



**The European Community and the
General Agreement on Tariffs and Trade**

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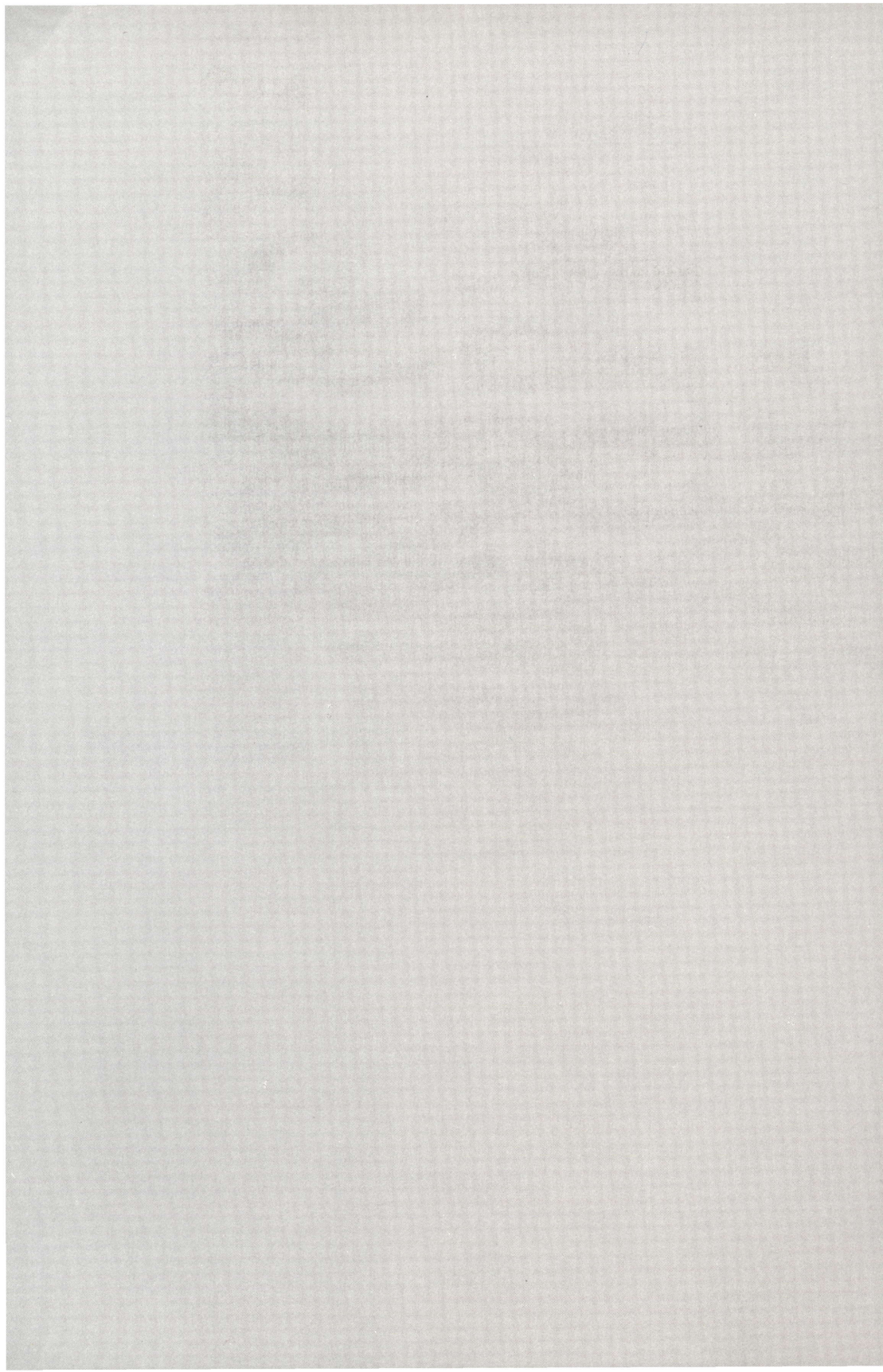
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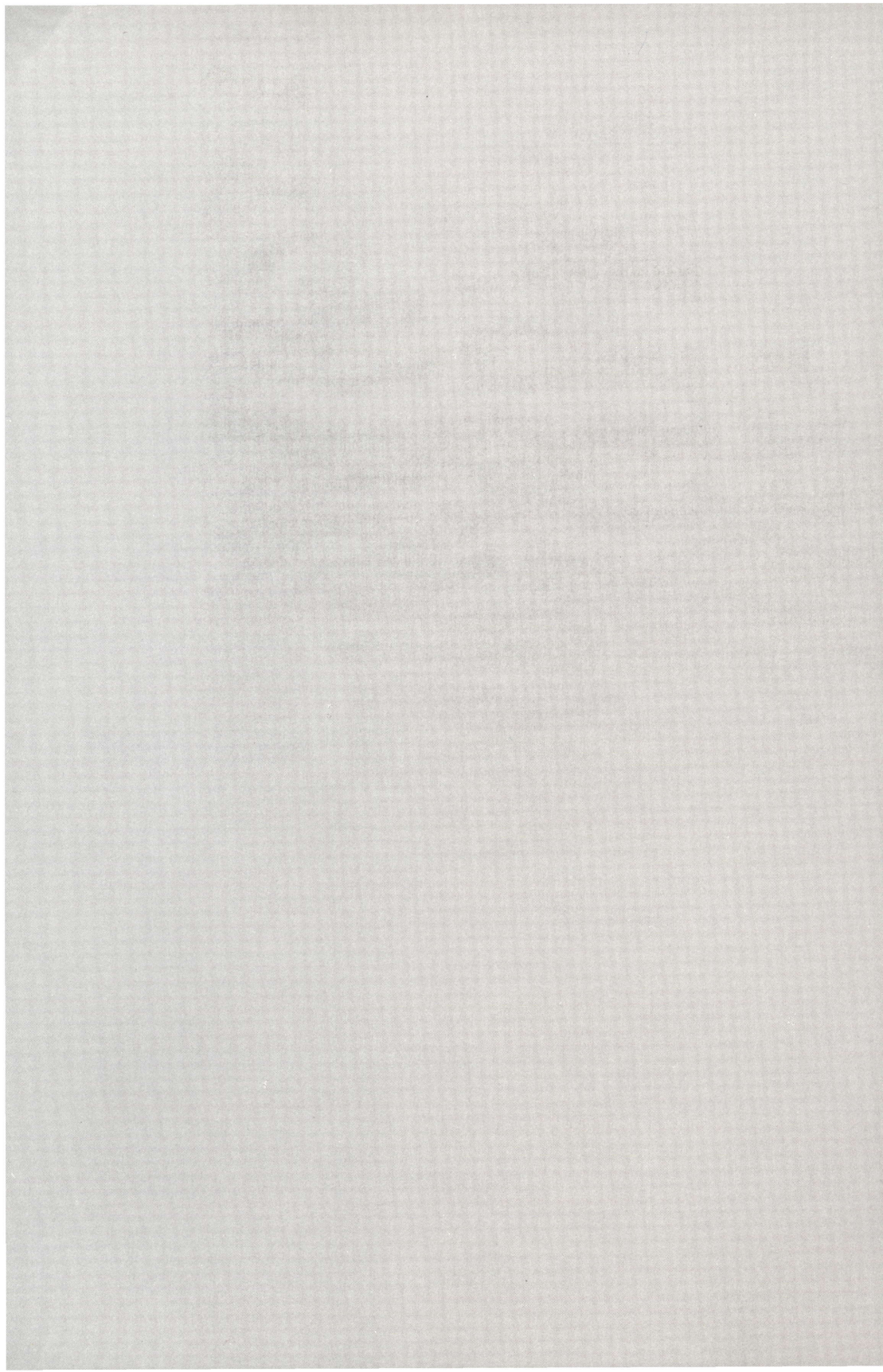


The latest and most important chapter in the progressive liberalization of world trade is currently being written in Geneva, Switzerland. It is there that the European Economic Community (EEC), the United States, Japan, and some 70 other participants are holding the "Tokyo Round" of Multilateral Trade Negotiations (MTN's). The outcome of these talks, the most comprehensive negotiations ever held to reduce barriers and distortions to the flow of international commerce, will be a critical factor in determining whether the momentum towards trade liberalization which has prevailed for the past 30 years can be continued.

As in the previous tariff-cutting exercises, the European Community will be important and active participants. Throughout its history, the Community has been dedicated first to completely free trade in industrial and agricultural products internally, between its member countries, and secondly, to a balanced expansion of world trade through progressive liberalization of trade restrictions.

In a major policy statement in July 1973, concerning the "Tokyo Round," the Community expressed the conviction that international trade is a "vital and increasingly important factor in its development," the hope that "the policy of liberalizing trade will be continued," and the promise that it "intends to assume its responsibilities at the international level toward both industrialized and developing countries."

That the Community's average import duty of 7 per cent on industrial products is the lowest of all major trading powers is evidence of its commitment to trade liberalization and its participation in past tariff cutting exercises.



The evolution of the contemporary international trading system is mirrored in the six rounds of multilateral trade negotiations which have been completed since the end of World War II.

Each of these negotiations has been conducted under the auspices of the General Agreement on Tariffs and Trade (GATT). Begun in 1948, the GATT is a multilateral trade treaty embodying reciprocal commercial rights and obligations. It has become the main forum for multilateral trade negotiations, with headquarters and a professional secretariat in Geneva. However, it is not formally an international institution. The technical agreement which embodies the GATT consists of four basic provisions:

- *Nondiscrimination.* Through the GATT's "most-favored nation" clause (MFN), each country's negotiated concessions apply equally to all signatories. Any concession made to one country must be extended to all. The major exceptions stipulated involve generalized tariff preferences extended by industrialized countries to developing countries and customs unions and free trade areas. (A customs union, like a free trade area, is a grouping of countries which have agreed to eliminate all or most obstacles to trade among themselves. The customs union carries the process one step further than the free trade area by establishing a common and uniform tariff schedule for imports from all non-member countries.)
- *Tariff protection.* Tariffs, not quotas, are the sanctioned means of protecting domestic industries from foreign competition.
- *Consultation.* Existing and potential trade disputes should be submitted to consultation.
- *A framework.* A forum is provided for holding periodic negotiations to reduce trade barriers and codify the results in a legal instrument.

The first four rounds of GATT tariff-cutting negotiations took place in 1947, 1949, 1950-51, and 1955-56. All dealt overwhelmingly with tariffs, and all were dominated by the United States' policy of fostering economic recovery and cooperation in Western Europe.

The fourth negotiation, the "Dillon Round" of 1960-62, followed the establishment of the EEC in 1958. For the first time, the EEC's common agricultural policy (CAP) and customs union with its common external tariff (CET) were the subject of negotiations. The Dillon Round was preceded by negotiations with the Community under GATT Article XXIV-6 necessitated by the introduction of the common external tariff in order to replace concessions previously granted by the Community's six founding members (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands).

These concessions were gradually incorporated into the emerging common external tariff which were then replacing individual country

tariffs on industrial goods. These negotiations fulfilled the Community's obligations under the GATT. In sanctioning customs unions, GATT Article XXIV stipulates that the common external duties subsequently imposed must not on the whole be larger or more restrictive than the general incidence of duties collectively applied by individual member countries before forming the union. In short, no net increase in tariffs or other restrictions should result from the merging of individual rates into a common external tariff.

To prevent such an increase, the other GATT contracting parties are given the details of any proposed customs union so that they can determine the compatibility of the proposed arrangements with Article XXIV-6. For an arrangement to be accepted the other GATT signatories must not disapprove the basic rules of the proposed customs union. In 1962, the GATT *de facto* approved the objectives and tariff adjustments outlined in the 1957 Rome Treaty creating the EEC. The measurement of the external trade impact of the CAP was deferred, since it was still being drafted during the Dillon Round.

Nevertheless, a series of bilateral negotiations between the Community and its main partners resulted in a new EC tariff schedule. These concessions were supplemented by those granted multilaterally during the Dillon Round.

The Dillon Round's main accomplishment, therefore, was to prove that the Community's internal trade liberalization could be reconciled with its external commitment to the further growth of international trade as a whole. In the words of a White House press release of March 7, 1962, "The commercial importance of the negotiations was matched by their political significance, since they constituted the first test of whether the United States and the European Economic Community would be able to find a mutual basis for the long-run development of economic relations critical to both areas."

The Dillon Round was the last of the "first generation" postwar trade negotiations. The maturation of the Community, as well as the emergence of the European Free Trade Association (EFTA), the growing size and complexity of world trade, and the ambitious US Trade Expansion Act of 1962 all served to create the need for a more ambitious kind of negotiation.

This need was fulfilled, when in May 1964, the Kennedy Round of negotiations began. Substantively, it differed from its predecessors in four respects:

- The emphasis was placed on linear tariff reductions, reductions of a uniform percentage across-the-board, instead of the old item-by-item approach.

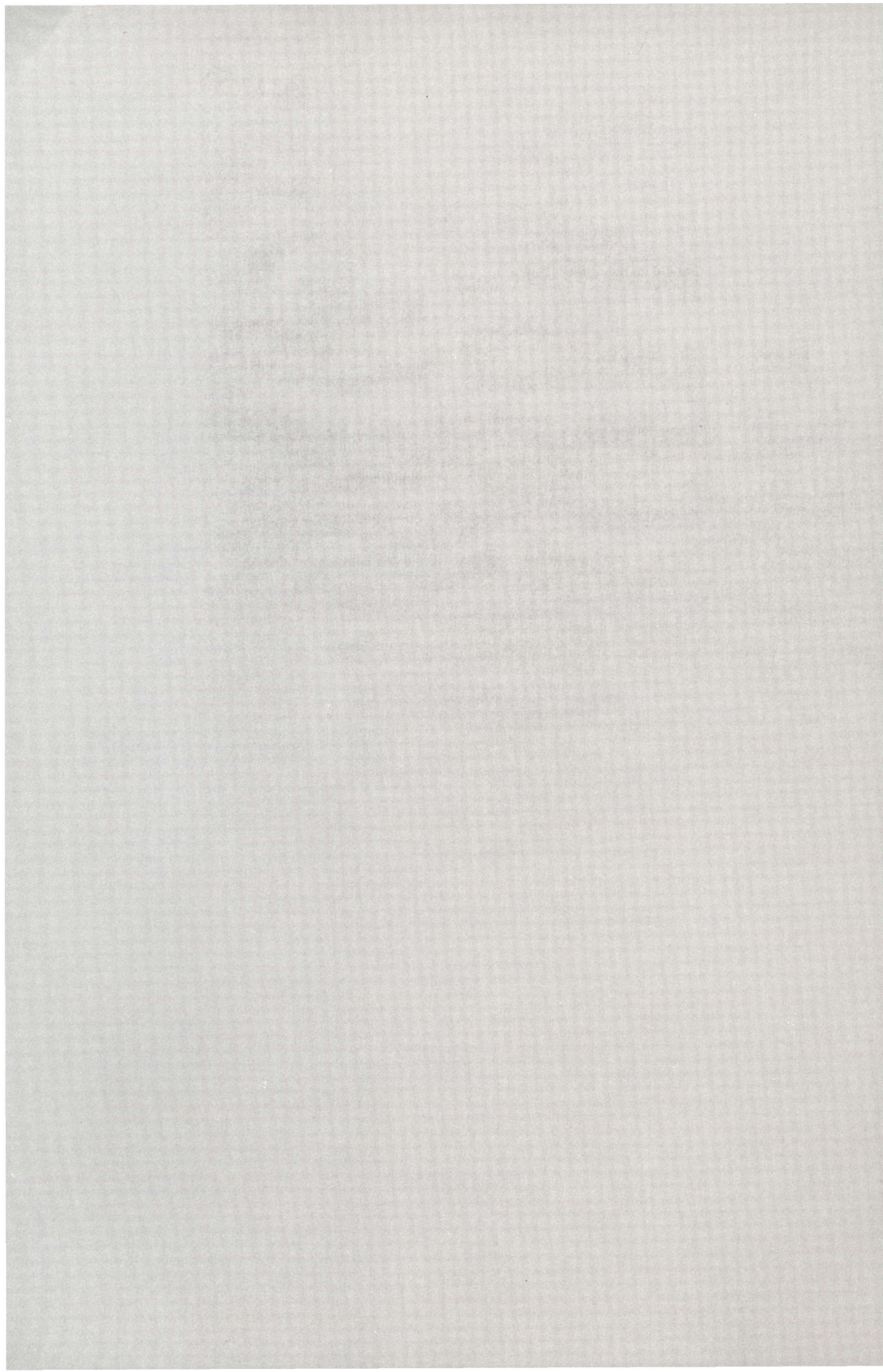
- More consideration was given than in the past to specific liberalization of trade in agricultural commodities.
- Some nontariff barriers were examined.
- Concern was expressed about developing countries' trade problems. Procedurally, the Article xxiv-6 negotiations and the Dillon Round were unique in that EC member countries were, for the first time, collectively represented by the EC Commission instead of by their respective national delegations.

The understanding eventually reached between the American and EC delegations was principally responsible for the successful outcome of the negotiations: tariffs on a wide range of industrial goods were reduced by 50 per cent and many more by at least 30 per cent. Overall, industrial tariffs were lowered by an average of 35 per cent.

For the first time, agreements were reached in the agricultural sector. They included tariff reductions, a new grains arrangement which raised the minimum price of wheat that was traded internationally, and a joint food aid commitment designed to distribute obligations to provide such aid to less developed countries more evenly.

In addition, a new antidumping code was adopted, and the United States agreed to modify its American Selling Price (ASP) system of tariff assessment in exchange for additional concessions on certain chemicals. The "chemicals agreement" was not implemented, however, because the US Congress did not pass legislation to eliminate ASP. The Congress also failed to bring US antidumping legislation into conformity with the GATT antidumping code.

The conclusion of the Kennedy Round in mid-1967 was followed by an official respite, while the effects of the new tariff cuts were observed and absorbed. But, silently, a major upheaval in the international economic system was brewing. The imposition of the New Economic Policy by the United States on August 15, 1971, had significant international dimensions: imposition of a 10 per cent import surcharge and termination of the dollar's convertibility into gold. These draconian measures, and the Community's enlargement, signaled the urgent need for multilateral negotiations to consider not only an updating of international trade rules and procedures, but the reconstruction of a ruptured international monetary system as well.



II. The Launching of the Tokyo Round

The scope of the seventh round of multilateral trade negotiations was outlined in the “Tokyo Declaration” of September 1973, approved by the trade ministers of some 100 countries. It declared that the MTN’s objectives were “to achieve 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 the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade . . . [and to] secure additional benefits for the international trade of developing countries. . . .”

The preparation leading up to the declaration can be traced back to late 1967. It was then that the GATT Secretariat began technical research on three major issues—trade in industrial goods, agricultural trade, and the less developed countries’ trade problems—in preparation for possible future negotiations. In February 1972, the political phase was ushered in by a “Joint Declaration” by the Community and the United States which confirmed their intention to initiate and support wide-ranging trade negotiations in the GATT.

The creation of the Trade Negotiating Committee (TNC) was the most important organizational decision announced in the Tokyo Declaration. The TNC’s function is to “elaborate and put into effect detailed trade negotiating plans and to establish appropriate negotiating procedures [and] to supervise the progress of the negotiations.” To encourage participation by non-GATT countries (mainly LDC’s and Communist bloc countries), the TNC is not a formal instrumentality of the GATT. A fully independent phenomenon created to manage the MTN’s, it is open to any interested country. Thus, the Tokyo Round is not officially a GATT negotiation. It is, however, being conducted at the GATT’s headquarters in Geneva, Switzerland, to take advantage of its physical facilities and to tap the Secretariat’s expertise.

In response to the complex and comprehensive nature of the MTN’s, the second meeting of the TNC, in February 1974, spawned six working groups to handle each of the major topics on the agenda. They are: the Tariffs Group; the Nontariff Measures Group (which created four subgroups for studying quantitative restrictions, customs matters, technical barriers to trade, subsidies and countervailing duties); the Agriculture Group (with subgroups for grains, meat, and dairy products); the Safeguards Group; the Sectors Group, and the Tropical Products Group.

The common appreciation of the need for further multilateral reductions in trade barriers to prevent unilateral backsliding has once again brought representatives of every major trading power to the negotiating table. On the one hand, the Tokyo Round is the logical progression of previous GATT negotiations. On the other hand, it is a unique negotiation, reflecting the recent structural changes in the international econ-

omy and the success of earlier negotiations in reducing the relative importance of many of the customs duties in industrial trade. Nontariff measures (formerly referred to as “nontariff barriers”), not tariffs, are the major obstacles to international trade today. The trend away from tariff issues (and US insistence) also means that agricultural trade problems must be fully discussed and related to agreements in the industrial sector. Finally, the questions of commodity cartels and export controls have increased the leverage of the resource-rich but capital-poor developing countries. North-South trade issues have therefore been given a prominent spot on the agenda.

The reconciliation of the Community’s common external tariff with GATT requirements dominated the Dillon Round. It will not be a major factor in the Tokyo Round. The new generation of trade issues is far more complex: the previously neglected nontariff measures, questions of agricultural support and protection programs, and the trade problems of less developed countries.

The resolution of these weighty problems becomes the unenviable task of the trade negotiators in Geneva. Accommodation between the delegations of the European Communities and the United States will be the critical factor determining the success or failure of the Tokyo Round.

To assess the outlook for their dialogue, the European and American approaches to the major trade issues are discussed below.

1. TARIFFS

How far tariff rates have been whittled down in the six preceding GATT negotiations can be seen from a 1974 GATT study. The average rates of customs duties levied on industrial products by the world's major traders were reported as follows: EEC, 7 per cent; United States, 7.5 per cent; Japan, 9.8 per cent; Canada, 7 per cent.

Nevertheless, tariffs still will be an important topic of discussion in the Tokyo Round. In the first place, the averaging technique masks numerous high duty rates, especially in the United States. Secondly, the fact that rates tend to be relatively low on raw materials and semi-processed goods, while being relatively high on finished manufactures, means that the nominal, or apparent, tariff rates often understate their real impact. This impact falls especially hard on developing countries which are trying to diversify their export mix. In economic terms, the effective, or real, rates of duty afford more protection to domestic producers than the listed nominal rates.*

The most complete public exposition of the EC's position on the tariff question appears in the Council of Ministers "overall view" of June 1973. (Though superceded by internal directives and subject to alteration in the course of the trade negotiations, the statement can be used as the basis for examining the Community's overall approach to the issues on the MTN's agenda.)

A "significant lowering" of customs duties is called for, through procedures that are simple and as generally applicable as possible. Having made this fundamental commitment to tariff reductions, the Council went on to stipulate two basic criteria. The first is to opt for the "harmonization" approach to tariff cutting. This means that the higher a given tariff duty, the larger should be the percentage reduction in that

* By way of illustration, let us assume that a country imports lumber and nails duty free, but imposes a 20 per cent tariff on tables. Let us further assume that the raw materials account for one-half the cost of the tables, with cutting and assembly (value added) accounting for the remainder. Finally, assume all tables sell for \$100. An importer would pay a nominal tariff rate of \$20 (20 per cent of \$100). But since raw materials enter duty free, this nominal rate is in real terms only being applied to the value added, the \$50 cost of assembling the table.

The effective tariff protection is therefore 40 per cent (the \$20 tariff as a percentage of the \$50 value added).

tariff. This approach would narrow the disparities in existing rates. In the words of the Council:

“The rules for lowering tariffs must necessarily take into account the considerable differences which exist between the customs tariffs applied by the developing countries. Quite apart from the question of the general level of tariffs, some countries apply tariffs of a roughly homogeneous level to all products while others apply very high tariffs to some products and much lower ones to others.

“The rules adopted should aim . . . at leveling off the differences caused by these peaks and troughs. . . .

“This is the only approach which would make it possible to avoid a situation in which, following further reductions of customs tariffs, some would be so low that certain countries would have little hope of subsequently obtaining reductions in the higher customs duties which some of their partners would have been able to maintain.

“The procedures should take account of the fact that the actual level of protection should be calculated on the basis of the added value.”

The second basic EC criterion is the concept that there should be a threshold, or floor, below which no tariff reductions would be called for. The reasons for this position include the fear that radical tariff reductions would neutralize the beneficial effects of tariff preference arrangements applied to the exports of developing countries, the fear that countries with very low rates would very soon lose all protection, leaving them with very little to offer trading partners in future negotiations.

The Community has also stated that whatever formula is devised for negotiating tariff reductions, it would give special consideration to developing countries, for example, by considering more substantial tariff cuts for certain products or in other cases less substantial cuts to maintain some preference margins available through generalized preferences.

Although the Community prefers an end to higher duties, together with approved minimum tariff levels, the Council noted that it was still prepared to negotiate total duty elimination on a case by case basis where economic circumstances warranted it.

The American position favors the “linear” approach, the uniform percentage reductions across the board used in the Kennedy Round. The reasons for this preference are two-fold:

- The United States has a relatively large number of high duty rates, (together with a relatively large number of very low rates) which would be heavily affected by the harmonization approach.
- The US Trade Reform Act, which authorizes the American delegation to reduce US tariffs, is effectively linear in nature. It authorizes tariff reductions of up to 60 per cent in duties currently above 5 per cent and total elimination where duties are 5 per cent or less. It should be

noted, however, that this is only an authorization which does not preclude the adoption of another approach. Work has begun in Geneva on some working hypothesis for a general formula.

2. NONTARIFF MEASURES

Nontariff measures (NTM's), formerly referred to as "nontariff barriers," encompass a wide range of policies and measures which are generally distortions to trade, obstacles to imports, or governmental incentives to exports. The GATT Secretariat has compiled an inventory of more than 800 NTM's submitted to it by member countries and broken into five groups of 27 specific practices. The "GATT Illustrative List of Nontariff Measures" including the following:

Group 1 Government Participation in Trade

- a. Trade diverting aids
- b. Export subsidies
- c. Countervailing duties
- d. Government procurement
- e. State trading in market-economy countries
- f. Other restrictive practices

Group 2 Customs and Administrative Entry Procedures

- a. Valuation
- b. Antidumping duties
- c. Customs classification
- d. Consular and customs formalities and documentation
 - (i) consular formalities and fees
 - (ii) customs clearance documentation
 - (iii) certificates of origin
- e. Samples requirements

Group 3 Standards

- a. Standards
- b. Packaging, labeling and marketing regulations

Group 4 Specific Limitations on Trade

- a. Quantitative restrictions
- b. Discriminatory bilateral agreements
- c. Export restraints
- d. Minimum price regulations
- e. Licensing
- f. Motion picture restrictions

Group 5 Charges on Imports

- a. Prior deposits
- b. Credit restrictions for importers

- c. Variable levies
- d. Fiscal adjustments at the border or otherwise
- e. Restrictions on foreign wines and spirits
- f. Discriminatory taxes on motor cars
- g. Statistical and administrative duties
- h. Special duties on imports

The extent and diversity of this list has suggested to all participants in the Tokyo Round that no general solution to NTM's is feasible and that each must be dealt with separately. The 1973 Council of Ministers' overall view stated that the diversity of NTM's "makes it unrealistic to seek a solution of a general character [and] there must therefore be a case by case approach." This complexity also means that reciprocity is harder to assess in this area than for customs duties, "so a broad spread of solutions will be needed to make up a worthwhile and well balanced package."

Further Community ideas were spelled out by Paul Luyten, head of the EC delegation, to the TNC meeting in February 1975. The Community, he said, advocated the following points

- the need to select the types of measures which should be negotiated, in particular, those which create the greatest obstacles to international trade
- where multilateral solutions can be envisaged, the need for these to be recognized and adopted by as many countries as possible
- the desirability in certain cases of confining the benefits of these solutions to the participating countries
- the need for suitable mechanisms for consultation and settlement of disputes
- the probable need for a mechanism for applying sanctions.

The Community also supported the establishment of a separate procedure for discussion and consultation to review any legislative actions that countries are thinking of invoking in the future which might directly or indirectly have an impact on trade flows. "This seems now to be at least as important as the solutions of this or that specific nontariff barrier problem, since it is a question of securing the future," said Luyten.

The American strategy here has been generally similar to the EC's overall view. The Trade Act gives the US delegation wide discretion to negotiate agreements to harmonize, reduce, or eliminate NTM's. However, any US commitment to an NTB agreement becomes legally binding only upon approval by both houses of Congress. (To speed the legislative process, the act provides for automatic discharge of an NTB agreement from committee, limits floor debate, sets a time limit for a final vote, and prohibits any amendments to the measure being voted on.)

Both the Community and the Americans have set priorities for immediate attention and negotiation. The US delegation has stressed product standards, export subsidies, and government procurement practices. In each case, the mode of agreement would be a GATT code, to which all trading countries would adhere, and which would enumerate obligations and criteria in general terms.

Some EC and US priorities overlap, but there are some points of contention and differences in perspective. The Community has recorded its willingness to discuss export subsidies on industrial products. At the same time, it has criticized the US law which allows the imposition of countervailing duties without demonstration that the import has injured domestic industry. The Community advocates universal adherence to the GATT requirement that proof of injury precede sanctions against export subsidies.

On the standards issue, the Community has also agreed to establish a general set of international commitments. Two preconditions to such an agreement are:

- Each country should be equally bound to the agreement. (For example, the laws of all 50 US states should not conflict with the Federal Statute committing the United States to an international standards code.)
- A meaningful number of countries should subscribe to the code and any notification procedure should not impose “inflationary new bureaucratic requirements.”

Customs procedures and quantitative restrictions are the other two NTM's which the Community would like to deal with in the first phase of the Tokyo Round.

3. AGRICULTURE

Agriculture is at once one of the most complex areas facing the negotiators and one of the most critical for the outcome of the MTN's. Agricultural policies have deep roots in the domestic political and social policies of most countries. Virtually all governments extensively intervene in such issues as protection levels, acreage allotments, prices, and farm income. The resulting tariff and nontariff measures, designed to protect domestic farming, transcend trade questions and embrace political and social objectives. As a result, previous multilateral trade negotiations have given more attention to industrial trade barriers than to their agricultural counterparts.

The agricultural question thus far in the Tokyo Round has been articulated mainly by the US and the EC delegations. Two basic policy differences have emerged. The first is procedural and stems from the fact that no agricultural commodity can be negotiated without dealing with every device used to protect domestic production. It devolves from

the European preference for treating agriculture as a separate and distinct subject whose unique characteristics cannot be compared with industrial trade. The US delegation has emphasized a functional approach which would allow discussions of agricultural tariffs, NTM's, safeguards, and other agricultural issues to be handled in the appropriate MTN working group. The Community, conversely, has asked that the agricultural working group be the all-inclusive forum for negotiations in this sector.

The second policy difference is substantive, concerning the track that negotiations should take in coming to grips with barriers and distortions in farm trade. The Community has emphasized that international commodity agreements should be used to stabilize world prices and long-term supply for the main commodities. The Americans have sought reductions in direct trade barriers and in the Community's agricultural levies (which in turn would reduce the protection at the frontiers). The two positions reflect broad differences in the US and European philosophies and farm policies as well as domestic constituency pressures.

The EC Council has stated that "those elements basic to its unity and fundamental objectives" could not be "called into question" during the MTN's. The common agricultural policy (CAP) which regulates EC internal and external agricultural policy is one of those elements, a fact which influences the EC position on agricultural trade. The 1973 Council of Ministers' overall approach put the matter in these terms: "The common agricultural policy corresponds to 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 Council saw the objectives of the MTN's as being the expansion of trade within more stable world markets in accordance with existing policies. The best way of achieving that objective was said to be the organization of orderly world marketing arrangements by means of appropriate international agreements.

The specifics of this approach were explained by the EC delegation at the February 1975 TNC meeting. It includes

- systematic and regular exchange of information and periodical analysis of the situation to guide government farm policy planning
- international agreements, tailored to each commodity's characteristics, for products essential to human food consumption (cereals, rice, sugar, and dairy products). The agreements should include stockpiling and price provisions.
- "concerted discipline" between exporters and importers of other important products not covered by international agreements
- reciprocal tariff reductions on products that are protected by tariffs.

The US negotiating position is based on the desire to exploit that country's natural competitive advantage in a wide range of agricultural products by maximizing access to foreign markets. In addition, the Trade Act implies that the agricultural sector should be given emphasis and treatment equivalent to trade liberalization efforts in the industrial sector. With regard to the CAP, the United States has placed high priority on securing lower levies from the Community for certain commodities and on limiting the CAP's use of "export subsidies." Conceivably, such demands could be met by modifications in the CAP, rather than structural changes. Like the Community, the United States supports development of a system to provide importing countries with a more secure access to supply of agricultural products.

In the meantime, attempts to reconcile the various national interests in agriculture continue in the three agricultural subgroups: dairy, cereals, and meat. In each group, the EC delegation has offered precise suggestions, based on world agreements, which it considers the sign of its willingness to negotiate agriculture within the GATT framework.

4. SAFEGUARDS

The question of providing an improved multilateral safeguard system to ease the adjustment impact of import competition is an especially sensitive one. The Tokyo Round not only is seeking comprehensive import liberalization but is also being conducted in the midst of an international recession where virtually all trading nations are suffering high rates of unemployment.

The starting off point for the discussion of improved safeguards is the GATT's Article XIX. This article stipulates that a country may suspend existing commitments or impose new barriers if imports of a product expand so much as to injure, or threaten to injure, a domestic producer seriously. The article specifies that safeguards are strictly temporary and are to be administered on a non-discriminatory basis. Finally, exporting countries affected by the new barriers are authorized to retaliate unless the country imposing the "escape clause" action extends compensation in the form of tariff concessions on other products of interest to the exporting countries.

There is general agreement that Article XIX has not been satisfactorily applied. For example, some countries have circumvented it by demanding that exporting countries adopt "voluntary" export restraints. Additionally, the non-discriminatory clause prevents application against what might be only one or two exporting countries responsible for the injury in a specific situation. (Hence, "innocent" exporters face the same injury-imposed barriers as the major exporter. Article XIX, in fact, has not often been invoked.)

There is no general consensus, however, on what improvements, if any, should be made. The Tokyo Declaration merely suggests that the adequacy of Article XIX be examined. Current talks on the safeguard issue remain purely technical. Technical questions include the criteria and procedures under which an importing nation could utilize the safeguard system, its obligations and responsibilities while invoking such measures, the nature of international surveillance and controls over countries using the system, and the selective application of restrictive measures to only the exporting countries responsible for the importing country's problem.

The European Community wants to build on Article XIX, rather than develop an entirely new safeguard provision. The 1973 Council of Ministers' overall view stated that the provisions of Article XIX should be maintained, but that the Community would participate in "any deliberations aimed at trying to establish a better practical application of the safeguard clause" since the article has "proved difficult to operate effectively."

The American delegation has expressed interest in exploring the safeguard question on a broad front. To some extent, it will want any new safeguard system to be compatible with the Trade Act's new escape clause and adjustment assistance provisions which ease American industries' and workers' access to relief from import competition.

5. TROPICAL PRODUCTS

More than any of the previous negotiations, the Tokyo Round will deal with "North-South" trade problems, mainly looking to improve the access of less developed countries' exports to the markets of industrialized economies. The Tokyo Declaration states that a principal aim of the MTN's is to "secure additional benefits for the international trade of developing countries." It goes on to state that the developed countries do not expect reciprocity from the developing countries inconsistent with their trade and development needs. Special measures are needed, according to the Tokyo Declaration, to help developing countries increase their export earnings and further their economic development. It was recognized that it was necessary to improve existing systems of generalized tariff preferences for developing countries' manufactured and semi-manufactured exports.

The Tokyo Declaration also called for negotiations on barriers to imports of tropical products, which it labeled a "special and priority sector." The Community fully agrees that the developing countries' trade opportunities should be expanded, that tariff and nontariff barriers to the flow of tropical products should continue to be liberalized, and that

other issues, such as price stability, should be taken up in the negotiations.

As a result of this consensus, the Tropical Products Group made more progress than any other working group in the early months of the negotiations. After extensive data collection on tropical products, negotiations proper were begun with submissions of request lists from the developing countries. The industrial countries then studied these lists for the requested unilateral concessions' possible impact on trade.

Promising a prompt Community response to the developing countries' requests on tropical products, EC official Theodorus Hijzen told the TNC in July 1975 that the Community hopes to provide a substantial and diversified offer. The Community has linked concessions on tropical products to negotiations on other products and has suggested that some "contribution" be requested from the developing countries in return "on a basis which is compatible and consistent with their trade and development needs and their economic means."

6. THE SECTOR APPROACH

The negotiators also have been examining the technical possibilities for studying tariff and nontariff trade questions to see how they affect the particular problems of individual product sectors. The GATT Secretariat has already completed a study of trade measures associated with the ores and metals section (including iron, steel, and aluminum). Additional studies have been suggested by the United States, which promoted the use of the sectoral approach, but the US Trade Reform Act specifies that the American negotiators are to obtain export opportunities equivalent to opportunities in the US market for the "appropriate product sectors." Furthermore, the act states that "negotiations shall, to the extent feasible, be conducted on the basis of appropriate sectors of manufacturing."

The Community is willing to consider using this sectoral approach in the later negotiations and believes that a thorough analysis is needed to see whether or not the sectoral approach benefits all MTN participants. In his July address to the TNC, Hijzen stated that the sectoral approach cannot substitute for general, across-the-board solutions in both tariff and NTM fields.

7. ACCESS TO SUPPLY

Although not specifically mentioned in the Tokyo Round's agenda in the fall of 1975, but still of importance in the current thinking of trade policy-makers, are the related issues of access to supply and export re-

straints. This concern stems from events which occurred after the Tokyo Declaration. The success of the Organization of Petroleum Exporting Producers (OPEC) cartel in raising oil prices had a dramatic impact in its own right. But it also opened the possibility that it might serve as the prototype for new commodity cartels. On the export controls issue, the Arab oil embargo occurred, and there is continuing pressure on US policy-makers to put export controls on agricultural commodities (soybeans in 1974, wheat in 1975).

As a result, the previously exclusive concern with import barriers as the major impediments to trade has ended. Almost every industrial country is now investigating arrangements to guarantee access to stable supplies of raw materials at reasonable prices. In the EC view, while export barriers are not a major issue during an international economic slowdown, a resumption of economic growth could reactivate the supply issue. The Community also holds that export restrictions represent just as much a trade barrier as import restrictions in the long run. Thus, they should be an integral part of the negotiations, possibly being treated within the NTM Group's study of quantitative restrictions and within negotiations on a particular product area.

The United States shares a similar viewpoint. Ambassador Frederick B. Dent, the US Special Representative for Trade Negotiations, told the July 1975 TNC meeting that although his country has no defined or specific negotiating objectives in this area, the supply access issue belongs on the negotiating agenda. The United States indicated that it is prepared to extend and to request specific commitments on supply access as part of the reciprocal exchange of concessions which will take place throughout the MTN's in existing work groups.

The United States has also said that the specific issue of export restrictions is within the competence of the MTN subgroup on quantitative restrictions. In addition, the United States believes that at an appropriate time and within an appropriate group, existing GATT rules on export restrictions should be reviewed to see whether they should be supplemented. At a minimum, it feels the trading system should provide a set of procedures and guidelines to speed the resolution of disputes over supply access issues and to solve supply access problems in a way that reinforces rather than undermines the multilateral character of the trading system.

Although it will be difficult to reach a comprehensive international agreement on a strict code of conduct, it should be feasible, as in the cases of a standards code and of some NTM's, to develop general guidelines balancing the interests of importing and exporting countries and establishing broad obligations and responsibilities on those countries imposing export restrictions.

8. THE TIMING OF AGREEMENTS

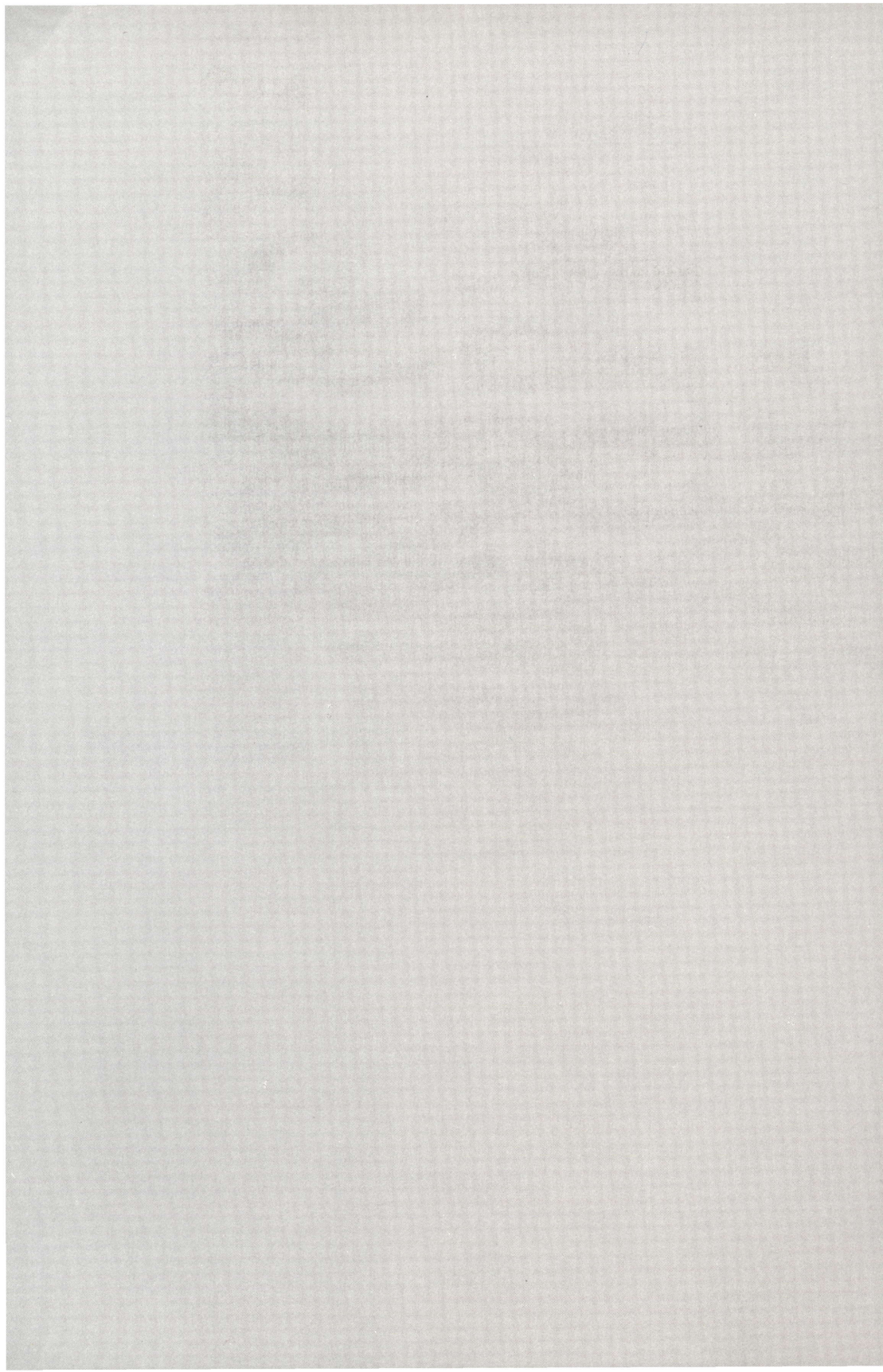
A continuing procedural disagreement between the Community and the United States has revolved around the question of whether the MTN's should end with a single, comprehensive agreement or whether individual agreements on specific trade issues should be concluded.

The Community believes that each major topic on the MTN agenda is interrelated and that concessions in one area may be offset by concessions in other areas. It would be difficult to obtain the overall balance and reciprocity foreseen by the Tokyo Declaration within any single trade negotiating sector. The Community, therefore, has opted for "balanced and global progress" which suggests a broad package offering mutual advantages to many countries.

The US delegation, burdened by the knowledge that it will need Congressional approval on a number of trade agreements, has urged a more fragmented approach, hoping to reach early agreement on the less divisive issues. The previous US advocacy of an "early harvest" approach has been moderated to suggest that the MTN's six working groups identify "interim concrete results by which we can measure progress toward the agreed objectives in the Tokyo Declaration." In addition to putting certain agreed measures into effect before the MTN's conclusion, the United States would be agreeable to "interim concrete results" taking such lesser forms as a set of detailed objectives, a draft text, or a partial or temporary agreement.

9. THE LINK TO INTERNATIONAL MONETARY TALKS

The EC delegation alone has suggested that agreements reached in the MTN's are related to progress made in the ongoing international monetary negotiations seeking, among other objectives, to secure basic rules of the road on floating exchange rates. The Community believes that if sharp movements in exchange rates continue, this could distort or neutralize trade concessions. An appreciating rate could double, or triple, the real effects of a concession. A depreciating rate could neutralize the real effects of a trade concession. It is the European contention, therefore, that the prospect for negotiating increased stability in exchange rates should be a consideration in the commitments made at the Tokyo Round.



For those who wish to extrapolate on the basis of divergent negotiating postures and the relatively slow progress made during the early months of the Tokyo Round, it is easy to paint a pessimistic picture of the chances for a successful agreement on further trade liberalization. On the other hand, there is no reason to expect a quick and smooth agreement on so complex, politically sensitive, and wide range of trade issues. Neither is there any reason to brand any party's negotiating posture dogmatic or inflexible.

All sides have differing interests and divergent viewpoints. Still, the EC negotiators, like their counterparts, are present in Geneva to negotiate, not to defend a fixed position. The Community, for example, has agreed to look at a wide variety of technical questions on a case by case basis, even where there is general philosophical or policy disagreement.

The hard fact that a major series of multilateral negotiations could begin and prosper in the midst of a major international economic slowdown is itself testimony to the major trading powers' foresight and broad identity of common interests and objectives. The current international problem of high unemployment and inflation fed by sharply increased oil prices normally would have produced a textbook case of revision to new import barriers and a hearty distaste for further trade liberalization. Fortunately, the unpleasant and unproductive results of previous attempts to "beggar-thy-neighbor" are still fresh in the minds' of today's economic officials.

The Tokyo Round also benefits from being the latest in an historical progression of trade negotiations all of which responded to the needs and pressures of a changing international trade system in general and of the European Community and the United States in particular. The Community's growth, maturation, and enlargement has historically been reconciled with its external obligations under the GATT. Such accommodation was accomplished first in the Dillon Round, then in the Kennedy Round, and finally in the May 1974 successful conclusion of the GATT Article XXIV-6 negotiations. The Article XXIV-6 bilateral negotiations were held to compensate the United States (and other trading partners) for the alleged adverse impact on exports that resulted after the United Kingdom, Ireland, and Denmark joined the Community and began to apply the CAP and the common external tariff.

Yet the eventual success of the Tokyo Round should not be taken for granted. There are many problems of technical interpretation still to be resolved. The substantive negotiations which will follow technical consensus and which are the prerequisites for agreement are still in a nascent stage.

Finally, there is the complication that the US and EC delegations will be negotiating on a "two branches of government" basis. In addition to reconciling negotiating positions at the Geneva bargaining table, each

side must first reconcile its position "at home." First the private constituencies, which will be directly affected by proposed trade agreements, must be consulted. Secondly, both negotiating teams are limited by the dicta of another branch of government. In the case of the United States, approval must be forthcoming from the Congress to bind the United States to trade agreements, except in the limited instance where the Trade Reform Act allocates authority to the Executive Branch to reduce tariffs.

The Community's decision-making process involves interplay between the Council of Ministers and the Commission. The Commission is spokesman and negotiator for the nine EC member countries in Geneva. Although it alone initiates proposals to the Council, the latter is the body in which the member countries' national positions are resolved and the solutions approved. The Commission's posture will be heavily influenced by the Council's guidelines in much the same way as the American delegation will be influenced by its reading of Congressional intent and mood. In accordance with the Treaty of Rome creating the European Economic Community, the Commission will be meeting regularly with the "113 Committee." The committee, named for Article 113 of the treaty, is an intermediate level liaison group of national representatives which deals with external trade issues with the Commission.

There are many months of hard negotiations ahead. While no insurmountable technical problems appear to be immediately at hand, the continued presence of the political will for accommodation and agreement will be the critical variable.

Ad valorem duty. A customs duty levied as a percentage of a product's assessed value.

ASP. American Selling Price. A US customs valuation procedure whereby the US wholesale price, instead of the foreign selling price, is used as the basis for assessing customs duties. Applies to benzenoid chemicals, rubber-soled footwear with fabric uppers, canned clams, and certain wool knit gloves.

CAP. Common agricultural policy. The Community's farm policy which is designed to rationalize agricultural production and establish a Community-wide system of supports and import controls. The CAP covers more than 95 per cent of the Community's agricultural production.

CET. Common external tariff. The Community's common customs tariff which replaces those of its nine members.

Commission. The policy proposing arm of the Community's dual executive.

Council of Ministers. Enacts laws and sets policies based on proposals by the Commission.

Countervailing duty. An import charge designed to offset an export subsidy by another country.

Customs union. A group of countries that eliminate tariffs on trade between members and adopts a common tariff on imports from the rest of the world.

Disparity. A significant difference in tariff rates between countries on identical products.

Dumping. The practice of selling goods in a foreign market at prices below those at which the product sells in the home market.

EEC. European Economic Community. See EC.

EC. European Community or European Communities. The collective name for three "communities" created by three different treaties: the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community. Founding members were Belgium, France, Italy, Germany, the Netherlands, and Luxembourg. The United Kingdom, Ireland, and Denmark joined on January 1, 1973.

EFTA. European Free Trade Association. Founding members were the United Kingdom, Denmark, Norway, Sweden, Switzerland, Austria, Portugal, and Iceland. Denmark and the United Kingdom withdrew after deciding to join the Community. Finland is an associate member.

Free trade area. A group of countries that eliminate tariffs on trade between members but which does not adopt a common tariff on imports from the rest of the world.

GATT. General Agreement on Tariffs and Trade. An international accord signed in 1948, to foster growth of world trade. Provides a forum for multilateral tariff negotiations and, through semiannual meetings, a means for settling trade disputes and for discussing international trade problems. Has more than 80 members.

Generalized tariff preferences. Preferential tariff treatment for manufactured and semimanufactured goods from developing countries. The Community's system, begun in 1971, covers some processed agricultural products as well.

LDC. Less developed country.

MFN. Most-favored-nation. The policy of nondiscrimination in international trade which provides to all nations the same customs and tariff treatment as given the so-called "most-favored-nation."

MTN. Multilateral Tariff Negotiations. The Tokyo Round, which opened in Tokyo in September 1973, is being conducted at GATT headquarters in Geneva, Switzerland.

NTM. Nontariff measure, formerly known as NTB's or nontariff barriers. A practice other than the use of customs tariffs which restricts or distorts trade.

Safeguards clause. Outlines the conditions under which trade restrictions that had been relaxed in negotiations may be reinstated.

Sector approach. Formation of separate negotiating groups of countries interested in a specific sector.

Tariff preference. Tariff treatment that favors certain products from a country or group of countries.

TNC. Trade Negotiating Committee. The main forum for the Tokyo Round of Multilateral Tariff Negotiations. It allows non-members of the GATT to participate in the negotiations.

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