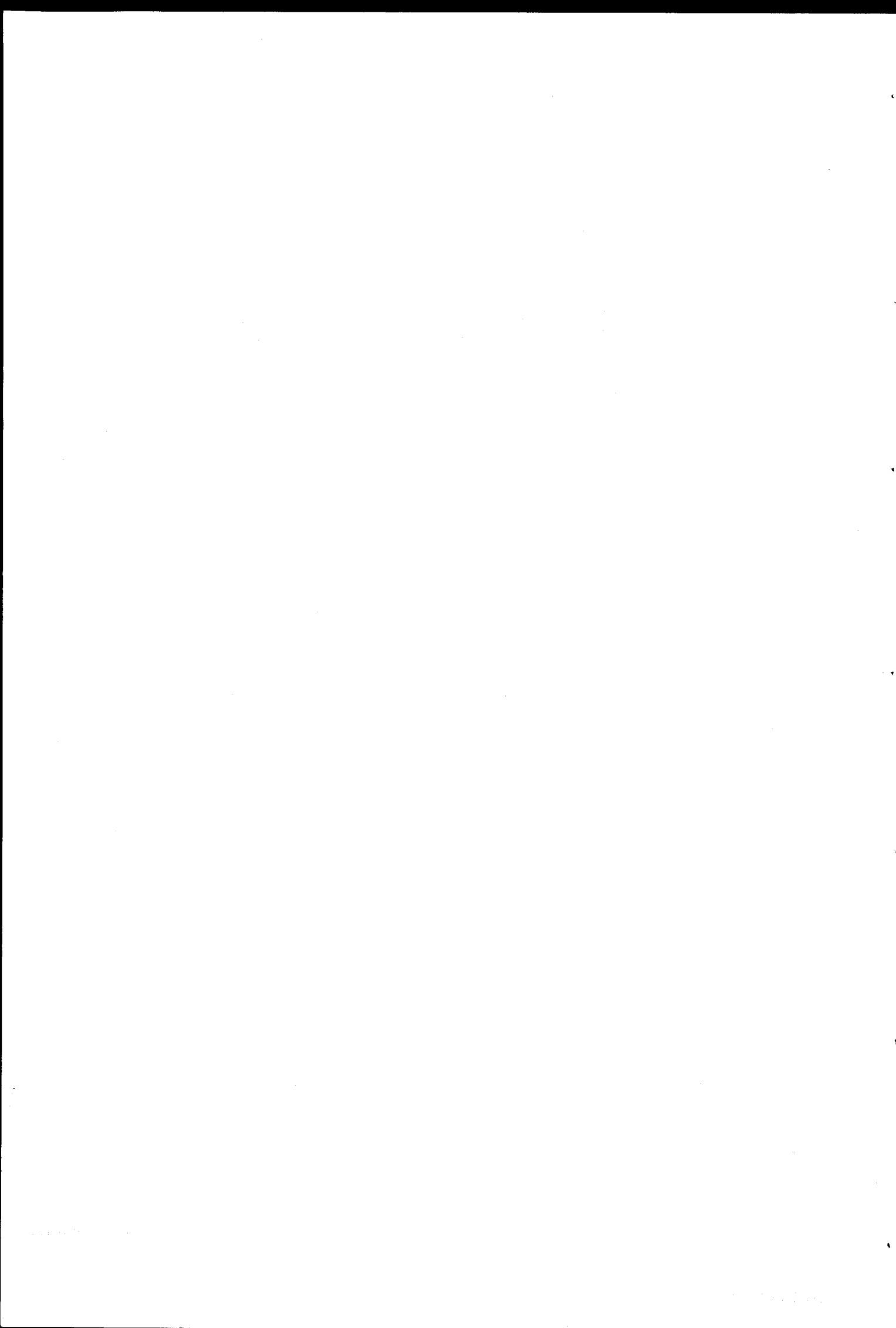
Report

drawn up on behalf of the Committee on External Economic Relations

on the Community's position in the GATT negotiations

Rapporteur: Mr G. KASPEREIT

PE 40.230/fin.



By letter of 11 February 1975, the Committee on External Economic Relations requested authorization to draw up a report on the Community's position in the GATT negotiations.

Authorization was granted by the President of the European Parliament in his letter of 7 March 1975. The Committee on Agriculture, the Committee on Economic and Monetary Affairs and the Committee on Development and Cooperation were asked for their opinions.

On 18 March 1975, the Committee on External Economic Relations appointed Mr Gabriel Kaspereit rapporteur.

It considered the draft report at its meetings of 17 April and 20 May 1975 and unanimously adopted the motion for a resolution and the explanatory statement on 20 May 1975.

Present: Mr Kaspereit, chairman and rapporteur; Mr Thomsen, vice-chairman; Mr Bayerl, Mr Brégégère, Mr Cousté, Mr Didier, Mr Dunne, Mr Hansen, (deputizing for Mr Patijn), Mr Klepsch, Mr de Koning, Lord St Oswald, Mr Schwabe, (deputizing for Mr Corterier), Mr Spicer and Mr Thornley.

The opinion of the Committee on Agriculture is attached.

The opinions of the Committee on Economic and Monetary Affairs and the Committee on Development and Cooperation will be published separately.

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A

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 Community's position in the GATT negotiations

The European Parliament,

- having regard to the results of the meeting of the Council of the European Communities of 10 February 1975, which broadly confirm the fundamental positions of the Community based on the Commission's overall approach drawn up with a view to the multilateral negotiations in GATT (COM (73) 556 and 556/2),
 - having regard to the declaration issued at the end of the Conference of Ministers of the Member States of GATT (Tokyo, 12-14 September 1973),
 - having regard to its resolution of 4 July 1973¹,
 - having regard to the report of the Committee on External Economic Relations and the opinions of the Committee on Agriculture, the Committee on Economic and Monetary Affairs and the Committee on Development and Cooperation (Doc. 106/75).
1. Welcomes the opening of the new multilateral negotiations in GATT, which demonstrate the desire of the participating countries to oppose the disorganization of world trade and to give a new impetus to international trade exchanges;
 2. Regards the new approach defined by the Commission for the negotiations, insofar as the guidelines allow it to be judged, as balanced and flexible;
 3. Requests the Commission to advocate liberalization of international trade based on the principle of reciprocity between all countries;
 4. Supports the position adopted by the Community in the negotiations, insofar as it is aimed at obtaining not only a significant reduction in customs tariffs but also, at the same time, a harmonization of these tariffs at world level;

¹OJ No. C 62, 31 July 1973, p.22

5. Invites the Member States to speed up within the Community the process of harmonization in respect of non-tariff barriers to trade and to give the Commission wider power to negotiate in this field;
6. Considers that, without prejudice to the common agricultural policy, the stabilization of world agricultural markets is a necessary condition for supplies to the world population and for its well-being;
7. Doubts the effectiveness of an international code of good conduct in the agricultural sector unless an appropriate supervisory body is set up at the same time and recognized internationally;
8. Emphasizes the need for a more flexible organization of the GATT safeguard clause arrangements (pursuant to Article XIX of GATT);
9. Emphasizes the exceptional importance of the Community's objective in the negotiations of helping to broaden the developing countries' opportunities to participate in the expansion of world trade;
10. Requests the Commission to vigorously oppose, in the light of experience gained during the world primary commodity and energy crisis, the introduction of export restrictions and other protectionist measures as part of national external trade policy;
11. Supports the Community's position in the negotiations insofar as it is aimed at obtaining an appropriate counterpart to the concessions granted to the Eastern countries;
12. Hopes that certain reservations included in the 1974 American Trade Act will not prove a hindrance to the implementation of the agreements reached in the GATT negotiations.
13. Emphasizes that an effective world economic system can only exist on the basis of a coherent international monetary system, which should be organized at the earliest possible date;
14. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENTINTRODUCTION

1. The European Parliament delivered an opinion at its sitting of 4 July 1973 on the Community's attitude towards the negotiations in GATT¹, on the basis of the overall approach then submitted by the Commission.²

2. The GATT negotiations were officially opened on 12 and 14 September 1973 in Tokyo by a statement made during the Conference of Ministers of the participating countries. Because of the delay by the American Congress in passing the Trade Act, however, the negotiations as such could not begin at that stage, since the United States, an important commercial partner, had not yet been given a mandate for the negotiations.

It was not until 20 December 1974, after a number of postponements, that the American Trade Act was passed by both Houses of Congress. Having received a mandate for the negotiations by virtue of this Act, the United States were finally able to participate in the negotiations which were at last officially opened on 11 February 1975 in Geneva.

3. Because of the far-reaching political and economic changes which had influenced the international context in which these negotiations were taking place, in particular those brought about by the energy crisis, the European Economic Community was also obliged to reconsider its position on the negotiations and to adjust it accordingly.

A summary is given below of the ideas underlying the initial approach drawn up by the Commission in 1973; the essential changes which the Commission has made in adopting its new position for the current negotiations, are indicated and analysed critically.

This report is deliberately confined to the essential points; for those parts of the overall approach which remain unchanged, the reader is

¹ Doc. 118/73 - Report by Mr de la Malène on the Community's approach to the coming multilateral negotiations in GATT.

² COM (73) 556, 4 April 1973.

referred to the detailed reports already drawn up on this subject.¹

I. The essential elements of the approach drawn up by the EEC in 1973 for the negotiations

4. The strategy adopted by the Community in the negotiations had two principal objectives:

- the consolidation and continued liberalization of international trade;
- the improvement of developing countries' opportunities to participate in the expansion of world trade.

The five essential elements of the approach drawn up by the Community for the negotiations were geared to the above objectives.

(a) Customs tariffs

The Community recommended a 'significant' reduction of tariffs, although it did not consider that their total abolition would be a desirable or realistic measure.

This reduction of tariffs should be accompanied by their harmonization at world level.

(b) Non-tariff barriers to trade

An effort must be made to eliminate these barriers, used by a number of countries in respect of a broad range of products; multilateral solutions could be formed here.

(c) The agricultural sector

International agreements should be negotiated to promote the expansion of trade and to stabilize the world markets, particularly those for cereals, rice, sugar and dairy products. Such negotiations, however, must not encroach on the principles of the common agricultural policy.

(d) The safeguard clause

Although the provisions of Article XIX of GATT should be retained, flexible means of application should be sought, involving no new

¹Doc. 118/73 - report by Mr de la Malène and PE 34.629/fin: working document drawn up by Mr de la Malène for the 20th joint meeting of the Council of Europe and the European Parliament.

restrictive measures but possibly subject to supervision according to well-defined rules.

(e) Relations with developing countries

In general, there is a desire to perfect the system of generalized preferences, given that other industrial nations are expected to grant a preferential system to developing countries on a similar basis.

II. The essential adjustments made to the EEC's position in the 1975 negotiations

5. Since the first conference, held in Tokyo in 1973, the world economic system has deteriorated considerably. Inflation, monetary insecurity and the general shortage and increased cost of important primary commodities and energy sources work against the achievement of GATT's objectives, which are growth and interpenetration on an international scale by means of a wider opening of markets. Today, the effects of the energy crisis and the wide fluctuations in the prices of primary commodities determine the direction and volume of trade currents more than customs duties and other classical external trade measures. This development conceals the danger that a growing number of States are selfishly trying to solve their problems through protectionist measures and reviving the policy of the outstretched hand which was commonly applied in the 1920's before the last great economic crisis. These countries wish to pass on the problems with which they are confronted at national level, in particular the question of unemployment, to their other trade partners by means of appropriate manoeuvres in the external trade field.

In recent years, producers of certain primary commodities have become increasingly aware of their power and have used it to the full not only to influence quantities and prices, in the manner of a cartel, but also as a form of political pressure. For that reason, one of the EEC's major negotiation objectives, the liberalization of trade, which was also the main subject of the Dillon negotiations (1960-61) and the Kennedy Round (1964-67), should be reviewed in the light of this new balance of power.

6. Although freer access to markets through the elimination of customs duties and other barriers to trade must continue to play a major role in future negotiations, the maintenance and security of supplies, especially

of primary commodities and sources of energy, will be of at least equal importance. The EEC is taking this development into account by including a new chapter on export restrictions.

(a) Export restrictions

7. Although no special working party has been envisaged for this purpose, the Community hopes that these problems can be solved by negotiation. Essentially, it sees two possibilities:

- the reactivation of Article XI of GATT (quantitative restrictions) by means of a better definition and a better enumeration of measures in the field of export restrictions, and by making possible adequate supervision recognized by all parties;
- the creation of a 'code of good conduct' for the application of export restrictions and agreements by sector, involving joint responsibility on the part of producing and consumer countries.

8. In view of the growing importance of trade between the East and West, the Community also wishes to include the following new chapter:

(b) Eastern countries

Since these countries do not have the instrument of customs duties, special negotiations must be undertaken. Regulations on quantities are of vital importance. Something must be obtained in return for each concession made, especially to ensure that tariff reductions granted by Western countries are duly compensated for.

9. Apart from closer definition of a number of points of detail in the initial approach, the principal changes in the EEC's negotiating position therefore centre on the introduction of the two chapters referred to above.

CONCLUSIONS

10. The progress of the negotiations will be greatly influenced by the attitude of the United States, whose mandate as defined in the 1974 Trade Act is in principle welcomed by the Commission. Essentially, this mandate confirms the United States' traditional adherence to a free and non-discriminatory world economic system. Although American interests are given precedence in relations with other industrialized countries

and in the area of generalized preferences, and although in the tariff and agricultural fields, among others, the American and Community views are contradictory, the flexibility which is apparent at this stage should enable adequate results to be achieved in the negotiations.

11. Nevertheless, the Committee on External Economic Relations is concerned at the fact that any agreement reached in these negotiations will have to be submitted to the American Congress which may go back on the decisions taken. This fact alone is likely to create an unfortunate climate of uncertainty. The Commission should therefore also reserve the right to revoke the decisions taken if any amendments are made by the American Congress.

The Committee on External Economic Relations also wishes to draw attention to the existence of a number of non-tariff barriers still in force in the United States, such as the 'DISC' (Domestic International Sales Corporation) system, the Buy American Act and the American Selling Price, which should be taken into consideration during the GATT negotiations on non-tariff barriers.

12. The position of the Community, whose negotiating mandate has not been defined in detail by the Member States, and which cannot therefore be analysed in depth, is also characterized by a flexibility similar to that of the American position. In the overall approach the Commission has worked out a series of alternative solutions on detailed points, which will be selected or adapted as the negotiations proceed, in permanent concertation with the Council and, if appropriate, with the governments of Member States.

13. The GATT negotiations, known as the Tokyo Round, are in their initial stage, during which groups of experts will assess the wishes and requests of participating countries and prepare tariff definitions of units of account, customs values, reference years, etc. Because of the delays which have occurred, it will probably no longer be possible to close the negotiations in 1975, the date laid down in Tokyo in 1973. In 1976, there may be new delays because of key elections in a number of important participating countries. It is therefore almost impossible to make any predictions as to the course the negotiations will take.

14. The Committee on External Economic Relations is therefore able to state at this time that the Community's negotiating position, so far as it is known, seems balanced and suitably flexible. It will enable the Community to speak with a single voice in this important international

forum.

The Committee on External Economic Relations supports the efforts made by the Commission to oppose traditional protectionist tendencies and to create flexible international rules applicable to producing and consumer countries and which will help to promote world trade in the interest of all nations and in particular those of developing countries, without allowing this new international order to lapse into dirigistic measures. Your committee is aware that such a result may only be maintained in the long run on the basis of a reorganized international monetary system.

In this connection, it would refer to the declaration made at the Conference of Ministers in Tokyo, to the effect that the policy of liberalizing world trade cannot be pursued successfully without parallel efforts to introduce a monetary system which will protect the world economy from crises and imbalances of the kind which have occurred recently. In addition, it should not be forgotten that the efforts to be made in the field of trade imply the pursuance of efforts to maintain orderly conditions and to establish a durable and equitable monetary system.

15. The Committee on External Economic Relations warmly welcomes the opening of these new GATT negotiations, in which about 90 countries will be participating. It considers the negotiations against the background of the difficult situation of the world economy, as a demonstration of the resolve of the various governments to safeguard, by means of joint efforts, the present achievements, to adapt them in the light of altered situation and to avoid the risk of disorganization of the world market.

COUNTRIES PARTICIPATING IN THE MULTILATERAL TRADE NEGOTIATIONS¹

(Participants in the Committee for Trade Negotiations, November 1974)

Algeria ²	Japan
Argentina,	Kenya
Australia,	Korea
Austria,	Luxembourg
Bangladesh,	Madagascar
Belgium	Malaysia
Bolivia ²	Malawi
Botswana ²	Mauritius
Brazil	Mexico ²
Bulgaria ²	Netherlands (Kingdom of)
Burma	New Zealand
Canada	Nicaragua
Chile	Nigeria
Columbia ²	Norway
Congo	Pakistan
Costa Rica ²	Panama ²
Cuba	Peru
Czechoslovakia	Philippines ³
Dahomey	Poland
Denmark	Rumania
Dominican Republic	Senegal
Ecuador ²	Singapore
Egypt	South Africa
El Salvador ²	Spain
Ethiopia ²	Sri Lanka
Finland	Sudan ²
Gabon	Swaziland ²
Germany (Federal Republic)	Sweden
Ghana	Switzerland
Greece	Tanzania
Guatemala ²	Thailand ²
Haiti	Togo
Honduras ²	Trinidad and Tobago
Hungary	Tunisia ³
Iceland	Turkey
India	Uganda
Indonesia	United Kingdom of Great Britain and
Iran ²	Northern Ireland
Iraq ²	United States of America
Ireland	Uruguay
Israel	Venezuela ²
Italy	Vietnam ²
Ivory Coast	Yugoslavia
Jamaica	Zaire
	Zambia ²

¹ Source: Secretariat of GATT, Geneva - Communication GATT/1154² Not a contracting party to the General Agreement } 23³ Has provisionally acceded to the General Agreement)

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr Isidor FRÜH

At its meeting of 18/19 March 1975, the Committee on Agriculture appointed Mr Isidor Fröh draftsman.

It considered the draft opinion on the Community's position in the forthcoming GATT multilateral trade negotiations at its meeting of 22/23 April 1975 and adopted it unanimously.

Present: Mr Houdet, chairman; Mr Laban, vice-chairman; Mr Fröh, draftsman; Mr Boano, Mr Brégégère, Mr Frehsee, Mr Martens, Mr Noè (deputizing for Mr Ligios), Lord St. Oswald and Mr Scott-Hopkins.

1. According to the press release on the Council meeting of 10 February 1975, the Council has 'adopted the directives enabling the Commission (negotiating on behalf of the Community) to take an active part in the actual negotiations opening in Geneva on 11 February 1975'.¹ Details obtained from press reports reveal that efforts are being made, as a continuation of the decisions of principle taken in Tokyo, to press on with liberalizing and thus markedly expanding world trade. The positive effects that this will have on the level and stability of employment have been clearly demonstrated by developments in the past.

This statement is true of the industrial sector. The situation is different as regards agricultural production. Structural weaknesses, geographical disadvantages and finally, the not inconsiderable dependence of certain products on the weather conditions have everywhere resulted in agricultural systems that take account of the agricultural industry's interest in protection. In the various economic areas these systems generate arrangements having a greater or lesser effect on external trade in agricultural products. In addition, the peculiarity of agricultural production necessitates veterinary and plant health legislation which may constitute an additional obstacle to trade.

Furthermore, the instability of world markets impedes the regulated expansion of agricultural trade.

These features, which are specific to agriculture, put agricultural products into a separate category at international trade negotiations. When negotiating positions are being decided and during the negotiations themselves, it must therefore always be borne in mind that in the long term real progress is also largely determined by changes in certain structural characteristics of agriculture and a more dominant position in the international market for the most important agricultural products. The chances of achieving this will be examined when it is being decided to what extent and how agricultural products can be included in the GATT arrangements.

2. Although it is not the task of the Committee on Agriculture to analyse and comment in detail on the Community's concept for the negotiations, three remarks will appear necessary:

- The results achieved by liberalizing trade may be jeopardized or even completely cancelled out by strong fluctuations in exchange rates. They are therefore largely dependent on a relatively stable monetary system.

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Council press release, 11 February 1975, 173 d/75
(Presse 19), p.5

The United States has not as yet introduced a system of this kind, nor named the agricultural products to which concessions are to be applied.

This brief outline of the concessions¹ granted by the Community with **respect** to imported agricultural products illustrates the efforts that have been made to allow numerous Third Countries increasing access to the Community market.

4. Your rapporteur assumes that the tendency of this policy of liberalization is in principle to be welcomed. The Committee on Agriculture has on many occasions given a favourable opinion on the abovementioned agreements and their implementation. As stated above, this should not, however, be taken to mean that the arrangements to be negotiated for industrial products can be simply applied to agricultural products. The following is an attempt to outline a number of principles which should govern the inclusion of agricultural products in the GATT system.

A basic principle is that the Common Agricultural Policy must not be jeopardized by the GATT negotiations. The Community's commercial policy is a facet of its overall policy which cannot be seen separately from the other elements of that policy. One of the Community's fundamental tasks is to promote throughout the Community a harmonious development of economic activities, including agriculture². The Community's commercial policy must not conflict with this objective.

- One aim of the GATT negotiations is to expand world trade in agricultural products. The Community must, however, also take account of the principles laid down in Article 39 of the EEC Treaty, i.e. it must ensure that supplies reach consumers at reasonable prices and that incomes in the agricultural community guarantee a fair standard of living. The Common Agricultural Policy represents an attempt to achieve these objectives which has undergone constant development. This policy and the instruments created for its implementation must also be taken as a basis during the negotiations. However, the Common Agricultural Policy is not a static concept, and it should be possible for progressive improvement of agricultural structures and the creation of balanced markets to benefit the liberalization tendencies in the long term.

- General and indiscriminate abolition of protection against the outside world and thus indirectly a sweeping reduction of the level of support

¹ See the table in the Annex showing the development of trade with Third Countries.

² See Article 2 of the EEC Treaty.

the Community gives its farmers must not be used to achieve further liberalization of trade in agricultural products.

Instead, an attempt must be made to negotiate international agreements on the major groups of products so as to regulate the world markets in cereals, rice, sugar and certain dairy products in particular. The object of such agreements should be a more stable price level and better regulation of supply and demand and thus a more uniform supply pattern. The coordination of food aid programmes of the major producing regions and the implementation of these programmes should be subject to central control. As instruments for the implementation of these agreements references prices and international stockpiling measures would have to be introduced. The administration of the agreements might be placed in the hands, for example, of intergovernmental agencies equipped with the required decision-making powers.

The extreme fluctuations in supply on the world market in the last two years illustrate the urgency of concluding agreements as outlined above.

5. The opinion of the Committee on Agriculture would not be complete without a reference to the role played by the developing countries in the GATT negotiations. Any international organization of the markets for agricultural products must take account of the interests of these countries. Special agreements on products peculiar to these countries must ensure stabilization of export proceeds from the agricultural products they offer, and there must be a continuous supply of food to countries that depend on aid. The arrangements made in the ACP-EEC Lomé Convention might be regarded as a useful way of stabilizing export proceeds: aware of its responsibility to the developing countries, the European Community has provided for opportunities which, should there be an appropriate expansion within the framework of the GATT negotiations, might make a not inconsiderable contribution to the establishment of a more dynamic and balanced international trade system with due account taken of the special position of the developing countries.

ANNEX

DEVELOPMENT OF TRADE WITH THIRD COUNTRIES¹

	1966	1972	Increase in absolute terms	Rate of increase ²
	- in million DM -			
<u>EC imports of</u>				
Foodstuffs	31,092	35,694	4,602	31
industrial goods	91,736	148,132	56,396	85
<u>EC exports of</u>				
foodstuffs	9,484	14,177	4,693	71
industrial goods	108,140	184,271	76,131	95
Import surplus in				
foodstuffs	21,608	21,517		
Export surplus				
in industrial goods	16,404	36,139		

¹Stocktaking of the Common Agricultural Policy and Possible Solutions, submitted by the Federal Ministry for Agriculture, Food and Forestry, 20 January 1975, Annex 6.

²Adjusted to allow for changes in exchange rate.